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Analyzing Subsidiaries Autonomy: Examining Capital Allocation & Decision-Making

A Qualitative Multiple Case Study About Subsidiaries Financial Autonomy within Multinational Corporations.

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Title: Analyzing Subsidiaries Autonomy: Examining Capital Allocation & Decision-Making: A Qualitative Multiple Case Study About Subsidiaries Financial Autonomy within Multinational Corporations.

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Abstract

Background: The notion of subsidiary autonomy has lately received significant attention in the literature research. The autonomy for subsidiaries has been viewed to increase the operational effectiveness and local market response. However, the literature has highlighted a complex interplay between the control from parent company and the autonomous decisions for subsidiaries. Hence, the understanding of the extent subsidiaries possess autonomy in multinational corporations remains unexplained.

Purpose: This thesis examines to what extent the subsidiaries are granted autonomy within multination corporations, specifically focusing on capital allocation and decision-making. The aim of the thesis is to further clarify and explore the relationship between parent companies and their subsidiaries investigating the financial autonomy and control from parent company.

Method: The thesis employs a qualitative methodology using semi-structured interviews to gather data from key employees from both parent company and subsidiaries within two different multinational corporations. The study adopts an abductive strategy, which allows for an investigation of both theory and the collected data.

Conclusion: This research discovered that the degree of financial autonomy granted to subsidiaries may differ greatly based on their strategic significance and alignment with the overall corporate strategy. Further, the findings claimed that factors such as the subsidiary role and organization structure influence the degree of financial autonomy for subsidiaries. These results highlight the challenges in balancing autonomy for local market needs with the overall strategic objectives. Moreover, the findings contribute to an in-depth understanding of why it is crucial for parent companies to carefully control the degree of autonomy they grant, ensuring that subsidiaries align with overall corporate strategy.

Declaration

We hereby declare that this thesis represents our own work.

We declare that we have obtained the necessary ethical approval and acknowledged our obligations and the rights of the participants in the research.

We have read and applied the Jönköping University's current research ethics guidelines with regards to the use of artificial intelligence (AI) tool in this work as presented in the Course Guide. During the preparation of this work the authors used the following AI tools and the purpose for their use.

***** Endnote - for managing and sourcing references
* ChatGPT- for structure and organizing, feedback, translation, synonyms and generate ideas
* Grammarly - for improvement of grammar and spelling
* Google Scholor, PRIMO, Scopus- for searching literature
* Microsoft Teams- for recording and transcribing interviews

As authors, we have reviewed and edited the content as needed and take full responsibility for the content of the thesis.

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Abbreviation, Acronyms and their meaning

CFO- Chief Financial Officer
CEO- Chief Executive Officer
R&D- Research and Development

MNC- Multinational Corporation
ROI- Return on Investment
NPV- Net Present Value

1. Introduction:

This chapter presents a comprehensive introduction of the research topic, by outlining the role of financial autonomy for subsidiaries within multinational corporations. Further it highlights the core problems of this topic as well as defines the purpose of the research. Through establishing a clear research question this section further provide understanding into the research gap this study aims to cover and its relevance.

1.1 Background

The understanding of subsidiary autonomy has become a topic of interest in business research due to its importance for comprehending the complexities within multinational corporations (MNC). Although researches such as Gammelgaard et al, (2011) and Tong et al, (2012) has illustrated subsidiary autonomy as significant for MNCs the concept remains insufficiently understood. Subsidiary autonomy is referred to as the extent that subsidiaries can make decisions within their operations without control or interference by parent companies (Geleilate et al., 2020; Birkinshaw & Morrison., 1995). The autonomy for subsidiaries is viewed crucial as it allows subsidiaries to operate in their specific roles within the MNC, while significantly contributing to improve the performance in the corporations (Ambos et al, 2010; Rugman & Verbeke., 2001). The research from Young & Tavares, (2004) suggested that autonomy for subsidiaries in the decision-making process help enhance their effectiveness due to better responding to local market opportunities and needs. Despite this the relationship between the control of parent company and autonomy for subsidiaries is complex where several factors such as the subsidiary role, its capabilities and strategic significance influence the autonomy (Kawai & Strange., 2014).

1.1.1 The Definition of Subsidiary

The term subsidiary differs in its definition across various studies. Some view the subsidiaries as "subordinate entities" within a corporation that operates under the control of a parent company (Balogun et al., 2011; Pisoni et al., 2010). This idea of the subsidiaries is built on

the notion that the strategic decisions are solely taken by the parent company and then delegated and implemented by the subsidiary (Cavanagh., 2013). Others view the subsidiary role as more active where they operate as an entity within an MNC, therefore being able to influence and contribute more. (Ghoshal & Bartlett., 1990)

1.1.2 Parent Company and Subsidiary Relationship.

Multinational Corporations (MNCs) are generally viewed as successful and well-established firms that are international in their strategic operations, vision, and management practices, thus including both a parent company and subsidiaries. (Aggarwal et al., 2011)

Within MNCs, subsidiaries operate as entities that are geographically dispersed but legally owned by a parent company (Bartlett & Ghoshal., 1989). In contrast the parent company functions as a supervisor of knowledge and resources within different subsidiaries, focusing on exploiting various markets and opportunities (Foss & Pedersen., 2002). The primary objective and interest for the parent company relates to the allocation of resources such as allocating capital towards investment project or developments (Nohria & Ghoshal., 1994). Due to the geographical distance between the parent company and the subsidiaries as well as the difference in position of resources the parent company requires certain way of control to ensure corporate alignment. Accordingly, the parent company monitors the subsidiaries through different controls such as reviewing capital investments and setting up budgets (Mudambi., 2004; Benito et al., 2003). Additionally, parent companies can implement informal controls such as hiring key employees or regional boards that mitigates the risk for subsidiaries acting in self-interest and rather contributing to the corporate goal (Ambos et al., 2010). Further, Ghoshal & Nohria, (1989) highlight a mixed motive where parent company seeks to control and enhance the performance of the subsidiary, while the subsidiary's objective rather sits on increasing their autonomy and influence within the MNC.

1.2. Research Gap and Problematization

Historically, the concept of subsidiary autonomy has been viewed from a hierarchical perspective emphasizing a distinct control and strategic direction from parent the company in terms of pivotal decision such as capital allocation, development, or investments (Doz & Prahalad., 1981; Egelhoff., 1988, Porter., 1989). However, other studies challenge this idea, highlighting a greater subsidiary autonomy where the subsidiary set the strategic directives

themselves based on their local insight and capabilities (Gupta & Govindarajan., 1991; Bartlett & Ghoshal., 1989). Moreover, the concept of subsidiary autonomy has been viewed as broad and complex, resulting in different views in the literature. Gammelgaard et al, (2011) argue that subsidiary autonomy is not only just assigned by the parent company but is rather develop and determined by the subsidiaries themselves. Additionally, Rugman & Verbeke, (2001), claim that the autonomy is assigned based on the subsidiaries function and role within the MNC. Accordingly, due to the different views and interpretations of subsidiary autonomy it becomes difficult for MNCs to evaluate and decide to what extent subsidiaries should be granted autonomy, making it a problem requiring further investigation.

Capital allocation and decision making within MNC is an important topic to grasp and comprehend for both subsidiaries and parent companies as well as their various managers. However, studies have argued and highlighted a frequently poor capital allocation within MNCs (Arrfelt et al., 2015; Bardolet et al., 2011). Hence, these challenges of the capital allocation and decision-making process becomes important to further investigate. Researchers have taken different approaches to unravel this complexity. Some studies have viewed agency problems between subsidiaries and parent companies as the cause where information is being misinterpreted (Wulf., 2009). Others have highlighted misallocation as the problem where the personal benefits and compensation is in focused rather than the corporate performance (Scharfstein & Stein., 2008). Hence the capital allocation and decision making within MNCs constitutes a problem that to our knowledge lacks explanation. Therefore, this thesis aims to address this problem.

According to Young and Tavares (2004), subsidiary autonomy is a complex topic, which makes it challenging to investigate where each subsidiary possess a unique form of autonomy. Due to these complexities, academics researcher has often focused on exploring particular aspects of subsidiary autonomy. Some researchers have investigated how subsidiary autonomy influences its own performance (Gammelgaard & Dörrenbächer., 2012). Other have investigated the effect of subsidiary size on autonomy (Johnston & Menguc., 2007). Additionally, researchers have conducted studies on the variables that determine autonomy (Pisoni et al., 2010). Further, studies such as Gupta & Govindarajan (1991) and Paterson & Brock, (2002) have investigated the impacts of decentralization and centralization on subsidiaries autonomy.

Moreover, the literature has illustrated conflicting results in their findings of subsidiary autonomy and its relation to authority (Mudambi, 2004, Young & Tavares, 2004; Gupta & Govindarajan, 1991), thus making this a topic requiring further investigation. Further,

researchers have examined the subsidiaries initiative in relation to autonomy (Ambos et al., 2010; Birkinshaw., 1997; Gammelgaard et al., 2011). Others have explored the operational frameworks set by parent companies to both ensure corporate alignment, while also responding to local market needs (Reilly et al., 2012; Victoria & Dipak., 2014; Shroff et al., 2014). Further notable studies such as Dellestrand et al, (2020) have contributed with additional insight, exploring the interplay of subsidiaries behaviors and allocation strategies meanwhile, Lo & Tan, (2020) explored the correlation between subsidiaries performance and levels of capital and investments.

While the autonomy for subsidiaries have been deeply explored, the extent of autonomy in decision making and capital allocation has to our knowledge not fully been established. Accordingly, this thesis seeks to address this research gap.

A key factor to clarify this relation between the parent company and the subsidiaries in terms of financial autonomy is the agency theory. The agency theory claims subsidiaries as agents that acts on behalf of the parent company thus exploring the conflicts of interest influencing the autonomy (Jensen & Meckling., 1976). Hence this thesis will apply the agency theory as an attempt to further highlight and explore the relationship between the parent company and the subsidiaries.

This thesis aims to address the gap by examining the extent of autonomy for subsidiaries in financial decisions, particularly capital allocation. To address this gap the thesis employs a qualitative methodology using semi-structured interviews, thus gathering important and nuanced insights from employees in key potions at both subsidiaries and their parent company. This approach will help explain how subsidiaries navigate within MNCs and contribute to a further understanding of the financial autonomy for subsidiaries. Finally, this topic is highly relevant for both academic research and practical application in the real-world operations of multinational corporations.

1.2 Purpose

Based on the problem discussion a gap in the literature was identified regarding the extent of financial autonomy for subsidiaries within multinational corporations. Hence this thesis aims to examine the extent of autonomy for subsidiaries in terms of capital allocation and decision-making. Further the thesis strives to delve into the complex relationship between the parent company and the subsidiaries to clarify the subsidiary role and independence as well as evaluating the control from the parent company. Although this thesis will contain a focus

on subsidiary level, the thesis also strives to examine the interplay within the corporate structure and management to present an accurate and in-depth understanding to this complexity regarding financial autonomy.

Moreover, the goal of the thesis is to provide additional insights into the topic that can be utilized and applied by various stakeholders. Accordingly, the study aims to cover and examine important aspect of the financial autonomy within MNCs, to provide awareness for the subsidiaries, parent companies, MNCs and various managers. In addition, this thesis also stives to add and contribute knowledge to previous academic literature as well as guide and contribute to future research.

1.3 Research Question

To fulfill the purpose and address the gap the following research questions will serve as the foundation for this thesis.

1. *"To what extent do subsidiaries within multinational corporations have autonomy, specifically concerning capital allocation and financial decision-making?"*

In practice this implies that the study will investigate the extent of financial autonomy for subsidiaries, exploring and identifying factors influencing the autonomy such as subsidiary role, strategic importance and corporate structure.

1.5 Definition of Key Terms

Subsidiary Autonomy: - "the degree to which one may make significant decisions without the consent of others." (Brock, 2003., p.58)

Financial Autonomy: - "refers to an organization's ability to have control over its financial decisions and resources without significant external interference. It involves the authority to generate income, allocate funds, and establish budgetary priorities according to the organization's unique needs and goals". (Hong, 2023., p.113)

Capital Allocation: - "refers to the investment of financial capital into the business units of a multidivisional organization Thus, capital allocation represents a process where corporate managers determine where to allocate capital based on a variety of criteria". (Busenbark et al., 2017, p.2)

Decision-Making: - "the process whereby an individual, group or organization reaches conclusions about what future actions to pursue given a set of objectives and limits on available resources". (Schoemaker & Russo, 2013., p.1)

1.6 Delimitations

This thesis has chosen to focus solely on the financial autonomy of subsidiaries within MNCs. Firstly, the thesis only examine subsidiaries in Sweden and MNCs in Europe. Secondly, the thesis only focusses on the sustainability industry. Thirdly, the thesis excludes larger and smaller subsidiaries to place greater focus on medium sized subsidiaries. Lastly, the thesis only employs a qualitative method therefore not accounting for various quantitative data or statistical analysis of the financial autonomy.

2. Literature review

In this section the reader is provided with a comprehensive overview of the existing literature related to the topic examined in this thesis. The section begins by explaining the methodological approach used to both identify and select the literature. Subsequently, the thesis provides a thorough review of the relevant literature, including a discussion of the Agency theory.

2.1 Literature review approach

To gain comprehensive knowledge into the topic of subsidiary financial autonomy within multinational corporations, the initial step included a conducting of the literature review. Easterby-Smith et al, (2021) emphasize the literature review as important to gain comprehension of the exiting knowledge and thereby also identify plausible research gaps. Accordingly, the review of the literature provided the authors with more knowledge of the topic as well as facilitated the process of identifying a gap in the literature.

To identify relevant literature a systematic approach was employed with a focus on subsidiary autonomy, capital allocation and financial decision-making within MNCs. The research was conducted utilizing leading academic databases such as Scopus, Google Scholar as well as the Jönköping university library system Primo. The reason for choosing these specific databases was due to their large number of peer-review articles. Further we utilized all three databases to ensure valuable results for the research and thus mitigate the risk of missing out on important literature. From these databases articles were collected from various platforms

including Wiley, Springer link, Emeralds, ProQuest among others. Further the process contained a review of the reference lists of the selected articles to further broaden the scope of the research and to target articles which potentially would not appear in the initial search.

Through the literature review we gained an understanding of main topics related to our research on subsidiary autonomy within MNCs, specifically in terms of capital allocation and financial decision-making. The review covered associated topics such as autonomy, strategic decision-making, subsidiary resource and capabilities such as R&D. Further the review also highlighted theories related to the topic of subsidiary autonomy where the agency theory was selected due to its great association and importance of explaining the subsidiaries role and relationship within a MNC.

Further a keyword strategy was employed during the research process where the research was categorized into three different sets namely subsidiary autonomy, financial decision-making, and capital allocation. These where later paired with various terms denoting influence such as effect, influence, role, control and strategy. Moreover, the three key word sets also included several sub keywords related to the topics such as, "financial autonomy", "subsidiary management", "decision-making", "investment decisions", "financial independence", "resource allocation", "investment strategies" and "budget management". Additionally, the searches also included combination the keyword such as "subsidiary autonomy and capital allocation", "subsidiary autonomy and financial decision-making". By utilizing these combinations, it enabled the research to find article discussing both concepts.

After evaluating the collected literatures relevance, all articles were organized into an excel spreadsheet. This spreadsheet included all the essential details of the selected articles, such as main points, reflections, comments and focus. This approach allowed for a more comprehensive understanding of the existing literature enabling the ability to identify potential patterns and connections. Accordingly, this method facilitated the review process and help ensure a more critical and accurate analysis of the literature.

2.2 Subsidiary Autonomy

By navigating through research regarding subsidiaries complexities of control and autonomy within MNCs, the issue on how these reconcile with effective management of autonomy for MNCs has been a central topic (Doz and Prahalad., 1981; Bartlett and Ghoshal., 1989; Gupta and Govindarajan., 1991). Hence the relationship within the MNCs becomes interesting, since the parent company must regulate the subsidiaries and ensure that their operations align with the overall corporate strategy (Gates and Egelhoff., 1986; Harzing., 1999). In contrast, the

subsidiaries can through autonomy provide significant value for the MNCs by providing them with information (Birkinshaw., 1997; Galunic and Eisenhardt., 1996). The subsidiaries strategic position affects its influence in the corporation since it helps them grant autonomy from the parent company (Ambos et al., 2010). Thus, the level of autonomy for subsidiaries can change, as subsidiaries strategic significance increase (Cardinal et al, 2004).

Prahalad and Doz, (1981) illuminates that subsidiary expansion results in a growth of resources and a decrease in control from the parent company. Thus, the internal procedures become more evident because the subsidiaries are granted more strategic autonomy and appear more crucial for the overall strategy within the MNC. Burgelmans, (1983) introduce the idea of induced and autonomous strategic actions within MNCs, where induced strategies are those that are encouraged by managers and align with the corporate strategy. While autonomous strategy originates from lower levels within the corporations, potentially shaping new strategic directions and fostering innovations. Thus, the concept from Burgelmans, (1983) helps to further explain how subsidiaries can receive autonomy and how it contributes to the overall MNC.

2.2.1 Subsidiary Management and Autonomy:

Hofstede (1984) mentioned that subsidiaries who have more autonomy when making their large strategic decisions, such as entering new business areas and launching new products usually perform better compared to subsidiaries with more boundaries. Another reason why subsidiaries with high level of autonomy perform better is explained to be due to the subsidiary management team. Accordingly, management teams who tend to take more risks are also more willing to come up with new ideas of how to make smart investment choices, compared to management teams who have strict corporate policies (Hofstede, 1984).

Hofstede (1984) further investigated power distances regarding the decision-making processes. If a culture has high power distance that means that their decisions often are centralized which limits the subsidiaries autonomy. Thus, decisions taken in MNCs with a high power distance are taken by the parent company which prevents the subsidiaries from making autonomous strategic decisions. This means that in these cultures the power tends to stay centralized and there exist higher levels of hierarchy which means there is less room for individual initiative or decisions in lower levels of the organization. The opposite is for a culture with a low power distance, where the subsidiaries have greater autonomy and where they are promoting individual innovation and want them to be included in the strategic decisions (Hofstede, 1984).

Moreover, Dellestrand & Kappen, (2011) and Stein (1997), emphasize the management and capital allocation to subsidiaries as one of the most important roles for the parent company. Accordingly, their studies argues that when the strategies of the subsidiaries become central, it becomes easier for the parent company to obtain information about the investments which promotes the parent company to authorize the capital request. Lunnan et al, (2023) also highlights the internal capital market as more valuable when parent companies possess all information regarding the value and benefits of the subsidiary investment project. In contrast they argue that a greater autonomy for the subsidiaries in the investments result in more inefficiencies and costs due to parent company requiring to spend more time on the evaluation of the investments to avoid potential agency problems (Lunnan et al., 2023).

2.2.2 Corporate Structures Influence on Autonomy

Manolopoulos, (2008) highlights a change in the MNC structure, where MNCs has gone from being more influenced by centralized structure to more complicated decentralized management systems. As global expansion for multinational corporations grew so did the need to adapt to the different environments the company was operating in, therefore the decentralized management system transformation presented itself (Manolopoulos, 2008). This transformation is further argued to allow MNCs to act more flexible and navigate through complicated challenges.

Sengul & Gimeno (2013) also emphasize a change in the subsidiary role, where subsidiaries initial focus was to act as a market key for the MNC to help them establish and reach new markets. However, the role has changed, and the focus now is primarily driving innovation and response to the local market (Sengul & Gimeno, 2013). However, the change is not entirely free of challenges. Billet & Mauer, (2003) points out the need for subsidiaries to balance the corporate strategy with local responsiveness, thus highlighting the complexity of the modern subsidiaries within MNCs.

2.3 Capital Allocation

Capital allocation is referred to as allocation or investment of financial capital across different units within an MNC, to attain different motives and goals (Arrfelt et al., 2015). Those motives can for instance include mitigating risk and thus increase return (liebeskind., 2000), sharing and creating synergies in the corporation (Bower & gilbert, 2005) or desire for growth (Arrfelt et al., 2015). Corporations require financial resources to make various investments, which emphasize the importance of capital allocations (Sengul, et al., 2019).

2.3.1 Capital Allocation Strategies

The strategies of allocating the resources can according to literature be categorized into two choices known as the winner picking and cross subsidizing (Dellestrand et al., 2020).

Winner picking strategy simply means that the best performing subsidiary receives support trough allocated capital, thus the managers aim to pursue the highest valued investments (Scharfstein and Stein 2008). Accordingly profitable subsidiaries receive a boost while low profit subsidiaries get under-funded or divested. (Dellestrand et al., 2020). Scharfstein et al, (1994) highlights this process as common within MNC where the focus is tightly linked to the return on investment (ROI). Thus, the parent company tend to allocate capital towards subsidiaries with investment projects that generates higher returns.

In contrast to the winner picking the cross-subsidization strategy implies support of capital to the worst performing subsidiaries to ensure survival of several subsidiaries within the MNCs. Accordingly, this process is viewed effective in times of tough business climate since it helps keep their synergies intact (Scharfstein & Stein., 2008).

2.3.2 Challenges in Capital Allocation

Traditionally the literature tends to assume the parent companies as value creators due to their superior capabilities and responsibility over the capital allocation (Williamson., 1975). Thus, the subsidiaries are often viewed as passive recipients aiming to enhance organizational value that align with the corporate strategy (Dellestrand et al., 2020). However, other studies highlight that there is a possibility that subsidiaries can be active resulting in conflicts of interest due to misalignment of the overall corporate strategy (Andersson et al., 2007; (Egelhoff et al., 2013).

2.3.2.1 Challenges in Under and Over Investment:

Arrfelt et al (2015) underscores under and overinvestments as common challenges for MNCs in their capital allocation. Overinvestments implies allocating high levels of capital to prospects with poor growth while underinvestment occurs when corporations allocate low levels of capital to prospects with high growth (Arrfelt et al., 2015).

2.3.2.2 Challenges in Intrafirm Spillovers

Sengul & Gimino, (2013) further highlights an additional challenge for MNCs namely intrafirm spillovers which occurs when decision or actions in one subsidiary impacts the performance or behavior in another subsidiary within the MNC. This spillover can both be

positive and negative where the positive spillovers implies that subsidiaries incentives align with each another while negative spillover means the complete opposite. Thus, a negative spillover might require a more active approach and interaction from the parent company due to the contradiction between subsidiaries, which in turn limits the autonomy for the subsidiaries (Galunic and Eisenhardt., 1996). Further, Sengul & Gimeno, (2013) suggest that capital allocation must consider both the intrafirm spillover as well as the efficiency of the allocation, since their effects on financial resources differ. Internal capital market tends to favor subsidiaries which mitigates the possibility of multimarket competition. Further it is stated that increased market competition constrains the subsidiaries autonomy over capital resources to prevent potential escalations that may harm the organization (Sengul & Gimeno., 2013).

2.3.2.3 Constrained Delegation and Resources

Previous literature illustrates constrained delegation as a strategic approach for MNCs to navigate challenges in capital allocation. Sengul & Gimeno, (2013) explains this approach as parent company delegating business decisions to the subsidiaries although limiting their autonomy in decisions requiring capital commitments. The thought on constrained delegation varies between the literature, where Porter, (1989) emphasize that limiting autonomy for subsidiary in decisions are ineffective as it reduce the ability of subsidiaries to adapt to their markets which often is considered as the location where the actual competition occur. However, limiting the capital and autonomy for subsidiaries has by others been viewed as more effective since it reduces aggressive behavior among subsidiaries, which means that the subsidiaries cannot operate above the resource and capacity available (Sengul & Gimeno., 2013).

Reallocation is another concept that MNCs operating with constrained capital resources must consider. Stein, (1997) mentions the reallocation as a way for the parent company to create value by reallocating existing funds and capital across projects and divisions instead of bringing in external capital. Thus, implying that a surplus or cashflow from one subsidiary or investment can be allocated to other subsidiaries investments, where the expected return is higher. Accordingly, the idea of constrained capital simply means that the subsidiaries compete for the constrained funds through their various projects and investments and the role of the parent company is to decide where the capital should be allocated (Stein., 1997). Moreover Bouquet & Birkinshaw, (2008) highlights that the larger the size of the MNCs, the more subsidiaries they usually have, which makes it more important for subsidiaries to show potential and uniqueness to the parent companies (Bouquet and Birkinshaw., 2008).

The allocation of resources within MNCs has been view as pivotal factor in terms of generate promising projects and creating both significant value within corporations (Nell & Ambos: 2013) as well as value subtracting (Scharfstein & Stein 2008). The assumption is based on the understanding that MNCs operate in resource constrained environments, thus making it impossible to allocate resource and support to all projects (Khanna & Tice, 2001; Lamont, 1997; Shin & Stulz, 1998). Thereby the parent company must evaluate and rank the projects to identify those that from an investment point appear most promising. In contrast Cyert et al, (1979) argues that the projects are evaluated on their individual merit rather than being ranked against others. Hence, they argue that the projects are evaluated in a non-systematic way implying that each project is evaluated and considered based on when its submitted and without a comparison to other projects. Accordingly, this suggests that the parent companies possess superior knowledge to subsidiaries due to better view of the whole firm (Cyert et al., 1979). Further this resource allocation can improve the performance among subsidiaries in comparison to the local firms (Hymer., 1960).

The capital allocations actual value for the MNCs are however debatable where some literatures claiming a dark side to it due to the conflict with subsidiaries (Stein, 2002; Scharfstein and Stein, 2008). On the other hand, other literature views the resource allocation as a primary task for the parent company (Khanna and Tice, 2001), thus making its value somewhat unclear.

2.3.2.4 Challenges in Subsidiary Discretion

Sull, (2005) mention that subsidiaries possessing discretion over their investment decision normally prefer to reinvest the profit rather than channel it to the parent company. The reason for this is due to the channeling not benefiting the high performing subsidiaries. However, no channeling of capital from the subsidiaries implicates less capital being allocated from the parent company thus limiting opportunities for smaller subsidiaries. Therefore, MNCs are unlikely to give discretion over the investment to the subsidiaries (Sengul & Gimeno., 2013; Sull, 2005). This because, controlling the resource before their commitments are essential to mitigate the risk of potential escalation. Accordingly, Stinchcombe, (2001) underscores capital budget as tool for the parent company to monitor the subsidiaries financial operations.

Pondy, (1962) and Sengul et al, (2019) argued that smaller and more reliable subsidiaries are less reviewed when it comes to the capital budgeting, thus resulting in them receiving funds faster and with less requirements.

2.3.3 Factors Influencing on Capital Allocation

2.3.3.1 Type of Subsidiary

Lunnan et al, (2023) mentions four different roles that the subsidiaries can obtain trough their actions and influence, namely strategic growth, diversified growth, independent and interrelated. Hence, these roles are not based on the ownership in the subsidiaries but rather on their active role. (See table below)

Table 1: Subsidiary roles based on knowledge and financial inflows.

Knowledge Flow →		
Capital/ Finacial Resources ⇩	**Low**	**High**
Low	***Independent*** * Focuses on standardized, low-growth activities that are often locally oriented. * Maintains operations that require minimal adaptation or innovation. * Tends to become isolated from the MNE's main strategic focus.	***Interrellated*** *Focuses on adapting and applying the MNE's existing knowledge to local conditions. * Plays a role in generating revenue by leveraging the MNE's broad knowledge base. * Example marketing or sales
High	***Diversified Growth*** *Requires substantial investment to explore new markets or develop new products. *Ventures into areas that may significantly differ from the MNE's traditional operations.	***Strategic Growth*** * Engages in activities like R&D or strategic market expansion. * Constantly monitored and supported by headquarters to foster growth and innovation.

Adapted from (Lunnan et al., 2023) & develop by authors.

The "strategic growth" subsidiaries are characterized as high performing which generally result in significant amount of capital resources and knowledge. These subsidiaries normally possess R&D units or MNC core resources, which makes them important in terms of strategically expanding, competence sharing and competitive advantage (Lunnan et al., 2023). Due to their importance for the MNC these subsidiaries are often more monitored by the parent companies since they require more management of resource flow both in terms of capital and knowledge (Dellestrand & Kappen., 2011).

"Interrelated subsidiaries" are focused on adapting and utilizing the existing knowledge within the MNC to generate revenue by addressing and reaching the local market. Thus, these subsidiaries typically focus on areas like sales or marketing, which makes them central for the MNCs but not as much in need of capital resources. However, they require a high knowledge and information flow from both subsidiaries and parent company to effectively utilize the existing resources (Dellestrand & Kappen., 2011; Lunnan et al., 2023).

"Diversified growth" subsidiaries are also crucial for the MNCs since they operate in new and less explore areas which the MNCs target to grow further trough new products, market, and

technologies. Accordingly, these subsidiaries require significant capital resources meanwhile the do not benefit of the knowledge flow due to its distance from the MNCs core business (Chang & Wang, 2007).

The "independent" subsidiaries in contrast operate with limited resources and knowledge flow, due to implementation of standardized product or services which requires low knowledge sharing and capital resources (Holm et al., 1995). They typically rely heavily on local resource and workforce and are characterized as having low growth which requires limited investments (Lunnan et al., 2023).

2.3.3.3 Subsidiary Initiative

Birkinshaw et al, (1998) illustrates the importance of entrepreneurial initiatives from subsidiaries both when it comes to competitive advantage as well as development of existing resources. Those initiatives normally begin with the subsidiaries identifying an opportunity in which they later search for approval, to implement and receive capital by the parent company (Birkinshaw, 1998). Initiatives from the subsidiaries are often already budgeted and planned for, however the difficulty for corporations and especially parent companies relate to the action of choosing which initiatives to pursue or allocate resource towards (Cerar et al., 2022). The choices are generally associated with several uncertainties where factors such as culture, knowledge, innovations, capabilities and geographics are only a few (Dellestrand & Kappen., 2012). Mahnke et al, (2007) also highlights the context of the initiatives as important, where the parent companies must consider local requirements or regulations as well as the overall corporate strategy.

2.3.3.5 Innovation and Subsidiary Development

Dellestrand & Kappen, (2011) emphasize innovation as a decisive factor of capital allocation rather than any operational factors. However, they suggest that the innovations that receive capital and visibility are those that relates to the core capabilities of the specific subsidiary. Dellestrand & Kappen, (2011) moreover found that parent companies tend to favor and support innovation in which they funded in development phase, implying that they prefer to stick with previous winner picking projects. Gupta & Govindarajan, (2000) further observed the subsidiaries size as significant in attracting capital allocation since those are more visible and have a greater economic value for the corporation.

2.3.4 The Capital Allocation

According to Cyert et al, (1979) the capital allocation process begins with corporations gathering a budget of the total available capital, which serve as a reflection of both the financial health and growth prospect for the organization. Subsequently, subsidiaries can submit request of capital allocation and investments which in turn are evaluated by the parent company to ensure those align with the overall financial goals of the corporation (Cyert et al., 1979).

Sengul et al, (2019) however, delves deeper into the explanation and highlight the capital allocation process as a constitution of three pillars called horizontal, vertical and external (where only the first two are of interest in this thesis). Each of these pillars together form the capital allocation and plays a pivotal role in how and where firms decide to allocate their resources.

Sengul et al, (2019) refer to the horizontal pillar as a phase including the steps determination, comparison and hence selection of a pool of investments and project. The determination phase underscores the complexity when determining and identifying investments, since it involves plenty of uncertainty and informational challenges for managers. The findings from Cyert & March, (2015) suggest that firms operate in a problematic search to identify potential solutions for capital allocation. When the investments have been identified Sengul et al, (2019) highlight the comparison of the investments as the following step, where the investment are being compared and ranked against each other. The various investment prospects are compared based on different criterias such as expected financial return, risk levels, potential synergies and how well the investment align with the MNCs objectives (Sengul & Gimeno., 2019).

Traditionally a tool of comparing different investment involves the use of net present value (NPV) which is the expected cashflow from an investment, discounted for risk and time (Magni., 2009). Thus, one should aim for a positive value of NPV and choosing between several positive NPVs one should choose the highest (Sengul et al., 2019). However, the measure of NPV also consist of potential flaws due to not entirely accounting for potential environmental uncertainty (Alessandri et al., 2004). This is explained to be a distinct issue when allocating capital to product development (Klingebiel & Rammer., 2014) and R&D (Baysinger & Hoskisson., 1989).

Because of the uncertainty and complexity, the managers must possess flexibility to find attractive investments (Alessandri et al., 2004). Accordingly, perceptions and beliefs play a part in the identification process of investments (Gilbert., 2005). Other studies argues for the

more common method during uncertainty, namely heuristics “rule of thumb”, which involves implementation of standardized decisions (Bettis., 2017; Cyert & March., 1963) and prioritizing on specific characteristics such mangers reputation (Graham et al., 2015).

The second pillar that Sengul et al, (2019) highlights is the vertical dimension which adds organizational elements such as decision making to the horizontal dimension. These elements can both influence and improve the capital allocation, due to better coordination of the activities and capital (Sengul et al., 2019). The hierarchical structure within the organizations also influences the efficiency of the capital allocation, where to many levels in the hierarchy may slow down and make the process ineffective (Sengul et al., 2019). In contrast, organization with flatter hierarchal deigns may possess less inefficacy which makes them more responsive to market changes and possibilities (Thesmar & Thoenig., 2000).

2.4 Decision-Making

2.4.1 Cultural Variations in Decision-Making

Hofstede, (1984) argues that the use and interpreting of cultural variations is essential when it comes to decision-making within MNCs. Individualistic cultures can create settings where subsidiaries are allowed to function with greater autonomy, which encourages creativity and local responsiveness. On the other hand, decision-making may be more centralized in cultures with a high-power distance, which might affect the autonomy for the subsidiary. For MNCs to effectively navigate and carry out decisions in worldwide operations, they must acknowledge these cultural characteristics and adjust their management approaches accordingly (Hofstede, 1984).

2.4.2 The Role of Subsidiary in Decision-Making

Rugman & Verbeke, (1992) highlights that previous studies often view the parent company as the place where the MNCs possesses its specific advantages due to superior knowledge which makes it the place where the decisions occur. However, other studies emphasizes that subsidiaries are more involved in decisions due to their pivotal role in creating and establishing those advantages, through innovation (Bartlett & Ghoshal, 1986), develop and produce things (Roth & Morrison, 1992), and impact the flow of capital in the corporation (Gupta & Govindarajan, 1994). Gupta & Govindarajan, (1994) further argues that the parent companies are responsible for the strategic direction of the corporation hence, they determine the various subsidiary roles to ensure that these strategic goals and directions are met.

Accordingly, Gupta & Govindarajan, (1994) emphasize a limited autonomy for subsidiaries in the strategic decision such as focus of the business. In contrast Bartlett & Ghoshal, (1986) suggest that the subsidiary roles and influence on decisions are based on their importance and future implications for the MNC. Additionally, Child, (1972) underscores that the subsidiaries possess better capabilities and knowledge over their local market and thus the subsidiary managers should be in charge of the subsidiary roles as well as its decision-making. Ozbas, (2005) further highlight decentralization as an attempt from parent company to increase the effectiveness and the decision-making.

2.4.3 Financial Decision-Making

When investigating the internal capital market there are plenty of argument about the negative aspects such as potential agency conflicts, involving delegation of the decision on where the capital shall be allocated (Scharfstein & stein., 2008; Rajan et al., 2000). Thereby, the financial decision-making in the capital allocation process becomes a very central issue for MNCs. Sengul & Gimeno, (2013) highlights that the parent company set up investment strategies based on global trends and fits with the overall corporate goal. Further, they argue that the subsidiaries possess autonomy in the dual decision-making where they have to match these investment strategies set by the parent company with the market needs. Accordingly, Sengul & Gimeno, (2013) emphasize that subsidiaries have autonomy in the financial decision-making process although it is limited to the strategic goals and boundaries set by the parent company. Similarly, Stein, (1997) mentions that financial decisions are based on corporate strategies and local market knowledge which means that subsidiaries have autonomy in financial decisions when it comes to responding to the local market.

Moreover, Billet & Mauer, (2003) illuminates that the financial decision-making for subsidiaries requires flexibility and great management. Accordingly, the subsidiaries are the key to connect the overall corporate objectives to the local market needs which makes the financial decision-making of the subsidiaries crucial for the success of MNCs (Billet & Mauer., 2003).
Further, Stein, (2002) investigated how the investment authority are decided and delegated within MNCs and found that both critical and long-term investments generally are centralized decisions, with limited autonomy for subsidiaries. This supports the findings from Sengul & Gimeno, (2013) who argued that the level of autonomy in financial decisions varies with the risk of competitive escalation. Gupta & Govindarajan, (1984) further mentions risk

preferences and managers personal biases as factors influencing the financial decision-making within MNCs.

2.4.4 The Role of Information Environment

The study from Shroff et al, (2014) found strong evidence that the information environment impact is more significant when parent companies are deeply involved in the investment decisions of subsidiaries. Furthermore, they also found that subsidiaries that are located in countries with great information environment responds better to growth opportunities. Moreover, Rozkwitalska, (2013) mentions that foreign subsidiaries of MNCs, cross culture relationships can both offer benefits and obstacles. Cultural obstacles may block a subsidiaries ability to operate effectively and carrying out decision. These barriers could consist of discrepancies in communication methods, decision-making processes, or differences in workplace traditions (Rozkwitalska, 2013).

2.5 Agency Theory

2.5.1 Introduction

Established by foundational works the agency theory (Fama & Jensen., 1983a; Fama & Jensen., 1983b; Jensen & Meckling., 1976) addresses organizational dilemmas referred to as agency problems. This theory models the relationship between two cooperative parties called agents (subsidiary) and principles (parent company), that possess different goals and division of labor (Eisenhardt., 1989). The theory hence analysis the interplay between the principals and agents, focusing on contractual arrangement in which principals delegate task to the agent (Eisenhardt., 1989).

2.5.2 Conflicts in Agency Theory

Eisenhardt, (1989) emphasize that the focus of the agency theory is to address conflicts that can occur within this agency relationship. The first problem so called agency problem, emerges either when there is a conflict of interest between the principal (parent company) and the agent (subsidiary) or when there is a high cost or difficulty for the principal to monitor the actions of the agent (Eisenhardt., 1989).

The second conflict pertains to risk-sharing, which occurs when risk preferences between the principals and agent differentiates, which can cause disagreement over actions and decisions (Eisenhardt., 1989). Accordingly, due to separation of control the theory posits that agents

may act in a certain way that serves their interest but diverge from the interest of the principals. Further, both agents and principals seeks to maximize their utility, with agents valuing power and wealth (autonomy) while, principals strive to enhance their share value (Fama & Jensen., 1983a; Jensen & Meckling., 1976).

2.5.3 Perspectives of Agency Theory

2.5.3.1 Structural Agency

Mitnick, (1984) highlight "Structural agency" as a foundational parameter and term in the agency theory. The term implicates that no one can perform every task themselves therefore it requires specialization, and delegation of tasks. Although this specialization allows for efficiency and expertise within organizations, it can also create conflicts, due to separations and oversight. This specialization and expertise also create information asymmetries between the agent and the principals in ways that agent may possess skills and knowledge that the principal lacks. The principals are thus dependent on the expertise of the agent when delegating task which may heighten the risk of agency dilemmas, due to the challenges for principals to evaluate and monitor the agent performances (Mitnick., 1984).

2.5.3.2 Physical and Social Distance

Shapiro, (2005) mention physical and social distances between principals and agents as an important but challenging factor when exploring the agency theory. The distance makes it more difficult for principals to both delegate the task and monitor that the agents pursue them, which increased risk of adverse selection and moral hazard (Adams 1996). Moral hazard emerges when principals are unable to keep track of the actions of the agent, leading to decisions that perhaps not favor the interests of the principal (Eisenhardt., 1989). In contrast, adverse selection emerges when the principals monitor the action of agent but cannot determine whether those actions are in favor of the principal interest or not (Arrow., 1984). Accordingly, the ability of the principal to monitor and evaluate the performance of the agent significantly influence the agency problems. Previous literature suggests that effective corporate governance can reduce agency problems through enhance in the oversight of the behavior of the agents (Fama & Jensen., 1983b; Jensen & Meckling., 1976).

2.5.4 Agency Theory in Multinational Corporations

2.5.4.1 Agency Theory in Capital Allocation

Dessein et al, (2010) claims that subsidiaries that engage in resource allocations and investments such as innovations, expansion and machines, operate more effectively under the

oversight of their parent company. They reason for this relates to the agency theory such that various investment and capital allocation strategies require general knowledge rather than market specific knowledge thus being better obtained by the parent company. Dessein et al, (2010) further underscores that the risk is better observed at the parent company since subsidiary managers course of action tends to deviate from the objectives of the parent company.

Moreover, Kostova et al (2018) found that a larger distance between subsidiaries and their parent companies tends to be associated with more agency problems which result in lower capital allocation. However, the study from Cerar et al, (2022) showed that a larger distance can also lead to a larger autonomy since the local mangers require high competence to both lead and implement initiatives.

2.5.4.2 Agency Theory in Management

Tan & Mahoney, (2006) claims that one approach for parent companies to address potential agency problems has been to assign expatriates (employees from the parent company) to foreign subsidiaries to better manage, control and coordinate their activities. Those expatriates serve to implement and mediate the objectives and strategies from the parent company to mitigate potential misalignment, risk and other agency problems. Thus, Cerar et al, (2022) highlights that their tasks are to create a better knowledge flow between foreign subsidiaries and their parent companies. Due to the commitment of the expatriate and their personal connection to the parent company, they are less like likely to either lack competence or act in self-interest when dealing with initiatives from subsidiaries (Black & Gregersen., 2017; Ott & Michailova., 2016). Accordingly, previous literature has shown that subsidiaries initiatives and growth opportunities receive more attention when they are managed by expatriates compared to local managers (Plourde et al., 2013; Cerar et al., 2022).

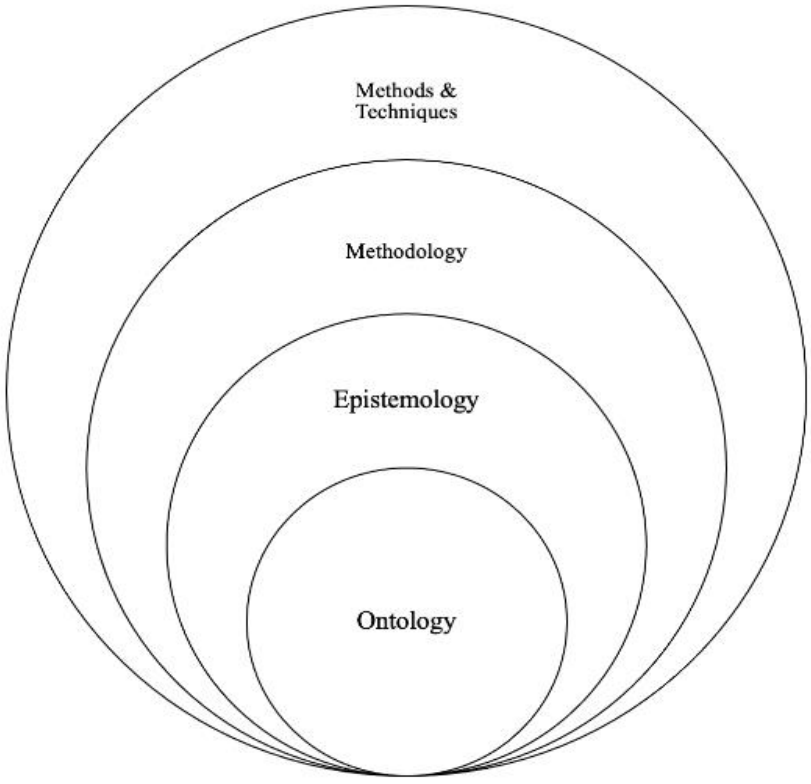
This aligns well with the findings of Kostova et al, (2018) who states the uncertainty of the subsidiaries objectives (self-interest) and competence as additional factors for parent companies to consider. This because, subsidiaries acting in self-interest may differ from the interests of the corporation (Ambos et al., 2010) while subsidiaries lacking competence may result in inefficacies of both leadership and implementations of the initiatives (Hendry., 2002). Hence, those two are viewed as the roots of causing agency problems within MNCs. (Kostova et al., 2018).

3. Methodology

This part outlines the approach and research paradigm employed to achieve the goal of this thesis. Initially it describes the adopted research strategy, followed by an explanation of data collection and methods used. Moreover, it illustrates the process and methods of the conducted interviews, including the questions asked and positions of respondents. Lastly it addresses the data analysis process, highlighting and both the steps and measures taken to ensure quality, reliability, dependability and validity of the findings and results.

The structure of the methodology for this thesis is designed around the tree metaphor developed by Easterby-Smith et al, (2021). This metaphor guides the thesis methodological choices which ensures a consistency throughout the research. The choice of techniques and protocols research projects is based on fundamental choices about methodology, epistemology, and ontology, as shown in Figure 1 below.

Figure 1: The Three Metaphor



Source: Adapted from Easterby-Smith et al. (2021).

4.1 Philosophy of Science

Research paradigms are central worldviews that can shape how studies are being conducted. Although there are several paradigms available the literature primarily identifies two key types, namely interpretivism and positivism (Alharahsheh & Pius., 2020). Those paradigms influence the research process in terms of selecting methods, approaches, and theoretical framework. Hence, the choice between the positivism and interpretivism is grounded on the choice of research question, objectives of the research and the studies nature (Alharahsheh & Pius., 2020). Each of these paradigms consist of various elements such as Epistemology, methodology, ontology and methods which are connected and interweaving under the chosen paradigm (Alharahsheh & Pius., 2020).

For this thesis, interpretivism paradigm has been chosen due to its suitability and alignment with our specific research questions regarding financial autonomy for subsidiaries in investment and capital allocation decisions. The choice of interpretivism was based on the fact that it provides a more in-depth, qualitative understanding of organizational behaviors and decision-making processes, which is well in line with the approach of this thesis (Collis & Hussey., 2014). In contrast, a positivism paradigm emphasizes quantifiable realties which is well suited for statistical analysis (Collis & Hussey., 2014). Furthermore, the positivism utilizes a realist perspective, simply inferring that reality can be described as how things really are, which often is associated with a more quantifiable approach (Slevitch., 2011). Additionally, the interpretivism is concerned with humanistic knowledge which shed lights into organizations, thus being suitable for this study due to it analyze of the intrinsic relationship between the parent company and their subsidiaries regarding financial autonomy in capital allocation decisions (Gephart et al., 2018). Interpretivism tends to fall short in terms of reliability and trustworthiness, since it is challenging to completely verify qualitative data such as interviews (Collis & Hussey., 2014). However, to ensure authenticity of the findings the researchers have created and utilized specific protocols as tools to account for differences in observation and interpretations depending on occasion and observers (Collis & Hussey., 2014).

The assumption of the ontology of the positivism and interpretivism paradigms provides separate views on the reality. Positivism states that there exists one single discoverable truth which is objective and independent of humanistic perceptions (Slevitch., 2011). On the other hand, interpretivism views the reality as subjective and dependent of individuals, thus implying that there exist multiple realities which are understood through interpretation and

human interactions (Slevitch., 2011). The interpretivism epistemology claims that there is some connection between researcher and the subjects they investigate, based on the idealism ontology. Therefore, the way information is interpreted depends on the research environment as well as social and mental constructions (Slevitch., 2011).

4.2 Qualitative Research Methodology

The research technique used in this thesis will be qualitative, which is in line with the interpretivism paradigm. Due to its subjective approach, this methods primarily focus will be on gathering words to capture potential complexities of human behavior (Grey et al., 2007). Paterson & Higgs, (2005) builds on this notion by highlighting that a qualitative method serves well when attempting to accurately address complicated relationships and experiences in multinational corporations, thus forming a great match of method for this thesis. According to Slevitch, (2011) this method is perfect for diving deeper into themes and patterns to gain an in-depth understand of a phenomenon by examining how participants perceive and interpret reality. Hence, techniques such case studies, participant observations and in-depth interviews are commonly utilized in the qualitative approach (Hellström., 2008) where the latter one will be employed in this thesis. In contrast, positivism generally suits quantitative approach which involves gathering numerical data for statistical analysis in order to define reality as it is (Slevitch., 2011).

Saunders et al, (2016) suggest that the choice of methodology depends on how the theories are intended to be developed in the research. Hence there are three primary reasoning styles to apply namely inductive, deductive, and abductive.
An abductive method alternating between specific details and broad concepts, combining induction and deduction (Saunders et al., 2016). Because deductive reasoning seeks to either confirm or reject a theory with actual data, it is typically applied in quantitative research. However, qualitative research often applies inductive reasoning. So, instead of solely confirming existing information, its goal is to discover new concepts not found in earlier research. Using the inductive technique the researcher can identify themes and patterns that a deductive approach could miss (Nunan et al., 2020; Saunders et al., 2016).

Since this study uses a qualitative methodology, the deductive reasoning becomes less suitable due to its limitations in flexibility and reliance on quantitative data (Saunders et al., 2016). Further the deductive research focuses on tackling “why” questions while the inductive reasoning employs a focus on “what” questions (Malhotra., 2017). Although the inductive

reasoning is valuable when creating new theories on observed data, the reasoning requires a large data collection thus limiting it in cases without substantial data (Malhotra., 2017). The abductive reasoning however incorporates both the inductive and deductive approaches thus answering both "what" and "why" questions. Accordingly, the abductive reasoning aligns well with the need to both understand and explain subsidiaries autonomy in investment and capital allocation decisions, since it both uncover patterns (what) and explains their existence (why). Moreover, Gioa et al, (2012) suggests that this technique is beneficial as it begins with an already established theory that may be modified or revised in response to new information. In conclusion this study will apply a qualitative methodology with an interpretivism paradigm utilizing an abductive research strategy.

4.2.1 Case Study Design

This thesis will employ a multiple case study technique by interviewing subsidiaries and parent companies in accordance with the selected methodology as well as assumptions. This approach seeks to gain an in-depth knowledge by examining a particular phenomenon in its real environment. Depending on the number of examples you wish to analyze, you can select between one and several case studies (Collis & Hussey., 2014). By looking at the same problem in many scenarios, a multiple case study enables this thesis to compare outcomes in different circumstances. Additionally, by using this technique, we may identify recurring themes and patterns that offer insightful comparisons and information about the topic of investigation (Gustafsson., 2017). Therefore, using the interpretivism research approach, help the researchers to understand how subsidiaries financial autonomy in capital allocation is decided, navigated, and perceived when operating in different environment and corporate structures.

4.2.2 Scope of The Study

The selected companies in this study were strategically considered based on several factors such as geographical location, corporate structure, strong reputation within their industry. The thesis is limited to two corporate groups, operating and known for its work and awareness in the sustainability industry. Although all investigated subsidiaries are located in Sweden which besides have been pointed out as ranked 1st in global sustainability index 2020 (Mulhern., 2020). The corporate groups are not confined to Sweden, since one of the corporate groups parent companies is located in another European country. Accordingly, this diversity enables a comparative perspective on how subsidiaries financial autonomy is influenced by differences in geographical cultural and managerial context.

The geographical location of the subsidiaries and parent companies also facilitated the use of Swedish and English (primary and secondary language) during the conduction of the interview, which ensured a high-quality communication that enabled capturing of valuable insight (Van Nes et al., 2010).

4.3 Data Gathering

The main idea of the data gathering approach in this study is based on (Bells., 2018) definition of primary data, which is defined as information created during the research process. In comparison secondary data is referred as assessments of data that already has been collected. Since there is currently little literature on subsidiary management and autonomy the gathering of primary data becomes even more essential for meeting the targets of the study (Bell., 2018).

4.2.1 Primary Data

Primary data is defined as findings that is newly obtained during the research process (Bell., 2018). It is essential to obtain primary data in this area since this area is lacking broader scope of previously conducted research. So, when examining the complex relationship between autonomy and subsidiary management the interviews of key employees become significantly important. The variety and depth of primary data are often essential for interpreting the complex relationships and decision-making procedures across various management teams belonging to different subsidiaries (Bell., 2018).

Primary data for qualitative research can be gathered via focus groups, action research, interviews, or observation (Collis & Hussey., 2014). Given the timeframe and resources available for this research, conducting interview was viewed as the most appropriate and suitable method. Easterby et al, (2021) underscores interviews as invaluable both in terms of comprehending data within its context as well as exploring experiences which generally are challenging to observe. Additionally, Easterby et al, (2021) view interviews as an effective way to grasp unique perspectives among participants, which reinforced the decision to conduct interviews as research method.

Qualitative interviews can be categorized into three types called structured, semi-structured and unstructured (Saunders et al., 2016). Structured interviews implies that the questions are asked exactly as they have been formulated. Hence such approach may limit the depth in the

interviews and therefore not consider in this study. Unstructured interviews however do not have any predefined questions which leaves more room for an open and freely discussion. This approach therefore makes it challenging to identify patterns and compare responses and results, thus appearing to unstructured for this study (Saunders et al., 2016). Considering the research objectives and constraints the semi-structured interview was deemed as the most suitable method.

Collis and Hussey, (2014) favor semi-structured interviews over the other methods since it provides the respondents the opportunity to explain their experiences and how they interpret their own lives, which is consistent with the interpretivism paradigm method of epistemology (Collis & Hussey., 2014). Furthermore, the act of collecting qualitative data using this methodology facilitate the utilization of an abductive approach by enabling researchers to make unexpected discoveries of new perspectives.

Semi-structured interviews offer a flexible method for capturing information and allowing for an in-depth examination of perspectives and experience of the management team. This methodology consists of predefined questions but encourages depth and adaptability when further explanation is needed, while supporting the qualitative approach of the study (Bell., 2018). This flexibility to both probe and elaborate further on specific responses, aligns with the philosophy of interpretivism that participant perceive thing differently (Easterby-Smith et al., 2021). Additionally, the study also attempts to offer an in-depth understanding of the management teams responsibilities for governing financial autonomy and dealing with different cultural backgrounds in a multinational corporation.

4.2.2 Secondary Data

The use of information which already has been gathered and examined by others for objectives unrelated to the current study is referred to as secondary data (Collis & Hussey., 2014). Materials that can be example of this sort of data is academic journals, corporate studies, industry evaluations and other previously published or reported materials (Saunders et al., 2016). Secondary data plays a crucial role in this study by giving background information and a theoretical framework for recognizing the complexities of subsidiary autonomy and management inside multinational corporations. Also, by doing an examination of prior research and literature the research may create a solid knowledge basis and then highlight the knowledge shortages and place itself within a larger academic discussion (Saunders et al., 2016).

Moreover, secondary data helps to compare the findings of the study with those of previous research enabling a comparative analysis that might provide new perspectives or support frequent trends of subsidiary autonomy and governance in various organizational and different cultural environments. According to (Bryman and Bell., 2022) by adding secondary data to the research you get more guarantee an in-depth understanding of the topic, which allows a more advanced discussion and examination of the newly obtained primary data (Bryman and Bell, 2022).

Although the research predominantly utilizes primary data, secondary data has been used as well particularly scholarly articles addressing similarly areas as the research questions. Additionally, we also utilize books covering various theories or information deemed as relevant and suitable in this study. The literature search was mainly conducted through use of academic databases such as Scopus, Google scholar and Jönköping university Library system Primo. This to both identify and ensure quality of the academic articles.

4.2.3 Interview Technique

As mentioned before semi-structured interviews has been utilized since it covers the main investigation challenges while allowing the respondent freedom of speech. Depth and flexibility are made possible by this method which maintains the qualitative of the research character and allows for an in-depth understanding of management roles in a variety of cultural and financial circumstances (Bell., 2018).

Therefore, in order to execute successfully interviews, it was necessary to prepare a questionnaire and also arrange practicalities. To improve the procedure an initial trial of the interview questions was made (Maxwell., 2012).

The interview arrangements enabled open and transparent communication by guaranteeing comfort and anonymity. There were efforts made to guarantee the respondents identity and that the answers were confidentially (Rubin & Rubin., 2011). Also, with accurate transcription and recording of the interview material ensured information was securely stored to protect participant privacy (Silverman., 2021).

4.2.4 Design of The Interviews

In order to collect significant and informative information about the subsidiaries different extent of autonomy and decision-making within MNCs, the interview style was carefully planned out. In accordance with Kvale & Brinkmann, (2009) recommendations, the semi-structured format was selected because of its ability to adapt, which permits an in-depth examination of complicated issues while maintaining the appropriate structure to later enable to do comparisons. For qualitative research, it is not only important to recognize shared patterns but also to fully understand and explain the variety of viewpoints (Kvale & Brinkmann., 2009).

Every interview was scheduled for anywhere from thirty minutes up to one hour, which is ideal duration for both the interviewer and the interviewee to remain focused and provide enough detail in their answers (Rubin & Rubin., 2011). The location for the interviews were selected based on the interviewees preferences to provide ease and comfort. Which was hoped to bring more transparency and openness answers. The locations may therefore be face-to-face at the interviewees office or via digital platforms for participants who were distant (Rubin and Rubin., 2011).

The time and place of the interviews diverted, where some were conducted through face-to-face meanwhile the rest was conducted using Microsoft Teams. The participants were contacted through either phone, LinkedIn or email where the objectives and purpose of the research were clearly outlined. 12 interviews were conducted in this research which corresponded to a total time of approximately 10 hours and 30 minutes, which showed clear evidence that the respondent felt both confident in their contribution and openness toward the researchers. Notable is that 32 persons in different key positions and different organizations were asked to participate in this research.

Adopting the philosophy of interpretivism the data collection in this study was selected due to their judgment and knowledge rather than being randomized thus not constitute of statistical analysis in the sample selection (Collins & Hussey., 2014; Nunan et al., 2020).

The research utilizes snowball sampling as the sample technique for this thesis. This method involves selecting initial participants according to predetermined criteria, in one of the MNCs the CFO 1 and CEO 1 were the initial participants. These individuals then recommended other contacts who match the same profile. Snowball sampling is particularly effective when trying to locate and arrange meeting with certain individuals since it otherwise may be hard to find

employees in high positions. This strategy is highly beneficial in such scenarios (Easterby-Smith et al., 2021).

4.2.6 Choice of Respondents and Scheduling

In order to achieve an in-depth understanding of subsidiary autonomy within a multinational corporation, an extensive range of experience and opinions were taken into account during the participants selection process for this examination. Employees with key positions across various subsidiaries has been selected as the main focus of the interviews. Due to the thesis focus on capital allocation employees involved in R&D were utilized due to its capital attraction and involvement. The selection approach was designed to represent the varied role for various subsidiaries of the research by guaranteeing a wide range of backgrounds, including geographic locations, cultural background. A deep knowledge of the challenges associated with the financial decision-making and management procedures at all levels of the multinational corporation structure was collected from diverse respondent base (Bryman & Bell., 2022).

The interviews were carefully scheduled and logistically planned to suit the calendar of the participant. Interviews were scheduled at times most convenient for the respondent also taking into account their hectic daylily schedule. This strategy helped us wider the range of respondents who could participate but also helped created a more relaxed and open atmosphere that encourage the respondent in more in-depth conversations. Also, when the researcher is more flexible in scheduling and really honoring the respondents time it will improve both the quality and the dependability of the information gathered (Maxwell., 2012).

Table 2: Conducted interviews.

Case/MNC	Respondents	Method	Date	Duration	Code
MNC 1	Subsidiary 1, CFO	Face-to-Face interview	2024-02-20	1,5 h	CFO 1
MNC 1	Subsidiary 1, CEO	Face-to-Face interview	2024-02-20	1,5 h	CEO 1
MNC 1	Subsidiary 1, R&D	Face-to-Face interview	2024-03-12	1 h	R&D 1

MNC 1	Subsidiary 2, CFO	Face-to-Face interview	2024-03-12	1 h	CFO 2
MNC 1	Subsidiary 2, CEO	Face-to-Face interview	2024-03-12	1 h	CEO 2
MNC 1	Subsidiary 3, CEO	Teams-meeting	2024-04-22	30 min	CEO 3
MNC 1	Parent Company 1, Industrial Manager	Teams-meeting	2024-04-23	30 min	IM
MNC 1	Parent Company 1, Head of Investments	Teams-meeting	2024-04-23	30 min	HOI
MNC 2	Subsidiary 4, CEO	Teams-meeting	2024-05-02	1 h	CEO 4
MNC 2	Subsidiary 4, R&D	Teams-meeting	2024-05-02	30 min	R&D 2
MNC 2	Subsidiary 5, CEO	Teams-meeting	2024-05-03	1 h	CEO 5
MNC 2	Parent Company 2, Industrial Manager	Teams-meeting	2024-05-03	30 min	IM 2

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In the table above a careful process of selecting and scheduling participants for this research was crucial in order to guarantee an in-depth understanding of the different aspects of subsidiary autonomy and governance within a multinational corporation. The respondent's diverse assignments, hierarchy and different cultural backgrounds have all contributed to an understanding of the complicated relationships of financial decision-making and management processes across various subsidiaries. To successfully get interviews with meaningful interactions and depth, we needed to be adaptable in both scheduling and executing our interviews whether they were conducted face-to-face or via online platforms.

4.2.7 Coding and Analyzing the Data

As suggested by (Braun and Clarke., 2006) an analysis of topics techniques was used in this investigation both for data coding and analysis. This was done to guarantee accuracy. Further, the interviews were recorded and transcribed to get the interview precisely. After the interview the recording of the data were read repeatedly to become more familiarizing before being coded. Then the researchers did a primarily draft of codes which then was checked over and finally group into potential themes.

4.3 Data Analysis

Flick, (2013) argues that qualitative research effectiveness relies upon its selection of a suitable analytical method. In line with this, as analysis of the collected primary data, this study utilized an abductive thematic analysis approach (Thompson., 2022). The approach places it focus on identifying, analyzing and reporting themes that occur in their data, while providing a flexibility and systematic rigor (Braun & Clarke., 2006). Thompson, (2022) further mentions that the process of the abductive data analysis, begins with transcription and familiarization of the data for the researchers. This involves plenty of re-reading of the collected data and is explained to be crucial to identify plausible patterns and nuances within the data. The next step in process is according to Thompson, (2022) the coding process or generating, where the researchers review the dataset and identify correlations to the research topic. The relevant data is label with codes, who strive to categorize the data into various themes. The coding process is iterative which allows researchers to change and improve the codes to ensure accuracy and great reflecting the complexities of the data (Thompson., 2022).

According to Thompson, (2022) key topics will emerge during the coding process, as coding highlights the important aspects of the data gathered. These topics might initially go undetected and further investigated by applying theories to clarify the findings. This is part of Semantic analysis, which deals with information at the surface level and is a crucial aspect of abductive reasoning. On the other hand, latent themes dive deeper into the hidden meanings behind the data. Therefore, when there is no obvious connection between the themes and the theoretical framework, latent themes help researchers to better understand these relationships by refining, adjusting, or even combining themes with new concepts (Thompson., 2022).

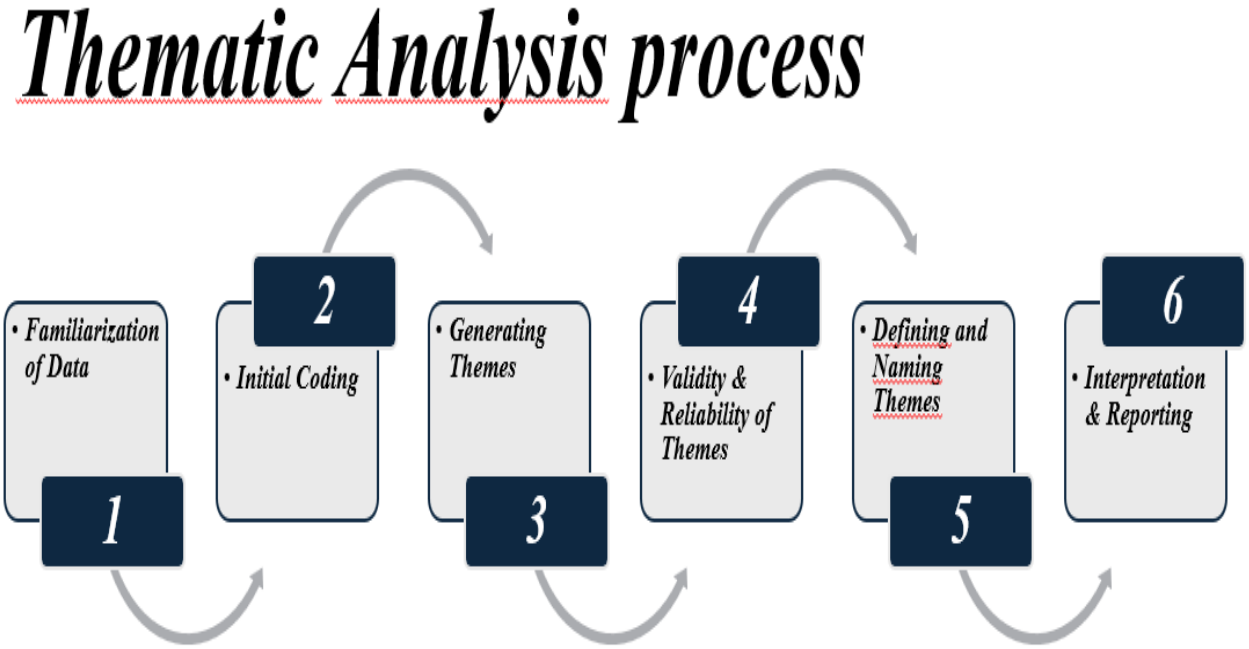
The auto transcription tool that has been utilized in this study has mainly been Microsoft Teams and manual review to ensure accuracy in the transcription and to eliminate potential excessive data. The transcription process has been very useful and vital to form a comprehensive understanding of the data, which became of great use in the development of the codebook of the research. The codebook became invaluable throughout the coding process, due to it enabling for the researchers to group findings of similar character and compare them to the theories being applied in the study. This process in turn also contributed to deeper interpretation of all the relevant data, which align with Thompson, (2022) ideas that the codebook should provide clear guidelines and structure of the coding.
The coding process was in this study structured into three so called coding rounds. Firstly, all the interviews were code individually with the researchers marking insight, information, and quotes of significance to better grasp the respondents “reality”. Hence this first coding step involved consideration and focus of the respondents experience and visions which resulted

into a collection of quotes. The following and second coding step constituted of a more theme and pattern identifying approach rather than a selective as the first step. Thus, this helped the study to refine the data for a more comprehensive and in-depth analysis. Lastly the third coding round implied a synthesizing of the themes in second order codes into aggregated demands (Thompson., 2022).

The research team collectively conducted the coding process, ensuring that all data was analyzed and coded by both researchers. This collaboration ensures high quality and consistency trough out the entire process and helped provide a throughout analysis.

The figure 2 below show the process in the abductive thematic analysis retrieved and adopted from Braun and Clarke (2006) by viewing all the steps the researchers performed. Figure 2 below also shows how the coding process was visualized from first order codes to second order themes and lasty aggregate demands.

Figure 2: Thematic Analysis Process



Adopted from (Braun & Clarke., 2006) & develop by authors.

Since some of the interviews were conducted via Microsoft Teams, they were automatically recorded since the application has this feature. Therefore, in accordance with Braun & Clarke, (2006) stage of familiarization, this became more crucial compared to the face-to-face

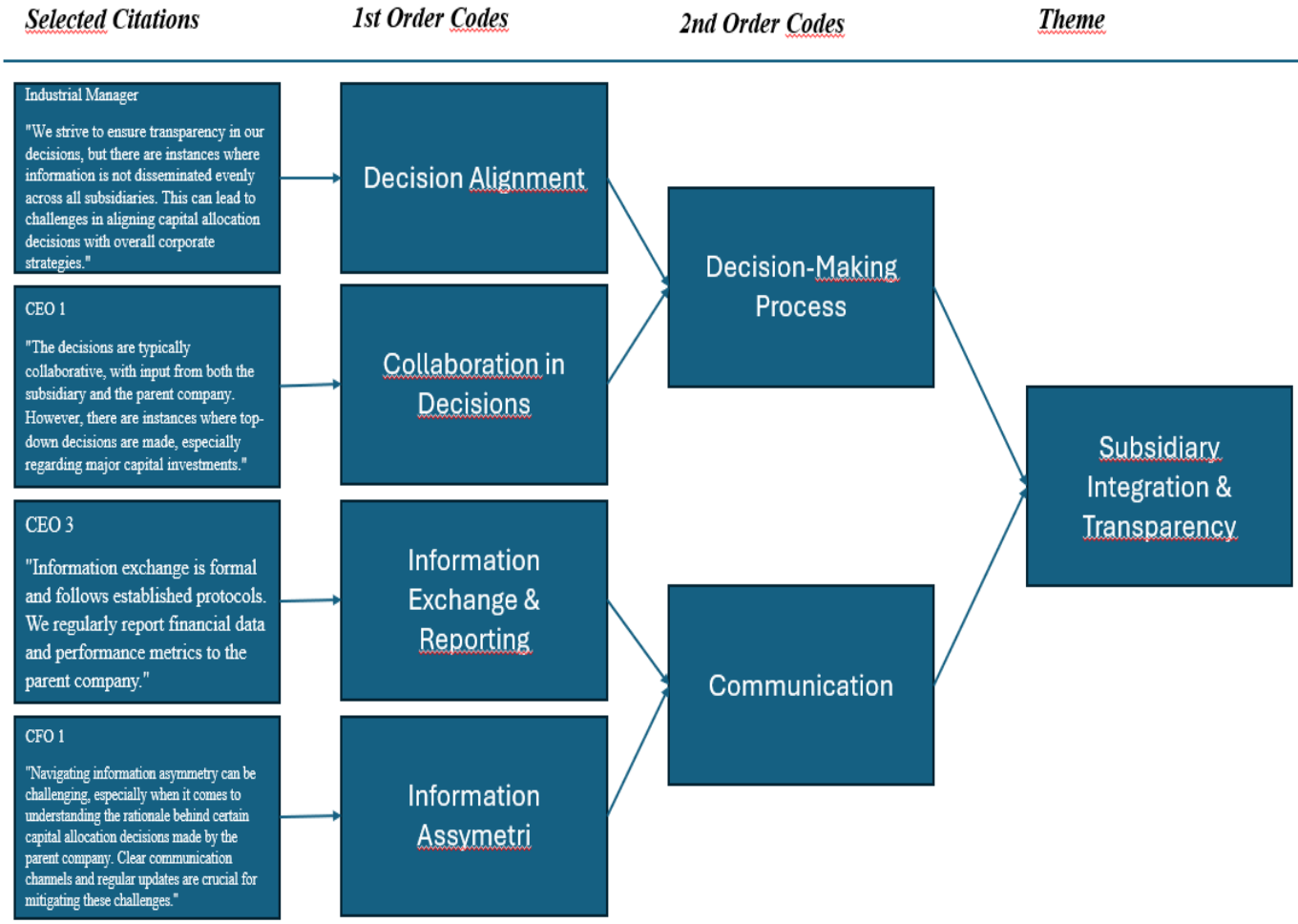
interviews. This is because, for interviews held via Microsoft Teams, the researcher did not transcribe manually. Therefore, it is crucial that the researchers carefully review and correct errors in transcript to become more familiar with the content. On the other hand, the interviews conducted face-to-face were transcribed manually by the researcher immediately after interview, which helped the researcher become more familiar with the content.

After each interview transcript was in-depth examined, the researcher carefully examined through numerous active readings, searching for underlying themes and patterns. During the reflective process, the remarkable sentences were highlighted and later transferred into a Microsoft Excel document. These highlighted sentences were reduced into single words or brief phrases that related to the study topic in order to create first-level codes. These first-level codes were then added to a new column in the Excel sheet, which made it easier to compare the codes and remove those that have the same meaning but different names.

A total of 92 first order codes were produced. After that, the research process involved reviewing these codes and identifying shared characteristics, which allows them to be categorized. Patterns that emerged from this process enabled the first order codes to be combined into 14 second order codes. The patterns of the second order codes were later examined in the last step of the research, where they were further categorized into 5 distinct themes. The thematic phases involved a carefully examination of each code, with continual improving until 5 themes were identified. For multinational corporation 1, the themes included investment facilitation & success factors, navigating autonomy dynamics and subsidiary integration & transparency. For multinational corporation 2, two themes that emerged was, strategic flexibility in decisions and organizational influence on resource flow.

The figure below provides an illustration of how the data analysis process resulted in one of these themes. Accordingly, it shows how different citation were generated into first order codes which were generated into second order codes and lastly a theme. Hence all the themes in both MNC 1 and 2 were generated through this process.

Figure 3: Illustration of how the themes emerged.



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4.4 Ensuring Quality

Ensuring quality is an important aspect to both consider and implement in the research. Hence the researchers have followed the criteria highlighted by Lincoln & Guba, (1985) namely creditability, transferability, dependability, and confirmability. All these are essential in providing quality, trustworthiness, and rigor to qualitative studies. The Credibility ensure that the findings are an accurate image of the participant view, thus making them trustworthy. Further the Transferability simply means that the findings can be applied to other situations and studies, while dependability ensures consistency of the findings and a detailed view of the research process. Lastly Lincon & Guba, (1985) explains the confirmability as a prof that the conclusion is not biased by researchers but rather retrieved the respondents, which is shown trough self- reflections and documentation.

4.4.1 Credibility

To enhance and ensure the credibility of this study, the researchers utilized two techniques called triangulation and member checking (Collin & Hussey., 2014). Although the data was collected over a set period, the time when the data was gathered during this period differentiated. Likewise did the respondent and the respondent company and positions vary across the sample size, thus facilitating the investigator triangulation. Further this approach allowed for an independent data collection for the researchers, reducing potential biases and enhancing the studies diverse perspectives. The triangulation technique also helped the research design which made it possible for the researchers to identify and correct exiting flaws in early stages. Overall, the data set constituted of 12 different interviews across 7 different companies and 2 different MNCs. Hence the study integrated different perspectives, experiences and visons from the respondents which bolster the credibility of the study.

Moreover, the member checking was conducted and utilized to ensure reliability of the study. This was done through communication with the respondent after gathering the data and results, where the respondent had chances to confirm and clarify the quotes and data retrieved. Thereby this step was essential for both the researchers and the respondents, since it verified accuracy of the retrieved data, while also limiting the biases of the researchers. Accordingly, these techniques helped enhance the credibility of the study. Further the researchers also applied cross-checking and comparison both between the interviews and data findings.

4.4.2 Transferability

The researcher has strived to achieve transferability and thus making the findings applicable and useful in other contexts. In the study the transferability has been facilitated through comprehensive descriptions of the context, the data analysis process and the data collection. Further throughout explanations of the criteria on selection of respondents and guidelines of interview have been outlined along with findings and results to enhance transferability. Due to smaller samples in qualitative studies compared to quantitative, the generalizing of the finding becomes more complex (Lincon & Guba., 1985). Accordingly, the entire process has been documented from the initial steps to the final results, to ensure that all important information is included and thus offering transferability (Collin & Hussey., 2014).

4.4.3 Dependability

In research, dependability refers to how dependable and consistent the findings are. It emphasizes the importance of carefully and methodically recording the research process. This guarantees that an individual may obtain identical outcomes by using the same procedures and resources (Collis & Hussey., 2014). To maintain objectivity, the study carefully avoided any preexisting assumptions and instead strictly followed the information that were gathered. Additionally, a complete explanation of the research design and its implementation has also been included, together with in-depth documentation of the data collection and analysis procedures. This to guarantee that the research process is transparent, rational and traceable and thereby fully explain to the reader the strategies employed in this thesis.

4.4.4 Confirmability

According to Treharna and Riggs, (2015) confirmability in research guarantees that the conclusions are drawn from the interviews replies and are not influenced by the researchers personal opinions. To successfully achieve confirmability, the research process used triangulation which entails that the interview replies are frequently monitored and evaluated by unbiased classmates (Treharna and Riggs., 2015). In addition to the triangulation, the researchers also double-checked the interview data with the respondents in order to preserve objectivity and ensure trustworthiness in the research. Additionally, the laddering technique was used in the interview, which implies asking probing question on the responses to reveal attributes and personal values (Korenini., 2012). Hence this prevented misinterpretations or assumptions during the interviews which increased the confirmability. The research also followed the advice from Denscombe, (2017) who suggested that alternative explanations of the data set should be explored to ensure that it is not neglected later due to its misfit in the analysis.

4.5 Ethical Considerations and Aspects

Before beginning the interviews, analyzing data and presenting the results, the researcher carefully reviewed study ethics in accordance with established values and principles. Therefore, this thesis followed the ethical standards outlined by Bell & Bryman, (2007). Since the thesis choose to follow those ethical standards, there was a special focus on protecting participants mental health and treating them with respect and dignity. As a result, some sensitive or intimate topics were carefully avoided in the study's interview questions.

Since this thesis committed to fundamental ethical standards such as “anonymity”, “confidentiality, “privacy” and “informed consent”, the researcher created and sent out a

General Data Protection Regulation (GDPR) Compliance form to respondents prior to the interviews. Additionally, the fact that the respondents was entirely voluntary and unpaid guaranteed that it done so of free will (Collis & Hussey., 2014).

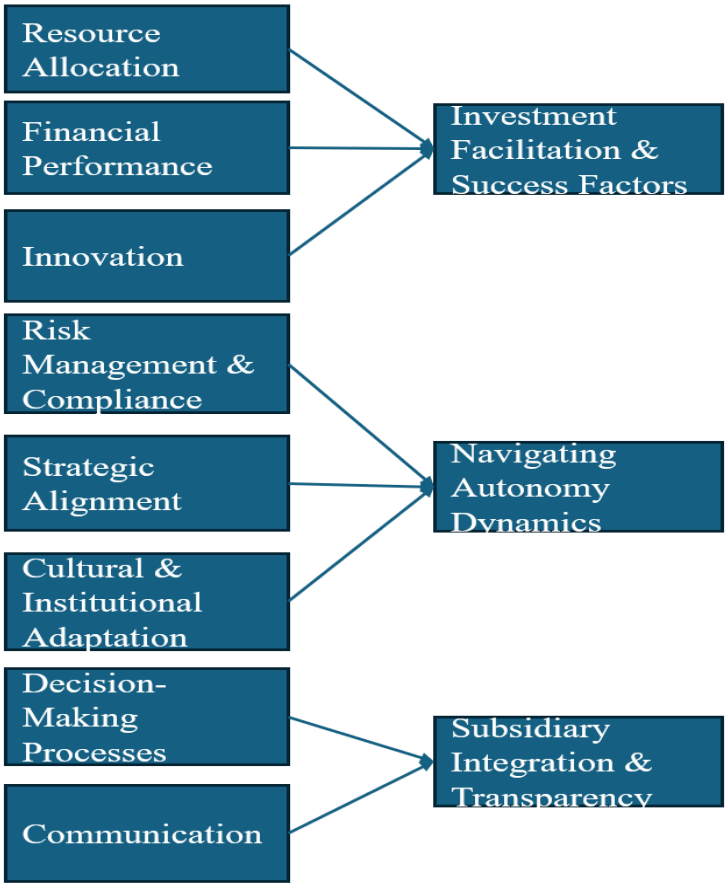
Also, as previously mentioned in the thesis, the interviews were transcribed using features provided by Microsoft Teams. However, before the recording button pressed, each respondent gave their consent to be recorded. The data was not shared externally and was only accessible to the researcher in order to maintain privacy and anonymity. Additionally, to guarantee complete confidentiality in our reports, details such as company names or the key employees names were left out. Instead, job titles were used to protect the respondents identities.

5. Empirical Findings

In this section, the MNC 1 and MNC 2 are the two main divisions into which the empirical findings for this study is given. Following a thematic analysis of the interview data, themes and categories were discovered, and these have been used to organize the results in each part. Interviewee quotes clarify the study's results and support its analysis.

5.1 Multinational Corporation 1

Figure 4: Themes and second order codes for MNC 1



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5.1.1 Investment Facilitation & Success Factors

The first theme that was extracted for MNC 1 was factors that both increase the number of investments as well as help facilitate them. Those factors that emerged as well correlated to the investment was level of innovation, financial performance and the amount resources being allocated towards the subsidiary.

5.1.1.1 Resource Allocation

In terms of the resource allocation process the respondents mentioned different steps that occur before the actual capital is distributed. The first step in process is viewed to take place in the subsidiaries before the budgets are set.

"At the time of the budget, we first lay out our investment whishes and then prioritize them, based on our beliefs of their importance" – CEO 2

“We are decentralized company because we don’t tell the subsidiaries what they have to do. So, it is the subsidiaries that present the projects. But where we keep the control that’s first when they set up their capex budget” – Industrial Manager 1

Although the first step take place at the subsidiary level the parent companies set the budget which includes the amount of capital being allocated.

"We grant some millions at the group level to support investments. These funds are generally more than enough, and while we monitor, the subsidiaries have considerable leeway to propose how the funds are used as long as it aligns with the strategic goals."- Industrial Manager 1

Even though subsidiaries send in their projects the types of investments are evaluated and decided by the parent company.

"We operate under a centralized structure where strategic decisions, especially those involving financial investments and capital allocations, are made at the parent company level."- CEO 1

"Investment strategies and capital allocation are closely guided by the parent company to ensure alignment with the broader operational efficiencies and corporate goals." – CEO 3

The findings also showed that despite investment being accepted by the parent company there’s no guarantee that these will be implemented due to constrained delegations, trough actions such as capex freeze.

“*Last year we planned to make 6 investments, and we spread them out over the year so there would be capital, however other subsidiaries did everything in January and February and then it was capital freeze, so we couldn't get anything*." - CEO 1.

“Thers is a little rumor within the group that when the investment funds are gone, they're gone. So you need to be quick, and this year we have therefore speeded up in the beginning." - CFO 1.

“We make sure that the size of the requested capex budget is at a logical size compared to the company. And to make sure when we aggregate all the requested budget of all the entities that we will not explode the budget of the group, and that we will remain in line with the 20 million”- Head of investment.

Moreover, the findings illustrated that type of investment matter significantly, where financial return on the investment play a pivotal role for approval. Further the findings highlight that overinvestments, profits or capital must be channeled back to the parent company to ensure the capital being allocated towards other projects requiring the capital.

"Something that is often very difficult to get through is replacement investments." - CEO 1

"The entities explain the detail of the cost and benefit and calculates the payback. Which is called ROI. There are some expectations of these paybacks, where the payback has to be of 2 years maximum 3 years"- Head of investment.

"All profits are required to be channeled back to the parent company"- CFO 2

"We review and approve their annual capital expenditure plans to ensure they are aligned with group strategies and financial constraints. While subsidiaries propose their projects, ultimate approval depends on their alignment with group-level strategies and expected financial returns" - Industrial Manager 1

5.1.1.2 Financial Performance

The financial performance is an essential aspect being considered when it comes level and size of investments. Trough the findings it was evident that the financial performance influenced the process regarding where to allocate the capital.

"Investment allocations are indeed influenced by the performance and size of each subsidiary. For example, Subsidiary 1 consistently receives over 1 million euros annually due to its large operations whereas smaller entities like Subsidiary 2 have much lower capital needs." - Head of Investment

They findings also provide evidence that the financial performance also led to a certain amount of autonomy for the subsidiaries. The parent company was explained to set the financial requirements while the subsidiaries drive the process and make sure they goals are met.

"The parent company encourages a balance between autonomy and oversight in the subsidiaries' capital allocation and investment strategy development. They provide a strategic framework and financial targets, and the subsidiaries propose how they intend to meet these through their unique initiatives."- R&D 1

"We tell them which results they should achieve and what is the expected goals that they should have or support. Then it's up to them to identify what to do to achieve these targets. As long as it's in line with the strategy it's most of the time approved."- Industrial Manager 1

Financial performance was also show as an essential part for subsidiaries since smaller investments often requires self-financing. Thus, the performance enables investment that can bolster the subsidiaries operations further. Moreover, respondent have highlighted their financial performance as cause for less integration from the parent company and thus increased autonomy.

"The group has always wished that one should be able to finance smaller desires independently. And so far, we have managed to do that. Even though we have a common cash pool, ideally, we want to handle it on our own."- CFO 1

"We have always had a great financial result and therefore never experience any oddities or difficulties there"- CFO 2

Despite the short- term financial performance being very central for both autonomy and investments, the future prospect of performance is also highly considered. A bright future in financial performance might even be consider more attractive from an investment perspective.

"If the order book and future plans looks good, it's easier to get the investments approved than if you have poor previous results. Thus, it's easier to get investments approved with great order book and poor past result than good result but poor prospects."- CEO 3

"All those plants are allowed to spend a capex at the level of their budget. There is a specific call that we apply for the plants have a negative profit and loss. On those ones we regularly use the minimum capex because they don't need to have on the top of their expenses, so we really select the capex of those plants" – Industrial Manager 1

Additionally, the respondents from a newly acquired subsidiary explained the initial phase within the MNC as challenging. Where the parent company demanded increased financial performance directly. Thus, highlighting a rather constrained approach and distinct focus on financial performance. Consequently, also impacting the request of capital and investments.

“Initially we made approximately 5% in profit, and I think that's what started it all. Because when we were acquired, I met the owner and received one question. How are you going to get a 10% profit?” – CEO 2

” When we got acquired, this process was in action, we had received approval but with the new owner we felt. Can we approach them on day one and ask for investments to remodel the premises? They hardly know who we are and what will happen. We were at a crossroad, should we sell the property, or should we ask for funding? We opted for selling rather than financing the entire project."- CFO 2

5.1.1.3 Innovation:

The innovation is another essential aspect of investment facilitation and could be the factor why that subsidiary reach success in the end. Through the findings it was obvious that subsidiaries that has their own R&D division gets granted a larger capital allocation.

"Autonomy generally correlates positively with financial outcomes and innovation. Subsidiaries that are given the freedom to explore unique strategies often find niche successes that can be scaled up." R&D 1

"Our autonomy enables us to innovate within the scope set by the parent company, fostering a culture of innovation that is closely aligned with local needs." CEO 3

Additionally, subsidiaries with their own R&D division needs must locate the needs of the local market and maintain their competitiveness. Since they are more likely to be aware of the needs of the local market, subsidiaries with their own R&D division are therefore given greater autonomy and get granted more investments.

“Companies with strong R&D division often receives more autonomy, especially in exploratory or innovative projects, which sometimes leads to increased capital allocation to ensure that these innovative initiatives are thoroughly pursued” - R&D 1

"Autonomy in R&D allows subsidiaries to propose projects they believe will be beneficial, which if aligned with our strategic direction typically receive approval." Industrial Manager 1

Belonging to a multinational corporation has its advantages since it possess greater financial muscles compared to what their investment budget would have been on their own. Operations involving innovation such R&D, was also shown to attract capital from the subsidiaries themselves, due to its ability to develop new equipment.

“Two years ago, subsidiary 1 invested in a new machine which costed 1,8 million. Which was probably an unusual investment for them, but we can provide that opportunity for them to stay competitive.” - Head of Investments 1

"R&D is always included in the investment budget. So, if we know that we are to develop new models, we obviously allocate money for it too."- CEO 1

The findings also illustrated that innovations might contribute to both larger investments and financial autonomy for the subsidiaries.

“The R&D department has played a significant role in increasing our autonomy. By pursuing innovative projects and showing success in our efforts, we have gained greater freedom of action in terms of capital allocation and investment decisions. Which has resulted in an increased allocation of capital to our projects and initiatives” – CFO 1

“We have less investments since our primary focus is on sales and therefore, we don’t have any production equipment or innovation operations, which require less capital”- CEO 3

Further the innovative and digitalization process is highly promoted and well received from the parent company.

"Our investments have always been about digitizing something, and it's subsidized from the top management that we need to digitize if we are to be efficient."- CEO 2

5.1.2 Navigating Autonomy Dynamics

The second theme that emerged was the navigating autonomy dynamics which consist of three second-order codes, the risk management & compliance, strategic alignment and cultural and institutional adaptation.

5.1.2.1 Risk Management & Compliance:

A strong structure for risk management and compliance is crucial for managing autonomy with effectiveness. These structures make guarantee that, even while some subsidiaries have some autonomy, they must still however follow external and internal rules.

To avoid the risk that the investments is not aligning with the overall strategy, subsidiaries are granted the autonomy to propose investments that is needed. However, this autonomy is

balanced with risk assessment protocols ensures these investments align with the company´s overall strategy.

"We have a structured process to ensure that all investment decisions align with the overall risk tolerance of the group."- Industrial Manager 1

"We employ rigorous risk assessment protocols and regular reviews to ensure that subsidiary investment decisions align with the overall risk tolerance of the group."- R&D 1

In an effort to manage risk, the parent firm has also implemented risk management, which in some cases also have decreased the financial autonomy of the subsidiaries.

"Before we got acquired, we as a company could be lending money to our supplier which they then paid back when the investment was completed and had generated money" - CEO 2

"Risk management processes are stringent. We regularly assess and align our risk profiles with the broader corporate risk management frameworks to ensure compliance and security."- CFO 2

Additional examples of risk management protocols that has mitigate the subsidiary autonomy, was related to the acquiring of the subsidiary. The subsidiary being acquired only had 1 supplier which had worked excellent previously, for several years. However, the parent company started an internal procedure with the aim to increase the suppliers to limit the risk levels. Accordingly, this resulted in a challenging and tense situation between the parent company and the subsidiary, thus influencing the autonomy. These finding clearly illustrates how the autonomy lessens, when things aren't aligning with the strategic corporate goals. Hence in terms of limiting risk the parent company utilize a centralized approach, despite previous performance from subsidiary.

"The greatest challenge we had after being acquired was that the parent company discovered that we only got 1 supplier and was not acceptable and needed to change drastically" – CEO 2

"At that moment it was very frustrating because we have been doing this for so long. At the same time, the most important thing is quality, and we have a partner who wants to maintain high quality and get paid more. It's not the cheapest, but we prefer quality over cheapest. Which the parent company thought was completely reprehensible."- CFO 2

Although conflicts occur between the parent company and the subsidiaries in terms of risk, the findings highlight a close connection and communication between the two as widely used and effective approach. This along with the aforementioned protocols helps mitigate the risk. Further the findings present an evident role identifying in the risk process, where subsidiaries focus on operational related causes and the parent company the management aspect of it.

"Managing risk conflicts between subsidiaries and the parent company over investment decisions involves clear communication, predefined escalation paths, and sometimes mediation by executive management."- CFO 1

"Our involvement in risk management is closely coordinated with the parent company. We focus on identifying operational and market-related risks, while strategic and financial risk management is largely handled centrally. This ensures that our actions are always aligned with the group's risk tolerance and policy frameworks." - CEO 3

5.1.2.2 Strategic Alignment

Another second order code is strategic alignment which is a crucial element in order to effectively manage the dynamics of autonomy. Strategic alignment ensures that various subsidiaries follow the same direction and avoids disagreement that may arise from different interpretation of company´s goal. Hence this intertwines significantly with the risk management. The findings demonstrated both the importance and course of action to ensure strategic alignment, especially in terms of investments.

"The board members participation in key decisions, such as approval of larger investments or strategic changes ensure that the subsidiaries changes are in line with the overall company's objectives" - CFO 2

"Investment decisions are made through a collaborative process where subsidiaries submit their proposals, which are then reviewed at multiple levels within the organization to ensure alignment with overall strategic goals and financial health" - R&D 1

The findings further illuminate how the parent company utilize a centralized framework to monitor and approve the plans and actions from its subsidiaries, thus guaranteeing that they align with the strategic goals. Accordingly, this approach to follow the financial guidelines, limits the autonomy of the subsidiaries.

"We review and approve their annual capital expenditure plans to ensure they are aligned with group strategies and financial constraints." - Industrial Manager 1

"Our autonomy is somewhat limited compared to subsidiaries engaged in R&D. Investment strategies and capital allocation are closely guided by the parent company to ensure alignment with the broader operational efficiencies and corporate goals" – CEO 3

The relationship between the parent company and their subsidiaries is rather complex, such that it is defined by a strategic balance of granting autonomy for subsidiaries, while maintaining strategic alignment. Although the findings illuminate a significant autonomy in the daily operations the parent company controls and charge over the central decisions.

"Even though we possess a significant autonomy on a daily basis, all major decisions and investment has to align with the objective from the parents. Despite this limiting us in pursuing localized opportunities, it guarantees that the activities support the parent company's direction."- CEO 1

"The capital allocation process includes a difficult balance between adapting and answering to market needs, while also following the directives from the parent company."- CEO 3

Despite the findings viewing innovations and R&D as a significant factor attracting and resulting in increased autonomy. The findings also highlight this process as complex regarding strategic alignment, where innovations are encouraged but still need to be controlled.

"Although we are granted flexibility and autonomy to explore new technologies and markets, The R&D efforts are required to sync with the prioritize from the parent companys to align our innovations with the overall tech and market ambitions." - R&D 1

"While innovations are encouraged for the subsidiaries, our role contains supervision of the financial processes to guarantee that the objectives and goals complements the corporate goals. Hence major financial decision require approval." – Head of Investment

5.1.2.3 Cultural & Institutional Adaptation:

Cultural and institutional was another second order code retrieved from the data. This refers to how subsidiaries operating in multinational corporations refine and adapt to culture and institutional differences and regulations. Moreover, it also concerns the navigation and

communication between entities operating in different countries. In the MNC 1 case the parent company is located in a different company compared to its subsidiaries.

As the multinational corporation has it parent company abroad, and all subsidiaries are located within the same country, adapting in management styles is crucial for the subsidiaries both to strive for efficiency but also enhance their autonomy.

"Any company that is international has to get used to the cultural differences. All of our companies are based in Europe but it's true that we regularly face differences in the way of behaving."- Industrial Manager 1

"Operating internationally does introduce challenges, particularly cultural differences in management styles and operational expectations, which of course impact autonomy in some ways. We actively work to understand and respect these differences while striving to maintain a cohesive group strategy" - Head of Investment 1

The findings underscored the essentiality in embracing and incorporating insights from the cultural differences, both to improve the efficiency but also enhance the chances of financial autonomy.

"Cultural differences between the parent company and subsidiaries are notable. We've adapted by incorporating local cultural insights into our operations to enhance effectiveness."- CEO 3

"We were given the chance to present at a seminar once, and we decided to give our group colleagues a training session, which were intended to improve understanding amongst people and foster a more inclusive environment" - CFO 1

Furthermore, it was explained that the cultural differences are evident across the MNC where differences can be seen in the ways of communication and actions. Thus, the findings illuminate cultural differences as distinct impact on the autonomy for the subsidiaries. The subsidiary that was acquired highlighted the differences in culture and location as major initial factors of them being highly monitored and constrained in their autonomy.

"We are probably softer in Sweden compared to the other countries, I can feel the differences there," - CFO 1

When we were acquired, they flew three people here, you noticed these cultural differences with not particularly soft values as they could not understand our way of working which led to high supervision in the beginning. - CEO 2

Additionally, the findings highlighted the geographical distance as difficult for the parent company to fully monitor and control the daily activities. Further the cultural difference were viewed as impacting the communication in terms of information sharing and understanding of local markets.

"The geographical distance between parent company and some of our subsidiaries poses challenges in maintaining consistent and effective oversight and control. - Industrial Manager 1

"*The geographical and cultural differences between our entities makes communication, information sharing, and general understanding of local markets challenging.* - Head of Investment

5.1.3 Subsidiary integration and transparency

The last themes that emerged for MNC 1 was the subsidiary integration and transparency building on the two second order codes communication and decision-making process. Which further shed light on the subsidiaries influence and role in a multinational corporation.

5.1.3.1 Decision-making process.

The decision-making process for subsidiaries involves a balance of being in control and being controlled where the latter one assumes a more centralized approach. The findings present the decision-making process as rather complex and confusing, since there is no significant or visible line where subsidiaries are in control or not. Moreover, the line of the business is viewed to be a determinant regarding the decisions, where some operations require less control than others.

"We have a lot of reports we have to do. But the management of our operations we do entirely ourselves since we are the only one not selling the products of the corporation. "-CEO 2

"The decision-making process is typically collaborative, with input from both the subsidiary and the parent company. However, there are instances where top-down decisions are made,"- CEO 1

A frequently mentioned thing in the findings, in regard to the decision-making process is the information asymmetry. Both the parent company and the subsidiaries view this as an essential part when carrying out various decision. The information asymmetry simply refers to the differences in knowledge in a situation. The findings clearly illuminate that depending on the situation either the subsidiary or the parent company possess a greater knowledge, thus making them more in control of that particular situation. Accordingly, the findings highlight distinct financial autonomy for the subsidiaries in decision-making of implementation of the capital, once receiving approval from the parent company.

"Information flow between the subsidiary and the parent company is crucial for effective decision-making. However, there are times when we experience information asymmetry, which can impact our ability to make informed financial decisions."- CEO 3

"The subsidiaries are located closer to their respective markets, which makes them more knowledgeable of the customer needs. However, this autonomy becomes challenging when the situation calls for a significant amount of resources, requiring our interference." – Head of Investment

"Once the allocation is determined, the entity becomes free of spending the authorize money, so doing the things. We just check with the finance department that actual expenses are in line with the authorized expenses." – Head of Investment

Furthermore, the findings expand on the concept of information asymmetry in decision, by highlighting difference in targeting the local and global markets. In addition, its illustrated that some subsidiaries possess greater knowledge than other which complicates the decisions for the parents.

"We always strive to ensure transparency in the decision process, but there are situations where the knowledge of the subsidiaries isn't equal, due to size or area of focus. Which of course impact the autonomy in the decisions." – Industrial Manager 1

"Sometimes it difficult to strike a balance between the subsidiaries market needs and corporate objectives because what works globally might not be an appropriate fit locally. Hence, we must manage these differences when carrying out decisions." – Head of Investment

Trough the findings it was explained that incorporation of a fully centralized approach often requires significant resources to supervise the subsidiaries hence making it expensive. Accordingly, the parent company is required to trust and collaborate with the subsidiaries in

the decisions. Thus, this increase the autonomy for the subsidiaries to some extent although they view the important decisions as more centralized, which sometimes is explained as inefficient.

"If you are in a central organization then you also have more central resources and costs, which makes it easier to dictate. But it costs a fortune and its only rich companies that can do that. We are not rich enough. We don't really have a choice; we have to trust the subsidiaries and we have to work with them and have these exchanges about their projects and investments." – Industrial Manager 1

"When every significant decision has to go trough multiple layers of approval at the parent company, it can delay our projects. Especially when rapid response and decision are needed." - CFO 2

5.1.3.2 Communication

The last second order code for MNC 1 is the communication, which is very crucial part for the corporations. The communication was highlighted essential both in terms of aligning goals and strategy across the different entities. Moreover, an effective communication creates a collaborative environment which can become a key aspect in fostering efficiency within the organization. The finding clearly outlines the communication as pivotal to successfully handle challenges.

"Navigating information asymmetry can be challenging, especially when it comes to understanding the rationale behind certain capital allocation decisions made by the parent company. Clear communication channels and regular updates are crucial for mitigating these challenges."- CFO 1

"Sometimes the subsidiaries spend more on investments than what they said and sometimes they spend less so they are compensating between the projects. Even though one entity has spent more than what was authorized there are other entities that spend less so there's a compensation between entities. In those case the communication is crucial in creating a balance in the organization"- Head of Investment

The amount of communication flow between the parent company and the subsidiaries varies across the subsidiaries, due to size and line of business. Hence the requirement of communication fluctuates, where the subsidiaries also require different focus of expertise from the parent company.

"We rarely have any direct communication with the parent company other than all the reports and protocols we provide. Our primary communication goes through the board members. Then there's the consolidated financial statement which we report to every three months"- CFO 2

"The parent company is very familiar how we work and why and all these things, so there's a constant communication flow that spins."-CEO 3

The findings further emphasizes that the communication flows through several cannels, highlighting, face to face, phone calls, video interaction Emails among others. Further the findings illustrate an inclusive and open environment where the communication can flow in different direction and not top to bottom. Moreover, specific times of the year are highlighted as more communication active, especially when evaluating investments and capital allocation.

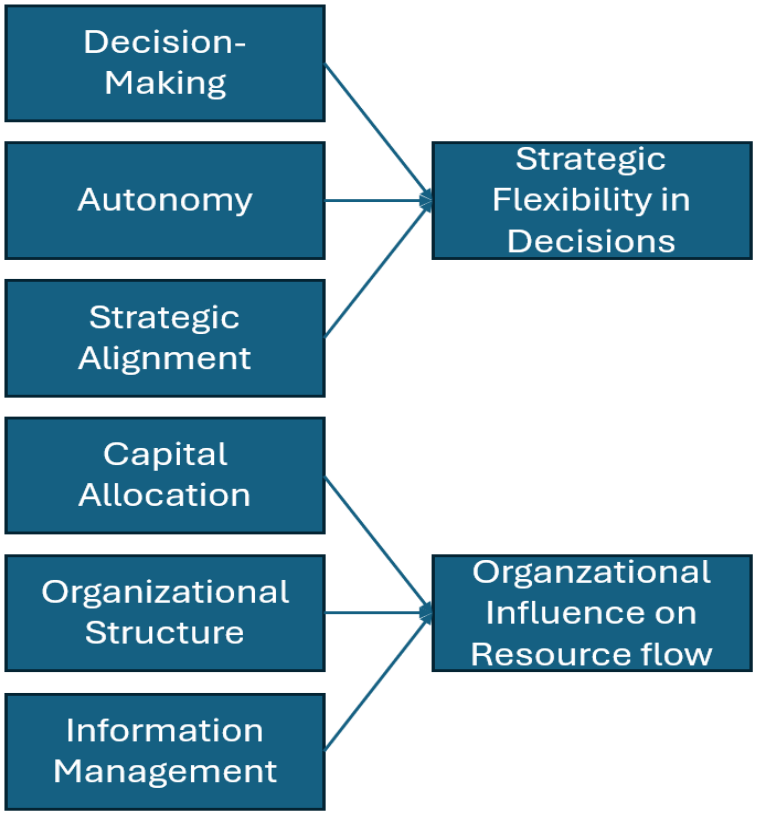
"As I said we are not a very big company which means that we are not so rich. But that also means that there are not dozens of hierarchy levels. I mean I sit above the subsidiaries, but we have good connection where I follow them, same goes for me I can call the president who sits above me any time. So, it doesn't make it as complicated as it could be in bigger corporations." – Industrial Manager 1

"The communication with the parent company is regularly maintained trough video conferences, strategic updates, routine interaction, and emails. Hence this allows us to both address urgent matter and standard one efficiently."- CEO 1

"When we set the budget which is in October, this occupies us a lot. Otherwise, it is at every submission or every of my visits. Or at the business reviews which we have monthly. So, it gives a lot of opportunities to discuss the projects over a year"- Head of Investment

5.2 Multinational Corporation 2

Figure 5: Themes and second order codes for MNC 2



Develop by authors.

5.2.1 Strategic Flexibility in Decisions:

The first theme to emerge from the multinational corporation 2 was strategic flexibility in decisions. This theme illustrates that if decision-making autonomy and strategic alignment interact in a well-coordinated way it can generate strategic flexibility in decisions.

5.2.1.1 Decision-making:

The multinational corporation MNC 2 places great trust in the management teams of its subsidiaries, viewing a high level of autonomy for their subsidiaries in terms of making and carrying out decisions.

"I would say that our group operates in a decentralized way which empowers our local offices to make quick decisions that are critical in a fast-moving market." - CEO 4

"I believe that our ability to make decisions quickly distinguishes us. We give local managers the autonomy to act quickly instead of burdening them with bureaucracy" – Industrial Manager 2

However, the findings underscores that the decisions have to go through a review process at the parent company. This to ensure that the decision on the subsidiary level aligns with the goals set by the parent company. Thus, the findings illuminate a clear involvement from the parent company in the decision-making process, although the autonomy are granted high autonomy in the proposals stages of decisions

"Even though we are free to explore innovate ideas here, we always have to go through an extensive review process to ensure the ideas is aligned with our long-term goals" -R&D 2

"As Industrial Manager, I often need to approve operational decisions quickly while ensuring that these decisions align with our overall strategy." – Industrial Manager 2

Nevertheless, when it comes to decisions of investments the findings illustrates that the parent company grants some autonomy in terms of information sharing where the subsidiaries can argue for the investments. However, the investment must fulfill certain requirements such as corporate alignment, reasonable cost and payback period. Significant investments that require a large amount of capital or do not generate quick returns are considered and discussed by top management team of the parent company.

"We employ a kind of combination between a centralized and decentralized approach in investment and capital allocation decisions. This involves strategic planning sessions where input from subsidiary managers is considered alongside broader corporate objectives."- Industrial Manager 2

"Recently, we actually considered a potential investment in a new production equipment. However, after careful analysis, we got the answer that the project cost was too high and therefore not aligned with the overall strategy for the organization" - CEO 5

"*For larger financial investment with a return on investment longer than 3 years, I need to seek approval and explain it higher up in the hierarchy.*" – Industrial Manager 2

5.2.1.2 Autonomy:

Autonomy represents another second order code for multinational corporation 2 that involves a fine balance between the parent company and their subsidiaries regarding its distribution. In

the case of MNC 2, granting significant autonomy to subsidiaries has been crucial in order to support their innovation capabilities.

"We have observed that the parent company typically provides guidelines and frameworks for capital allocation and investment strategies. However, there has been some flexibility and room for customization to meet local market needs and to encourage innovation."- R&D 2

"Our R&D division has been given a great financial autonomy, in return the group are hoping to turn ideas into products" - CEO 4

"Being granted autonomy from the parent company has been crucial for our success since it has encouraged us to grow and strive for greater contributions" - CEO 5

The finding further highlights that the autonomy has also made it possible to peruse unique collaborative opportunities which have been valuable for their subsidiaries in their operations. Moreover, the findings provided evidence that the granted autonomy and inclusive in investments have led to unsure investments still being carried out due to subsidiaries convincing the parent company.

"Thanks to our autonomy, we have been able to collaborate with local universities which as accelerated our innovation" - R&D 2

"We had a case when one of our subsidiary wanted to pivot towards a more sustainable product line. Initially, we were concerned about the financial risks and the deviation from our core strategy. However, the subsidiary's management team presented a robust business case. We decided to grant them autonomy to proceed, and it paid off."- Industrial Manager 2

Reason for the significant autonomy was explained to be due to the size of the corporation as well as cost of monitoring and increase in efficiency. However, the findings further illuminated that the autonomy also result in the parent company demanding high performances from the Subsidiaries.

"When we grant high financial autonomy to our subsidiaries, it is much easier to put pressure on subsidiary leaders to achieve and exceeds their subsidiaries financial goals" – Industrial Manager 2

“We are rather small as a corporation which helps maintain a strong relationship with the parent company's industrial manager when it comes to major investments. I believe this close relationship fosters better communication and trust, leading us to greater autonomy"- CEO 5

"We believe in trusting the subsidiary managers, so we grant more autonomy. This approach not only reduces monitoring costs but also empowers subsidiaries to act swiftly and innovatively within their markets."- Industrial Manager 2

5.2.1.3 Strategic Alignment:

Strategic alignment is another second order code within MNC 2, which is aimed to ensure that each subsidiary operates in-line with the overall company strategy. It was viewed as crucial for MNC 2 that the subsidiaries follow the objectives needed to innovate and adapt to local market needs although possessing autonomy. This balance ensures that while subsidiaries operate independently, they remain connected to the overall strategic alignment of the corporation. The findings underscores that the subsidiaries are aware of how to function within their corporation and to be focused on both local adaptation and the strategic alignment. Further its noted that strategic alignment in combination with other factors is rewarded in terms of receiving capital.

“We ensure that our local initiatives are aligned with the group’s broader goals, tailoring our strategies to local market conditions while maintaining cohesion with the overall corporate objectives”- CEO 4

“Subsidiaries with a track record of strong financial performance and strategic alignment with corporate objectives may receive larger capital allocations to support their growth initiatives”– CEO 5

Strategic alignment was viewed as important for the corporation where the mentioned that a clear strategy contributes to setting concrete goals and clear business models. The findings also illustrated that the size of the corporation also facilitates strategic alignments since all entities are more aware of their role in the corporation.

"We expect subsidiaries to submit detailed proposals that justify their budget requests with clear ROI projections and strategic alignment with the corporate goals." – Industrial Manager 2

"Strategic alignment is simpler and more effective for a smaller corporation. We have more well-defined roles which means we understand exactly what's expected of us."- CEO 5

"Our ability to allocate resources optimally and guarantee that all of our companies are moving in the same direction is enhanced by the overall strategy." – Industrial Manager 2

In addition, the findings highlight challenges in how much the parent company should step in and take action within the subsidiary's operation to ensure that they not deviate from the corporate goals. This since it might harm the autonomy and thus efficiency of the subsidiary. However, the findings explained that from the subsidiary's perspective the monitoring and requirements of corporate alignment can also serve as pivotal in identifying the best projects.

"The primary challenge lies in maintaining strategic alignment without stifling the subsidiary's ability to innovate and adapt" – Industrial Manager 2

"Strategic alignment is not always a bad thing, sometimes it can also help you prioritize projects that are most likely to drive growth across our entire organization." - R&D 2

5.2.2 Organizational Influence on Resource Flow

The second theme that emerged for Multinational corporation 2 was organization influence on the resource flow. This theme highlights the organization structures impact on the resource flow of both capital and information.

5.2.2.1 Capital Allocation

Another second order code that emerged highlights the difficulties in allocating capital across subsidiaries. Depending on their business strategies, different subsidiaries have different demands. While some subsidiaries would need regular capital allocation, other might only need one large investment occasionally. Further some subsidiaries require high capital allocation to drive innovations and lead development.

The findings highlighted the capital allocation process as important to guarantee that investment budgets are allocated in an efficient and well-planned manner among all subsidiaries. Accordingly, the process involves, listing projects, evaluate their potential return and importance.

"Before allocating capital, we regularly assess each investment's performance to make sure it meets our strategic financial objectives."- Industrial Manager 2

"We understand that the group´s capital is not limitless. Therefore, we prioritize the projects that promise the highest returns and align with our long-term strategic goals at the top of our yearly investment proposal list" - CEO 5

"Each subsidiary in larger investment proposals are tasked with presenting a business case for funding that outlines how the capital will be used" – Industrial Manager 2

Moreover, the findings illustrate a capital process within the subsidiaries before sending it to the parent company. This process involves identifying areas that requires capital.

"I frequently highlight to our CEO the need of allocating a significant percentage of our cash to R&D projects." - R&D 2

"As part of my job, I have to rank the demands from each department in a proposal list and evaluate each to make sure we get the most important investments in place to stay competitive - CEO 4

Further it was viewed that the capital allocation process might involve disagreements between the parent and their subsidiaries. The finding highlighted that these challenges often occur due to the parent company often allocating to investment that can generate the best return. Hence smaller more personal related investments might be less prioritized.

"It happens that we have disagreement but it's not necessarily because we are the parent company and they the subsidiary. Its more because the nature of the project is not clear. It's because from a technical side I'm not convinced it will work. And it's up to them to convince me." – Industrial Manager 2

"We have had a new kitchen on the investments list for a couple of years but then it comes from above that you have to delete 3 million for the capital request, which makes our kitchen go away every year."- CEO 5

5.2.2.2 Organizational Structure

The operational effectiveness of multinational corporation 2 is largely dependent on its organizational structure. The organizational structure is therefore designed to achieve strategic objectives and facilitate quick responses to market changes. The organization places a strong emphasis on decentralized operations which gives the subsidiaries more autonomy while guaranteeing that they are in-line with the company´s overall goals.

As a result, the top management teams of the subsidiaries within the MNC 2 are continuously striving to be more efficient, and as a result, departmental boundaries are constantly shifting.

"Every morning, I review our operational dashboard to see how well our goals are being supported by our structure." - CEO 4

"I plan cross-departmental meetings on a regular basis to promote unity and that we are working towards a common goal" - CEO 5

MNC 2 highlights their organization as operating in a decentralized organizational structure, where they transfer more autonomy to the subsidiaries. Within the frames of this autonomy the findings illustrate a significant collaboration between the subsidiaries as an advantage for the subsidairy top management, since they can discuss and bounce different ideas with each other.

"In our organizational model, collaboration among us subsidiaries are key." - CEO 5

"Because of our organization has a more decentralized structure, every subsidiary is able to respond quickly to opportunities without being held back by longer processes" – Industrial Manager 2

The decentralized approach is highlighted as an advantage for MNC 2 in terms of information flow, since things travels much more quickly when there are no set borders. Thus, this enable quickly decisions and response towards market needs.

"The flexibility embedded in our organizational hierarchy allows for faster decision-making. Managing a smaller corporation allows for a better communication and understanding with the subsidiaries which eliminates potential disagreement and information asymmetry" – Industrial Manager 2

"In order to stay ahead in a very competitive business required fast changes in R&D objectives, which our organizational structure has really facilitate so far" - R&D 2

5.2.2.3 Information Management

Information management is the last second order code emerging from the interviews with employees within the MNC 2. Information management is viewed as essential in order to keep competitive advantage towards others. MNC 2 is making a strong argument for the importance of a company's ability to transform enormous amounts of data into useful information quickly in order to stay ahead of the competition.

The top management team of the subsidiaries also emphasis how important it is to always have access to the most recent data. This is how you make sure that everything is moving forward as planned and that decisions you take are well-informed. Moreover the finding emphasize a continues information sharing along with follow ups as crucial both when evaluating investments but also in terms of identifying new ones.

"In order to stay ahead of the competition, we must not only enormous volumes of data but also quickly transform the data into useful information" - CEO 4

"A few times every day I check our most recent operations dashboard´s performance numbers" - CEO 5

"The most recent and accurate data is not luxury, it is necessary" - R&D 2

"We work together all the time of the year and not only at the time of the budget and not only when I receive the capital request. I also follow the implementation of the various projects. I'm also aware of the difficulties they face every month such as quality problems and safety issues, so thanks to all this information that we share all year along its very rare with conflicts." – Industrial Manager 2

However, the findings further illuminates that although the hierarchy levels are fewer and the communication prosses smaller, information asymmetry still exist which also impose challenges in the information management.

"Although the communication and information flow is smoother, we still face challenges in it, where we have to ensure that the parent company understands the local needs."- CEO 5

"We rely on detailed reports from our subsidiaries to mitigate information gaps, but it's not always straightforward. Even in a smaller setup, ensuring accurate and complete information flow is crucial for timely and efficient decisions. We can not allocate capital without receiving all information of the project."- Industrial Manager 2

"Due to fewer hierarchy levels its easier to implement things and propose new ideas. However, we still need to bridge occasional information gaps, since we all mainly focus on different areas."- CEO 4

6. Analysis

In this chapter, the findings regarding financial autonomy for subsidiaries in capital allocation and decision-making is consolidated and analyzed. The analysis follows the same structure as the empirical findings using the second order codes and themes as rubrics. Subsequently, a comparison between the two different corporate groups is presented where all findings are linked to existing theories and previous literature.

Within the empirical findings the paper presented the results retrieved from two different multinational corporations regarding financial autonomy for subsidiaries. Both corporations shed light on various factors determining and influencing the subsidiaries financial autonomy in investment and capital allocation decisions. To further illustrate the findings, there is necessity to analyze, synthesize and compare the findings from the two corporations. Accordingly, the analysis will cover and review all topics again with the intention to connect the concluded findings with the previous literature and existing theories.

6.2 Multinational Corporation 1

This study examines the shift in management of MNC approaches from centralized to decentralized. The shift to a more decentralized management approach has enabled MNCs to more effectively meet the local market needs (Manolopoulos., 2008). The subsidiary role has therefore changed from just being the MNCs entry ticket to new markets to instead playing a major role in driving the MNCs innovation as well as strategic alignment. In this analysis section, the empirical findings will be compared to the literature review to examine how they

align or differ in the subjects of capital allocation and subsidiary autonomy. Special attention will be directed to the differences among subsidiary 1 (CEO, CFO1 and R&D1), subsidiary 2 (CEO 2 and CFO 2), and subsidiary 3 (CEO 3).

6.2.1 Investment Facilitation & Success Factors

6.2.1.1 Resource Allocation

The empirical findings in this study demonstrate that carrying out investments relies significantly on the distribution of resources. Consider the case of subsidiary 1, which possesses its own R&D division and is focused on strategic expansion, managed by CEO 1 and CFO 1. Subsidiary 1 are considered a strategic growth subsidiary, indicating that its top management team aims to develop ways to stay profitable and advantageous over time, rather than simply trying to grow rapidly. Research aligned with this result is Lunnan et al, (2023) which argues that subsidiaries with strong performance typically possess significant fundings and knowledge, both of which are essential for future growth. Due to its crucial position within the corporate structure, this arrangement not only encourage subsidiary growth but also attract further capital allocation.

6.2.1.2 Financial Performance

On the other hand, subsidiary 2 faces challenges related to increased monitoring after being acquired. The issue described by Sengul & Gimeno (2013), which describe the struggle of subsidiaries to meet local market needs while being close oversight from the parent company, which may have to do with the parent company desiring quick financial improvements. Furthermore, subsidiary 3 places a higher priority on sales than manufacturing equipment. The subsidiary 3 highlights the importance of strategically align with the parent company overall objectives while seeking less funding.

It is clear that this process of control and monitoring subsidiaries may also limit the level of autonomy. As both the Industrial and the Head of Investment pointed out that parent company tries to control and monitor to ensure that the strategic decisions of the subsidiaries correspond to the overall company objectives. In contrast, to what subsidiaries 2 and 3 are able to do, subsidiaries that concentrate on research and development, like subsidiary 1, are given the opportunity to drive their own growth agenda and not only be in line with general business plans.

6.2.1.3 Innovation

Subsidiaries with possession of a strong R&D division, such as subsidiary 1 often receive higher capital allocation and financial autonomy, which also encourage an innovation culture. Birkinshaw, (1998) highlighted the importance of innovation in the operations of subsidiaries within multinational corporations. These subsidiaries autonomy enables them to develop innovations on a local level which later will improve the MNCs overall competitiveness.

However, because subsidiary 2 was just acquired the parent company expects the subsidiary to perform financially right away. This makes it difficult for them to invest in new creative ideas, demonstrating the challenges subsidiaries face when they need to manage local innovation under the surveillance of the parent company. On the other hand, subsidiary 3 has a stronger sales focus with less emphasis on innovation and therefore also less capital allocation.

Subsidiaries must ensure that their innovation projects are in line with the overall company objectives even if they possess a large financial autonomy. Dellestrand and Kappen, (2011) also pointed out that although subsidiaries can launch creative projects, their success frequently depends on how well they align with company objectives. For MNCs to get maximum benefits from their subsidiaries, innovation and strategic alignment must be balanced.

6.2.2 Navigating Autonomy Dynamics

6.2.2.1 Risk Management & Compliance

The empirical findings demonstrate how having efficient risk management systems helps in establishing a balance between compliance and subsidiary autonomy. According to the parent company and subsidiary 1, subsidiaries can offer investment proposals, but they have to ensure that they align with the overall company strategy. An article that supports this idea is Dörrenbächer & Gammelgaard, (2006) that efficient risk management is necessary for multinational corporations in order to keep the overall company strategy.

The findings also emphasize how strict risk management procedures are, particularly when parent firms impose risk protocols. These protocols can then sometimes limit the autonomy of the subsidiaries, which is most clearly shown by the post-acquisition period for subsidiary 2 when they started to get more monitored. The agency theory suggests that in order to reduce risks and guarantee alignment with the overall corporate goals, parent companies (principals) should oversee their subsidiaries (agents) (Eisenhardt., 1989). If the parent company has

implemented this risk procedure then it can effectively handle agency-related problems, such as risks due to subsidiaries actions that differ from overall company objective.

6.2.2.2 Strategic Alignment

The centralization management of decisions concerning major investments is a constantly discussed subject. In order to maintain strategic alignment throughout the whole multinational corporation, subsidiaries must make sure that their investment proposals are in line with the overall strategic plans which may worsen their autonomy (Gupta & Govindarajan., 1991). The experiences of subsidiary 1 and subsidiary 2 highlight the challenges subsidiaries could face when the overall strategic alignment whole corporation is not in line with what the market needs, so the subsidiaries always have to work on establishing the perfect balance between these two factors.

According to Bartlett & Ghoshal, (1986) and Birkinshaw et al, (1998) subsidiaries have the potential to drive innovation and therefore create the local market needs, but the innovations still need to be in line with the overall company strategies. Since subsidiary 3 is a more sales-oriented company it provides a perfect example of how to align the overall company strategy in an alternative way. Subsidiary 3 which also is an "interrelated subsidiary" is a sales-orientated company that uses the company´s current knowledge and expertise on the local market to generate revenue. Interrelated subsidiaries are mainly focused on sales and marketing which also plays a crucial role for the parent company but is less required in the capital allocation for new investments (Dellestrand & Kappen., 2011; Lunnan et al., 2023). This is also supported by the agency theory, which demonstrates how the monitoring of the parent company guarantees that subsidiaries like subsidiary 3 operate in line with the overall corporate strategy. This is done by monitoring procedures that the parent company has implemented to reduce the risk associated with misaligned investments (Fama & Jensen., 1983).

6.2.2.3 Cultural & Institutional Adaptation

The empirical findings further highlight how important it is for subsidiaries within multinational corporations to adapt their cultural norms in order to succeed. The parent company will grant the subsidiary greater autonomy if it is successful in navigating changes and adapt its management style (Manolopoulos., 2008). An example of this adaptation to cultural challenge is subsidiary 2, which has shown how cultural differences may affect the sense of the subsidiary autonomy in decision-making since the acquisition.

Hofstede, (1984) argues that cultural differences can influence both the decision-making structure and management styles. Therefore, if a subsidiary belongs to a MNC with a culture of high-power distance, the subsidiary will probably experience less autonomy and a more centralized decision-making.

6.2.3 Subsidiary Integration and Transparency

6.2.3.1 Decision-Making Process

In multinational corporation, there is always a complicated relationship between autonomy and control in the decision-making processes. According to Sengul and Gimeno, (2013) there is a fine line when establishing this balance between autonomy and control in MNCs because the subsidiaries are faced with both meeting the local market expertise and the overall corporate directions. Since the subsidiaries have more knowledge about the local market needs, they exhibit information asymmetry towards the MNC, making efficient communication crucial in decision-making processes (Gupta & Govindarajan., 2000).

According to research by Birkinshaw et al, (1998), the subsidiaries are essential for bringing in innovative ideas and discoveries. Meanwhile, if a MNC utilizes an approach of more centralized control for the capital allocation, it may limit the autonomy for the subsidiary. Another example of this complicated relationship is shown by subsidiary 3, which operates as an "interrelated subsidiary" that is more sales oriented. Even within in a centralized structure, the subsidiary will still be monitored to ensure its strategies align with the overall corporate sales strategies. This situation is further explained by Eisenhardt, (1989) which emphasize the importance of monitoring subsidiaries to ensure their activities are in line with the overall company strategies and avoid conflicts.

6.2.3.2 Communication

For multinational corporations to coordinate goals and strategies, effective communication is crucial. The empirical findings in this study also emphasis the importance that the parent company and its subsidiaries have a constant communication and exchange updates. According to Dörrenbächer & Gammelgaard, (2006) effective communication in necessary in order to ensure strategy alignment and create a culture of teamwork.

Further research by Birkinshaw et al, (1998) also emphasizes how communication can encourage openness and decrease information asymmetry. Therefore, the way subsidiaries

effectively communicate their knowledge is sincerely important when establishing the balance between autonomy and control. This is also supported by the agency theory, which emphasizes the need of effective communication and decrease the likelihood of disagreement moral hazards (Eisenhardt., 1989).

6.2.3.3 Comparative Analysis of Subsidiaries

Subsidiary 1 is known for its strong R&D division and therefore perfect example of a strategic growth model. The subsidiary has more autonomy in starting new innovation and capital alloation projects for local market needs as long it is within the overall corporate objectives. Additionally, according to Lunnan et al. (2023), high-performing subsidiaries like subsidiary 1 plays a crucial role in strategic growth.

Subsidiary 2 are immediately after being acquired by the parent company expected to start generating cash-flow. The subsidiary´s autonomy has been decreasing after the acquisition and instead more oversight has replaced and affected their ability to receive capital allocation for different projects. The scenario with subsidiary 2 experiences highlights the importance of establishing a balance between corporate monitoring and autonomy as discussed by (Sengul & Gimeno., 2013). After the acquisition subsidiary 2 encounter high power distance instead of operating in a lower power distance organization which demonstrated how important cultural adaptation is (Hofstede., 1984).

Subsidiary 3 operates as an "interrelated subsidiary" which is more sales oriented and smaller emphasis on innovation and therefore low capital allocation requests. Although the subsidiary still needs to strategically align with the corporate goals the subsidiary still has a high degree of autonomy in the day-to-day operations. As mentioned by Bartlett & Ghoshal, (1986) in order to decrease the probability of misaligned investments, subsidiary 3 must maintain an effective communication to ensure the parent company that their sales strategies are in line with the overall strategic sales goals.

The analysis of the empirical findings and the literature demonstrate the difficulties for subsidiaries within multinational corporations to establishing a balance between autonomy, strategic alignment and capital allocation. Although all the subsidiaries subsidiary 1, subsidiary 2 and subsidiary 3 want to receive capital allocation for investments and innovation to meet local market needs. The capital allocation itself is not what determines whether the

subsidiary will be granted autonomy. The game changer is how well the subsidiary communicate with their parent company and align with their overall strategic objectives.

The agency theory highlights these complexities also the importance that the parent company monitoring processes also guarantee that its subsidiaries operate in line with the overall company objectives and therefore lower the risk of misalignment. MNC 1 subsidiaries are performing differently, subsidiary 1 utilizes the strategic growth approach since they possess a strong R&D division they are granted more autonomy and capital allocation. Subsidiary 2 has more strict monitoring and urgent performing demands which both results in lower autonomy and capital allocation. Subsidiary 3, the sales-oriented company demonstrated the significance of effective communication in order to be both efficient in performance and also align with the overall company sales objectives.

6.3 Multinational Corporation 2

The analysis of the MNC 2 will follow the same structure as MNC 1 where the empirical findings will be compared to the literature review to examine how they align or differ in the subjects of capital allocation and subsidiary autonomy. Special attention will be directed to the differences among subsidiary 4 (CEO 4, R&D 2), subsidiary 5 (CEO 5).

6.3.1 Strategic Flexibility in Decisions

6.3.1.1 Decision-Making

The findings from MNC 2 revels a strategic approach that combines the decentralization and centralization, where the latter one is applied on more critical decisions. The strategy of MNC 2 is consistent with the assertion of Stein (2002), that larger corporations perform significantly better when the information to their subsidiaries flow smoothly, implying a greater incorporation in decisions. Ozbas, (2005) support the effectiveness of decentralization such that it enables subsidiaries to influence the behavior and capital allocation of the parent companies. Accordingly, this was illuminated in the findings where the subsidiaries highlighted them being able to influence the parent companies in decisions of implementing and allocating capital to new ideas and investments, by presenting its valuableness. Although the subsidiaries grant autonomy in the decision-making the findings further emphasize a balance between autonomy and oversight, where the subsidiaries are urged to act innovative and responsive to local market while aligning the decision with the corporate objectives. Thus, this reflects the ideas of Gupta & Govindarajan, (1984) that risk preference of the parent company influence both the decisions and capital allocation.

6.3.1.2 Autonomy

The finding presented different levels of autonomy between the subsidiaries within the corporations which was explained to re related to the subsidiary's different roles. Similarly, Birkinshaw et al, (1998) found that subsidiaries that contribute more to the MNC strategy also receives greater level of autonomy. Accordingly, the level of autonomy differentiated between subsidiary 4 and 5 due to the subsidiary possessing R&D and a more innovate focus compared to subsidiary 5. The role of a subsidiary is important where "strategic growth" defined by Lunnan et al, (2023) applies to subsidiaries that focus on core resources for the MNC such as R&D. Strategic growth subsidiaries are further know as high performing subsidiaries which normally results in them receiving more capital allocation and knowledge. The roles of strategic growth further reflect the subsidiary 4 who possess an R&D which according to findings both attract and demands more capital. Moreover, the findings illuminated that the strategic importance also increase the level of autonomy for subsidiary 4. In contrast, Dellestrand & Kappen, (2011) highlight subsidiaries of strategic importance as are more closely monitored by the parent company due their more capital requiring operations.

In contrast to subsidiary 4 subsidiary 5 focus more on sales which reflets the role of "interrelated subsidiaries" defined by Lunnan et al, (2023). Subsidiary of this character mainly focus on leveraging knowledge to address the need of the local market. Thus, requiring a high information flow but less capital compared to the role of strategic growth. Similarly, the findings illustrated high autonomy in the operation for subsidiary 5 although limited autonomy in terms of capital allocation and investments. The findings viewed the subsidiary role as evident in terms of autonomy which mirrors the finding of Rugman & Verbeke, (2001) who highlighted the subsidiaries capabilities and advantages as shaping and impacting the subsidiaries role and influence in the corporation.

6.3.1.3 Strategic Alignment

The findings from MNC 2 emphasized the importance for subsidiaries to operate in harmony with the overall corporation, since such acts are rewarded with capital funding. Sengul & Gimeno, (2013) reflects this idea where they argue that managing risks such as ensuring corporate alignment result in a more efficient allocation of the capital, since it mitigates the possibilities of spillovers. Furthermore, the literature from Bartlett & Ghoshal, (1989) suggests that corporate alignment and strategic direction in smaller corporations are vital for success due to the subsidiaries operating with more autonomy. Additionally, it is suggested

that well defined roles for the subsidiaries is important for smaller corporations. The findings similarly illustrated the importance of a collaboration within the corporation, highlighting distinct roles where subsidiary 5 focused more on goal and strategic alignment within their role.

6.3.2 Organizational Influence on resource flow

6.3.2.1 Capital Allocation

In the capital allocation process the findings viewed a structure approach of balancing the strategic need and requirement from the subsidiaries with the corporations overall goals. The process contained submissions of capital request from subsidiaries followed by a clear evaluation of investment proposal reflecting the work of stein (1997). Moreover, as highlighted by Sengul et al, (2019) the findings similarly presented a ranking of the investment projects based on strategic importance and potential return. Accordingly, it was illustrated that projects of subsidiary 4 was generally more accepted and monitored due its relatedness to innovations and thus higher potential returns. Dellestrand & Kappen, (2011) mirror this notion where they argue that innovative-intensive subsidiaries often both require and receives significant capital for investments. The finding furthers illustrated that although the subsidiary 5 also receives allocation for investments their capital needs are generally lower and less prioritized. Hence the findings align with the literature discussion of potential return and strategic fit being central factors for capital allocation (Scharfstein & Stein., 2008).

6.3.2.2 Organizational Structure

Trough the findings it was evident that MNC 2 incorporated a decentralized structure to enhance market responsiveness and support innovations. Moreover, the structure was highlighted as important for the corporation both for the communication but foremost for the decision making, where the subsidiaries allow autonomy in their operations and roles while also respond to their local market needs. Thus, this aligns with the work of Thesmar & Thoenig, (2000) who argues that organizational structure with flatter hierarchies enhance their responsiveness to the markets. Additionally, Porter, (1989) highlight that MNCs utilizing a decentralized approach as MNC 2 provides more flexibility for the subsidiaries. Accordingly, the subsidiaries receive more autonomy which enhance their decision-making and capital allocation, which reflect the findings.

6.3.2.3 Information Management

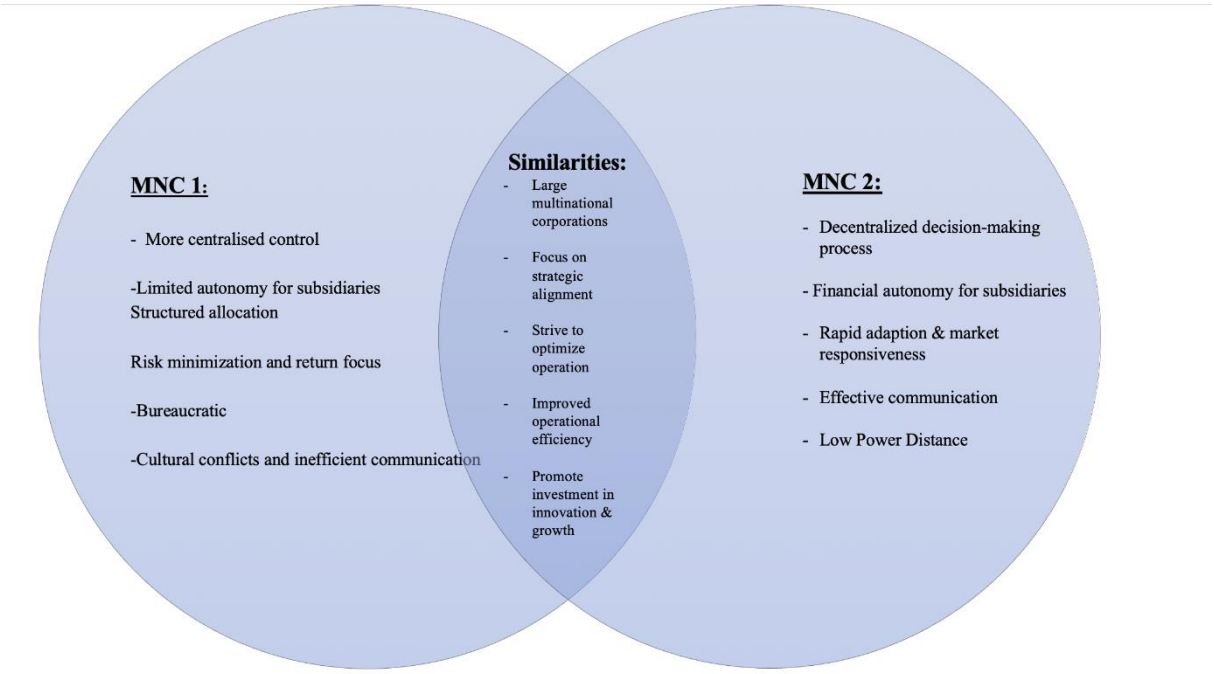
The agency theory highlights conflicts of interest and in formation between principals (parent companies) and agents (subsidiaries) which can harm multinational corporations (Jensen & Meckling., 1976). The findings highlighted strategic frameworks for mitigating such conflicts with a balance of financial autonomy for subsidiaries and oversight from the parent company aiming to ensure information flow and strategic alignment. Moreover, the findings viewed that granting the subsidiaries more autonomy also led to a better information flow between the parent company and the subsidiaries, thus mitigating the conflicts and bolster the operations. Additionally, Shroff et al, (2014) further reflect this by arresting that a strong information environment increases growth opportunities by allowing subsidiaries to align their operation more closely to the corporate goals and market demands.

6.4 Comparison between the subsidiaries

Subsidiary 4 and 5 exhibits some distinct differences in their strategic roles, influencing their level of autonomy, investment acceptance and capital allocation needs. Subsidiary 4 requires more capital investments resulting in more oversight in allocation process by the parent company. However, due to the critical role and strategic importance of the subsidiary the findings illustrate significant autonomy and competence sharing. Conversely subsidiary 5 leverage more existing resources, thus requiring less capital and monitoring of the allocation process. However, due to its significant market focus trough sales the findings illuminate a high reliance on information and knowledge flow. In conclusion the findings highlight a significant level of autonomy for both subsidiaries in the operations, although the investments and capital allocation differ significantly, illustrating the subsidiaries role as pivotal.

6.5 Comparison Between the Multinational Corporations

Figure 6: Differences & Similarities of the Multinational Corporations



Develop by authors.

Comparing the two multinational corporations with each other its evident that their exists differences in size and structure thus impacting the approach towards decision-making, capital allocation and subsidiary autonomy. MNC 1 is a larger multinational corporation that necessities and utilize a more centralized control to ensure corporate alignment, thus limiting their subsidiaries autonomy. The literature similarly highlights that large corporation require more centralization to ensure coherence and risk mitigating, although it might influence the local responsiveness negatively (Du et al.,2015). In contrast, MNC 2 possess a more decentralized structure which allows for greater autonomy for the subsidiaries, promoting them to be more adaptable and flexible. This correlates to the literature from Sengul & Gimeno, (2013) emphasizing that a decentralized structure in smaller corporations grant more autonomy which help them leverage insight from local market, thus strengthening the responsiveness and innovations. However, although MNC 1 exerts a more centralize structure compared to MNC 2 none of the two utilize a fully centralized nor decentralized structure, but rather a mix. This can potentially correlate with the work of Manolopoulos (2008) on the evolution multinational corporations, which argues that MNCs have shifted from centralized structures to complex decentralized structures as an attempt to adapt to different environments.

Hofstede, (1984) illuminates that cultural and geographical distance between the parent company and the subsidiaries influence the level of autonomy for the subsidiaries. Accordingly high-power distance cultures support a more centralized decision making meanwhile lower power cultures support decentralization and greater autonomy for the subsidiaries. Moreover, the greater distance between the parent company and the subsidiaries increases the risk of agency conflict due to diverse interest and information (Jensen & Meckling., 1976). This reflects the findings where the MNC 1 necessities a tighter control to ensure corporate alignment and risk mitigating of the subsidiaries, due to the parent company being located in another country. In contrast MNC 2 is smaller and have a closer proximity between there entities which enhance their market response and communication, making the decentralized approach more effective, which is supported by Birkinshaw et al, (1998). In conclusion the two multinational corporations different structures and approaches significantly influences the subsidiary environment in terms of financial autonomy in capital allocation and investment decisions.

7. Conclusion

In this chapter the most significant findings in the thesis will be outlined. Further the purpose and research question will be addressed along with the insights drawn from this comparative analysis.

The purpose of this thesis was to examine the complex dynamics of subsidiaries within multinational corporations specifically focusing on their autonomy concerning capital allocation and financial decision- making. Hence the objective of the thesis was to answer the following research question:

"To what extent do subsidiaries within multinational corporations have autonomy, specifically concerning capital allocation and financial decision-making?"

To address the research question, we employed a qualitative case study methodology, conducting interviews across two different multinational corporations. The methodology allowed us to examine and understand the complexities of subsidiaries autonomy within Multinational corporations. Further the incorporation of the agency theory guided the understanding of the interplay between the parent company oversight and subsidiaries

autonomy. This theoretical lens played a pivotal part in interpreting this intrinsic relationship which helped explore the research question.

Our finding suggests that while subsidiaries strive for autonomy the strategic oversight of the parent company limits their autonomy. The balance of granting autonomy while maintaining control is crucial for ensuring corporate alignment while allowing subsidiaries the flexibility to respond to opportunities and needs. Moreover, the subsidiary role within the MNC influence the level of autonomy. Accordingly, subsidiaries with greater strategic importance tend to be granted both higher levels of autonomy and capital allocation, influencing their ability to implement investment decisions. Furthermore, the findings underscored the differences in organizational structure and strategic priorities within the multinational corporation as factors influencing the autonomy for subsidiaries. The centralized approach was viewed to impose limitation in the subsidiary autonomy due to its focus on strategic coherence and risk mitigation. In contrast, the decentralized approach allows for a greater autonomy enabling and encouraging more strategic flexibility in the capital allocation process. Lastly the findings viewed geographical and cultural distances as factors impacting the subsidiary management and thus also the autonomy for subsidiaries.

8. Discussion

8.1 Practical implications

This thesis extends our knowledge by highlighting how subsidiary autonomy is balanced with corporate control, and MNCs capital allocation and decision-making processes. It incorporates new insights while also expanding on existing research, such as those by Billet & Mauer, (2003) and Du et al, (2015). Furthermore, the empirical findings demonstrates that if MNCs are able to establish the correct balance between subsidiaries autonomy and corporate control, the subsidiary can both meet the local market needs and still align with the overall corporate strategies. The empirical results helps showing that subsidiaries will be more responsive and drive innovation project.

This thesis further explores the advantages of granting subsidiaries a higher degree of autonomy, which is in line with what has been discussed by Manolopoulos, (2008) who discussed the benefits of decentralized management in helping subsidiaries handle risks more successfully. Interviews have been used to show how autonomy enables quicker and more responsive changes to meet local needs.

Additionally, prior research on resource allocation, which has been conducted by Jindra et al, (2009) and Rugman et al, (2011), has not specifically investigated the effects when subsidiary is granted financial autonomy. This thesis closes that gap by demonstrating what happens when subsidiary autonomy is granted. Subsidiaries that are responsible for fostering innovation within the MNC, are better prepared to meet the local market needs and can create innovative projects that align both with the subsidiaries and the overall corporate strategies. Moreover, this thesis supports the claims regarding organizational flexibility presented by (Sengul & Gimeno., 2013). The empirical results verify that subsidiaries with autonomy are more flexible and better able to maneuver according to local market needs and stay more responsive to other opportunities.

Finally, by demonstrating how financial autonomy improves managerial discretion in practice, this thesis expands on the theoretical claims made by Stein, (1997) and Mudambi et al, (2014). Granting subsidiaries with significant autonomy allows managers to adjust their strategies to better meet the local market needs while aligning to overall corporate strategies.

This thesis presents an in-depth analysis of the relationship between a subsidiary´s financial autonym and the control of MNCs. The results highlight how financial autonomy not only helps subsidiaries decision-making processes of capital allocation. This can eventually help multinational corporations to improve their operational efficiency by adapting this throughout the organization.

8.2 Theoretical implications

This thesis makes a substantial contribution to the understanding of agency theory in relation to the financial autonomy of MNC subsidiaries. It examines the complex relationship between the principal (parent comapny) and agents (subsidiaries), focusing on how granting autonomy can influence agency conflicts.

The majority of prior agency theory studies have tackled disagreements between different interest by establishing stricter controls and closer monitoring of the subsidiaries (Jensen & Meckling., 1976). However, this thesis argues for the importance of granting subsidiaries autonomy, provided that their operation is aligns with the overall corporate strategies. This can be used as a tactical instrument by the parent company. When a subsidiary is granted financial autonomy, it allows them to work towards their own strategic goals while

simultaneously aligning with the overall corporate strategy. This alignment can help reduce the likelihood of conflicts.

Moreover, this thesis also delves deeper into the matter of information asymmetry, which is a crucial subject in the field of agency theory. This occurs when the agents possess greater knowledge about the local market needs compared to the principal, potentially leading to decisions that might not be the best for the principal (Eisenhardt,, 1989). Building up on this, the thesis suggests that financial autonomy for MNC subsidiaries helps mitigate these negative consequences. Because the subsidiary is granted with more financial autonomy, it also enables them to make more well-informed decision based on their in-depth knowledge about the local market. This change shifts the focus from a centralized agency theory discussion towards a more decentralized decision-making model, which would allow the subsidiaries to be quicker and more responsive to local market needs.

Overall, this thesis offers an in-depth understanding of how agency theory disagreements within multinational corporations are impacted by financial autonomy. It also makes a substantial theoretical contribution to how a subsidiary manages autonomy and how parent company maintains some level of control. This unique perspective offers insights into managing and controlling autonomy within complicated organizational structures, which represents a significant contribution to the field of agency theory.

8.3 Limitations

There are some limitations to this study. Firstly, the study only investigates two multinational corporations which may restrict the generalization ability of the results to other corporations. Therefore, the findings might not fully capture the range of behaviors in MNCs across various industries and geographical areas. Accordingly, the thesis only utilizes 12 interviews which forms a relatively small sample size. A raoder sample size could have provide a more comprehensive understning of the topic. Furthermore, all the subsidiaries investigated are located in Sweden. Accordingly, it is possible that the empirical findings underestimate the complexities of subsidiary autonomy in other institutional and cultural settings. The unique legal structure and culture in Sweden may have influenced the level of autonomy and how they operate, which is important to be bear in mind.

Moreover, another potential limitation is that the data is based on subjective interpretations since semi-structured interviews were the main technique used to acquire the data. Although

this technique offers significant information, it can also be a restriction. Since potential biases in opinions from both the respondents and the researchers should be considered. Similarly goes with the choice of respondents where the thesis utilized snowball sampling to gather interviews. This approach might include biases such that the corporations themselves recommend respondents, therefore it should be noted that the recommendations of respondents might be biased such that the corporation recommend the respondent that view their corporation from the best angle.

The research was conducted by students following and various guidelines and formalities such as time constraints, university requirements and academic recommendations. Accordingly, this important to note that this limits the accuracy of the research.

Secondly, the interviews were conducted virtually via Microsoft Teams, which may limit the ability to fully interpret non-verbal cues and body language, despite efforts to maintain visual contact by keeping cameras on. One notable challenge was the language barrier; all interviews were conducted in Swedish and subsequently translated into English. This translation process may introduce minor errors or variations in interpreting the responses, potentially affecting the nuances of the data collected.

Lastly, the diversity of the participants, who hailed from various industries and held different managerial roles, adds a layer of complexity. This diversity means that the findings might reflect industry-specific practices or the unique challenges associated with various managerial positions, thus affecting the universality of the conclusions drawn from this research.

These limitations highlight the need for cautious interpretation of the results and suggest areas for further research to enhance the robustness and applicability of the findings in different managerial and cultural contexts.

8.4 Future research

This research can serve as a foundation for several potential subjects of future research. Firstly, it would be interesting to investigate subsidiaries in more MNCs and places outside Sweden to see how different cultures and laws affect them.

Secondly, exploring different types of autonomy would be an interesting research topic. It would be exciting to see how operational and strategic autonomy affect subsidiary's performances in multinationational corporations.

Thirdly, including the impact of digital technology would be a super interesting topic, as digital technology can change the way a whole multinational corporation operates and makes decisions. Investigating this can reveal new strategies for companies to operate.

Lastly, it would really be interesting to track subsidiary autonomy over a longer time-period to see how the balance is established and adapted over time in new corporate settings.

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List of Appendices

Appendix 1: Interview guide

- Introduction from the interviewers (authors).
- Inform the interviewee about the approximately length of the interview.
- Ask for consent of the interviewee to participate in this study as well as clearly inform that their response will be anonymized to ensure privacy.
- Ask for consent to record the interview both on Teams and on the phone.
- Ask for consent to transcribe the interview both trough notes and through the Microsoft teams function.
- Let the participant know when the interviewers start to record and transcribe.
- Lastly thank the interviewee and ask if they want to add or withdraw anything.

Appendix 2: Interview Questions to The Subsidiary

Organizational Structure and Subsidiary Autonomy

How does the parent company define and implement autonomy in its subsidiaries' capital allocation decisions and investment strategy development?

Are there instances where granting autonomy has resulted in tailored and successful investment strategies that address local market needs effectively?

What does the organizational structure within the parent company look like in terms of subsidiary management?

Are the subsidiaries structured on an equal level or is there a hierarchy among them especially in terms of capital allocation and autonomy. For instance, are the subsidiaries on the same level?

How are investment budgets for subsidiaries determined and varied annually? What are some requirements to receive capital? Are some types of investments that get more approved than other.

What type of factors affect the capital allocated to the subsidiaries. Example historical performance, R&D, strategic alignment.

Autonomy/Independence: To what extent does the parent company grant autonomy to subsidiaries concerning their investment strategies and capital allocation?

Organizational Structure: What organizational structure model does the parent company utilize (centralized, decentralized, matrix)?

Decision-Making and Information Exchange

What processes does the parent company use for decision-making regarding investments and capital allocation to subsidiaries?

Is there an information asymmetry between the subsidiary and parent company, especially in financial decision-making?

How does the monitoring of the subsidiary operation and investments work? Does the parent company set requirements of specific investments or performance that the subsidiaries must attain?

Impact of Autonomy on Subsidiary Performance and Strategy Adjustment

How does subsidiary autonomy correlate with their financial outcomes and capacity for innovation?

How does granting autonomy impact the organizational performance and outcomes of subsidiaries and for the entire corporation?

Risk Management and Decision-Making

What mechanisms are in place to ensure that subsidiaries investment decisions align with both their own and the parent company risk tolerance?

Challenges and Opportunities

Conflict Management: How does the parent company handle conflicts or disagreements with subsidiaries regarding investment decisions?

Innovation and Growth

Are there notable instances where increased autonomy clearly improved financial performance or innovation?

Optimization of Global and Local Strategic Needs

What methods does the parent company employ to ensure an optimal balance between meeting organizational strategic goals and adapting to local market demands through investment decisions?

Cultural Factors Affecting Autonomy Decisions

How does the parent company adjust subsidiary decision-making processes for capital allocation and investments to address the cultural diversity in different countries?

How do cultural differences between the parent company and its subsidiaries influence decision-making processes and strategies?

Appendix 3: Interview Question to The Parent Company

Organizational Structure and Subsidiary Autonomy

How does the parent company define and implement autonomy in subsidiaries' capital allocation decisions and investment strategy development?

Does the R&D division or innovation initiatives grant subsidiaries greater autonomy? How does this impact capital allocation, and do these subsidiaries receive more capital?

What is the organizational structure within the parent company regarding subsidiary management? Are subsidiaries structured on an equal level, or is there a hierarchy, especially concerning capital allocation and autonomy?

How are investment budgets for subsidiaries determined and varied annually? What are the requirements to receive capital? Are some types of investments approved more often than others?

What factors influence the capital allocated to subsidiaries? For example, historical performance, R&D, strategic alignment.

Decision-Making and Information Exchange

What processes does the parent company use for decision-making regarding investments and capital allocation to subsidiaries?

What challenges does the parent company face in balancing control with granting autonomy to subsidiaries?

Do you strive to give equal autonomy to all subsidiaries? How is the monitoring of subsidiaries performance and investments conducted?

Impact of Autonomy on Subsidiary Performance and Strategy Adjustment

Are there clear examples where increased autonomy has led to significant performance improvements or innovations?

How are subsidiaries encouraged to tailor their investment strategies to local market conditions?

Risk Management and Decision-Making

What mechanisms are in place to ensure that subsidiaries investment decisions align with both their own and the parent company’s risk tolerance?

Optimization of Global and Local Strategic Needs

What methods does the parent company employ to ensure an optimal balance between meeting organizational strategic goals and adapting to local market demands through investment decisions?

Cultural and Institutional Factors Affecting Autonomy Decisions

How does the parent company adjust subsidiaries' decision-making processes for capital allocation and investments to address institutional and cultural diversity in different countries?

How do cultural differences between the parent company and its subsidiaries influence decision-making processes and strategies?

Appendix 4: Interview Questions to the R&D

R&D and Investment Strategies

Does your role in R&D grant your subsidiary more autonomy? How does this impact capital allocation?

What factors influence the capital allocated to R&D projects?

Organizational Structure and Management

How are R&D investment budgets for subsidiaries determined and varied annually? What are the requirements for receiving capital?

Are some types of R&D investments more likely to be approved than others, if so what?

Decision-Making Process

What processes does the parent company use for decision-making regarding R&D investments?

What challenges does the parent company face in balancing control with granting autonomy in R&D?

Impact on Performance and Innovation

How does R&D autonomy correlate with financial outcomes and innovation in your subsidiary?

Risk Management

What mechanisms ensure R&D investment decisions align with both subsidiary and parent company risk tolerance?