Long Range Planning 59 (2026) 102674

Contents lists available at ScienceDirect

Long Range Planning

journal homepage: www.elsevier.com/locate/lrp

The competence-creating subsidiary strategy process

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ARTICLE INFO

Keywords:
Subsidiary strategy
Competence-creator
Embeddedness
Initiative
Autonomy
Influence
Survival
Qualitative
Process study

ABSTRACT

Knowledge creation within multinational enterprises (MNEs) is increasingly driven by subsidiaries, especially those embedded in advanced local clusters. Competence-creating subsidiaries that generate valuable innovations strengthen their strategic importance and survival prospects within the MNE. Yet the *processes* through which they achieve and sustain a competence-creating role remain underexplored. This study examines foreign-owned subsidiaries in Dublin's financial services cluster to uncover how they develop and enact strategy to become or remain competence creators. Drawing on retrospective and real-time process narratives, we reveal how managers orchestrate a dynamic sequence of choices, decisions, and actions that underpin competence creation and elevate subsidiary influence within the MNE. Our findings advance a more integrative, processual view of subsidiary strategizing by revealing the *mechanisms* through which competence creation unfolds, specifically, how the interplay of autonomy, initiative, influence, and embeddedness generates and sustains subsidiary capability development. For managers, sustaining such roles requires continually balancing these dimensions to secure long-term strategic relevance and viability.

1. Introduction

A defining advantage of the MNE lies in its capacity to geographically disperse subsidiaries to access diverse markets and knowledge bases (Kogut and Zander, 1992; Doz et al., 2001; Doz and Wilson, 2012). Increasingly, headquarters delegate responsibility for local product adaptation, new product development, and market introductions to its competence-creating subsidiaries (Cantwell and Mudambi, 2005; Andrews et al., 2022a,b). These subsidiaries have become central to sustaining the MNE's competitive advantage by serving as key loci of innovation and learning. From the subsidiary's perspective, occupying a strategically significant, competence-creating role enhances its bargaining power in intra-MNE competition for resources and investment (Delany, 2000) and strengthens its prospects for survival and advancement within the corporate network (Meyer et al., 2020; Gundelach and Nielsen, 2023; Nguyen, 2024). However, much of this literature has treated subsidiary strategy as an outcome of structural or contextual conditions rather than as a process of continuous managerial action and interpretation. This leaves underexplored the complex reality of how subsidiary strategy actually happens over time. Consequently, while competence-creating subsidiaries are increasingly prominent as engines of MNE renewal, we still know little about *how they develop and enact strategy*, that is, how strategizing unfolds within these distributed, knowledge-creating units.

The competence-creating subsidiary has been a central construct in explaining how MNEs renew and expand their firm-specific

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https://doi.org/10.1016/j.lrp.2026.102674
Received 9 February 2025; Received in revised form 19 July 2026; Accepted 28 July 2026
Available online 30 July 2026
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advantages. Cantwell and Mudambi (2005) conceptualized competence creation as an evolutionary process in which subsidiaries move beyond the exploitation of headquarters' capabilities to generate new knowledge through local learning and recombination. Their framework highlighted the coevolution between subsidiary initiative and headquarters' strategic recognition as the basis for innovation within the MNE network. More recent contributions, such as Meyer et al. (2020), advocate a dynamic, multi-level understanding of subsidiary evolution, yet their account remains largely architectural rather than processual, specifying where change may occur rather than *how* strategizing unfolds in practice. Consequently, we still lack a grounded understanding of the temporal and experiential processes through which managers in these units craft, adapt, and enact strategy. Our study addresses this missing middle by examining how subsidiary strategy actually unfolds in practice, in being or becoming, competence-creating.

We address this gap by examining how competence-creating subsidiaries develop and enact strategy within the evolving landscape of MNE financial services. In this context, capability creation refers to the development of organizational routines and expertise that enable subsidiaries to structure, modify, and recombine financial instruments and processes in response to changing market and regulatory conditions. Because entirely new financial products are rare, innovation typically occurs through incremental financial engineering and solution design, such as structured products, risk models, derivatives and compliance innovations, which reflect deeper processes of knowledge integration and tacit capability accumulation. Subsidiaries were classified as competence-creating using multiple indicators beyond managerial self-reports, including mandate expansion, sustained involvement in innovation activities, internal recognition for product or process development, and participation in cross-unit initiatives. Interview evidence was triangulated with secondary sources such as company publications, regulatory filings, and organisational role descriptions.

Using a combination of retrospective and real-time process narratives from senior managers in foreign-owned subsidiaries based in Dublin, we reconstruct the temporal pathways through which strategic direction emerged, evolved, and was sustained. This process perspective reveals how subsidiary managers interpret global mandates, mobilize local resources, and navigate interdependencies with headquarters and peer units. Essentially, our study uncovers the mechanisms underpinning competence creation. Dublin's financial services cluster provides an especially compelling setting for this inquiry. The industry is dominated by inbound MNE finance houses whose subsidiaries must continuously innovate to align with both global strategy and the specific demands of local markets. Success in this context depends heavily on the delivery of tailored product and service innovations, while failure can swiftly lead to withdrawal, reflecting the low capital intensity and high mobility of financial services relative to sectors such as pharmaceuticals or MedTech, where sunk costs afford greater protection. This combination of strategic significance and fragility renders Dublin's subsidiaries a compelling site for studying how competence-creating strategy unfolds in practice. To explore these dynamics, we conducted semi-structured interviews with senior executives from thirty purposefully selected financial-services subsidiaries that met the defining conditions of competence creation. While some had been established with an explicit innovation mandate, most had evolved from initially competence-exploiting roles to recognized competence-creating positions over time.

Drawing on this empirical evidence, we develop a process model of subsidiary strategy development in competence creation. The model depicts subsidiary strategizing as an evolving interplay of managerial choices, actions, and interpretations surrounding embeddedness, initiative-taking, and the pursuit of autonomy and influence within the MNE network. Through these interrelated processes, subsidiaries incrementally build and upgrade their knowledge capabilities, enabling product innovation and the attainment, whether formally assigned or self-generated, of a competence-creating role. Our analysis uncovers the causal linkages and underlying mechanisms connecting these strategy elements, demonstrating that subsidiary strategizing seldom follows a linear trajectory. Instead, it unfolds iteratively and recursively, as managers continuously adapt to shifting organizational constraints and environmental contingencies. Attaining an elevated competence-creating status, in turn, enhances the subsidiary's strategic influence and long-term survival prospects within the MNE. Influence is understood here as the subsidiary's perceived capacity to shape headquarters' decisions, as articulated by subsidiary managers. The findings thus reveal subsidiary strategy as a deliberate yet bounded process of agency, in which managers actively shape their subsidiary's destiny within the structural parameters of the MNE system.

Our study makes four interrelated contributions to theory on subsidiary strategy and the strategizing process. First, it integrates and temporally sequences established models of subsidiary evolution (Birkinshaw and Hood, 1998; Delany, 2000), synthesizing subsidiary strategy as a recursive and interconnected process rather than a linear or stage-based progression. Second, the study addresses the fragmentation of subsidiary strategy research by demonstrating that competence creation arises from the dynamic interplay of autonomy, initiative-taking, influence, and embeddedness, integrating previously disconnected literatures on embeddedness (Andersson et al., 2007; Garcia-Pont et al., 2009; Yamin and Andersson, 2011; Nell et al., 2011; Ferraris et al., 2020), initiative-taking (Paterson and Brock, 2002; Birkinshaw and Prashantham, 2012; Strutzenberger and Ambos, 2014; Ambos et al., 2023), influence (Andersson et al., 2002, 2007; Najafi-Tavani et al., 2014; Mudambi et al., 2014), and autonomy (Birkinshaw and Morrison, 1995; Taggart and Hood, 1999; Birkinshaw and Hood, 1998; Ambos et al., 2011) into a synthesized, processual account of subsidiary strategizing. Third, we enrich research on intra-MNE knowledge flows, subsidiary roles and evolution (Gupta & Govindarajan, 2000; Cantwell and Mudambi, 2005; Balogun et al., 2011; Santangelo, 2012; Awate et al., 2015) by showing how competence-creating subsidiaries actively construct and sustain their role evolution to the MNE's advantage (Cantwell and Mudambi, 2005; Santangelo, 2012; Ryan et al., 2018), thereby strengthening their legitimacy and survival prospects (Meyer et al., 2020; Gundelach and Nielsen, 2023; Nguyen, 2024). Fourth, we reaffirm the strategic significance and bounded autonomy of subsidiaries as entrepreneurial actors within the MNE system (Birkinshaw and Hood, 1998; Andersson and Forsgren, 2000; Andersson et al., 2002, 2007; Ambos et al., 2010; Andrews et al., 2022a,b).

2. Theory development

2.1. Scaffolding the subsidiary strategy process

Subsidiary strategy within an MNE unfolds in a complex landscape, shaped by the interplay between local environmental conditions and managerial agency, but also the limitations of its assigned role (Birkinshaw and Hood, 1998). Subsidiary managers face the challenge of aligning their unit's strategic direction with the dynamics of their local context while navigating the broader priorities of the MNE. The strategic decisions they make, rooted in both external environmental cues and internal ambitions, act as a catalyst for the subsidiary's trajectory, particularly in its early efforts to embed itself in the local environment and take entrepreneurial initiatives while shifting or maintaining headquarters' assigned role.

Local environmental determinism plays a pivotal role in this process. As Birkinshaw and Hood (1998) argue, the dynamism of a subsidiary's local business environment often dictates the pace of its evolution and capability development. Subsidiaries can exploit their location-specific advantages to develop unique competencies, a phenomenon noted by Rugman and Verbeke (1992, 2001), who emphasize that local conditions often create opportunities for subsidiaries to build capabilities tailored to their specific context.

However, the role of managerial choice in this process cannot be overstated. Subsidiary managers must make strategic decisions that balance the mandates set by headquarters with the subsidiary's own developmental aspirations. This often involves decisions about strategic initiative-taking, which we define as "*an entrepreneurial process, whereby individuals or groups within a subsidiary take the initiative to identify and exploit opportunities for new business development, market expansion, or internal improvements*" (Birkinshaw et al., 1998), and degrees of embeddedness, defined as "*the extent to which subsidiaries develop and maintain relationships with local and internal network actors, allowing them to access resources and influence strategic decisions*" (Garcia-Pont et al., 2009), particularly within the local environment. Subsidiary managers must navigate dual pressures: aligning with headquarters' strategic direction while asserting their unit's independence to foster innovation in its quest for self-preservation. Managerial choice for the subsidiary exists along a spectrum. At one extreme, subsidiaries aspire to perform their assigned role to perfection (Birkinshaw and Hood, 1998) and may rigidly adhere to headquarters' directives (Reilly et al., 2012), in the knowledge that subsidiaries can suffer from isolation or stagnation, undermining the potential to leverage or disseminate competences within the wider MNE network, which is a hidden but critical barrier to subsidiary performance (Monteiro et al., 2008). At the other end, they may act autonomously, leveraging their internal entrepreneurial spirit to pursue innovative initiatives outside their assigned role (Birkinshaw, 1997; Decreton et al., 2019). The ability of subsidiary managers to navigate this spectrum and make effective choices significantly influences their unit's strategic trajectory within the MNE network.

Building and leveraging subsidiary-specific advantages (SSAs) is pivotal for a subsidiary to develop its assigned role into a leveraged assumed role. Importantly this means developing knowledge and capabilities that are non-location bound (Rugman and Verbeke, 2001). Although the development of location-bound knowledge and capabilities enables subsidiaries to perform effectively in their assigned roles, the development of non-location-bound knowledge and capabilities provides the leverage for subsidiaries to enhance and reshape those roles. In particular, the accumulation of non-location-bound capabilities expands the subsidiary's knowledge stock and increases the potential for knowledge outflows to the wider MNE network (Gupta & Govindarajan, 2000).

2.2. Stems of the subsidiary strategizing process: embeddedness and initiatives

Subsidiary strategizing often begins with the role assigned by headquarters, which is oftentimes limited in scope and value. Many subsidiaries start as competence exploiters, engaging in low-value activities such as product adaptation or process optimization based on knowledge or products transferred from headquarters (Paterson and Brock, 2002). Others commence life with a higher mandate for new product innovation. Whether subsidiaries are aiming to evolve into or persist as competence-creators, embedding themselves within the local environment is a critical step. Local embeddedness, defined as "*the degree to which a subsidiary is involved in and influenced by the relationships it maintains with actors in its local environment*" (Andersson et al., 2002), enhances a subsidiary's ability to access and utilize external resources. As Andersson et al. (2001) observe, innovative competence development arises through interactions with local suppliers, customers, and other stakeholders. However, the depth of this embeddedness depends on managerial decisions about how extensively to integrate into the host environment (Yamin and Andersson, 2011; Nell et al., 2011; Ferraris et al., 2020; Chatzopoulou et al., 2022). Embeddedness is not a static concept; it evolves through networking and continuous interaction with external actors. Subsidiaries that actively deepen their local ties can unlock new opportunities for development and innovation. High levels of embeddedness also enhance a subsidiary's ability to assert independence from headquarters by leveraging local resources and networks. This dynamic weakens headquarters' direct control, as Medcof (2001) and Ambos and Schlegelmilch (2007) note, and may empower the subsidiary to better chart its own strategic course. Internal embeddedness also facilitates the internal transfer and commercialization of newly developed knowledge within the MNE network (Garcia-Pont et al., 2009).

One of the key outcomes of deep local embeddedness is entrepreneurial initiative-taking. Subsidiaries that identify and act on opportunities within their local environment can develop distinctive capabilities that enhance their strategic importance within the MNE (Birkinshaw, 1999; Strutzenberger and Ambos, 2014; Ambos et al., 2023). Initiative-taking involves a sequential process, beginning with the recognition of opportunities and culminating in the allocation of headquarters' resources to bring those opportunities to fruition (Birkinshaw, 1997; Weng and Cheng, 2019). Dörrenbächer and Gammelgaard (2006) and Delany (2000) emphasize that such initiatives are pivotal to a subsidiary's development, as they may allow the unit to transition from a competence-exploiter to a competence-creator. Empirical evidence supports the particular importance of proactive initiative-taking. Studies by Birkinshaw (1997) and Ambos et al. (2010) reveal that subsidiaries that actively pursue strategic initiatives outperform their more passive

counterparts. Initiative-taking is not merely a mechanism for enhancing a subsidiary's role within the MNE but also a means of demonstrating its entrepreneurial potential. This, in turn, strengthens the subsidiary's bargaining power and strategic autonomy (Cantwell and Mudambi, 2005). Rich embeddedness and strategic initiative-taking can result in greater autonomy and influence within the MNE.

2.3. Levers of the subsidiary strategizing process: autonomy and influence

Strategic autonomy, defined as "*the decision-making rights that are* granted *by parent companies"* (Gammelgaard et al., 2012), is a cornerstone of subsidiary strategizing. Autonomy allows subsidiaries to exert greater influence within the MNE and pursue independent strategies that align with their local context (Ambos et al., 2011). Subsidiaries often operate within a dual framework: while they remain reliant on headquarters for critical resources such as funding and operational support, they also seek independence in their decision-making processes (Zellmer-Bruhn and Gibson, 2006). The balance between autonomy and control is inherently dynamic, evolving through a process of negotiation and adjustment. Ambos et al. (2011) describe this as a continual bargaining process, shaped by the shifting power dynamics between headquarters and subsidiaries. Some subsidiaries gain autonomy through explicit delegation from headquarters, while others assert it entrepreneurially by demonstrating their strategic value to the MNE (Birkinshaw et al., 1998; Cantwell and Mudambi, 2005). A tension between headquarters' control and subsidiary autonomy often hinges on the subsidiary's perceived alignment with MNE priorities. Headquarters may support subsidiaries that are seen as "*good citizens",* aligning closely with corporate objectives (Bouquet and Birkinshaw, 2008a). Conversely, subsidiaries that assert excessive independence, sometimes referred to as "*autonomous barons*" (Taggart, 1997), may face greater scrutiny and intervention from headquarters.

Gaining increased autonomy through enhanced strategic value to the MNE often arises from the generation and deployment of new knowledge and capabilities. Rather than treating knowledge flows as structural outcomes of a subsidiary's assigned role and mandate (see e.g., Gupta & Govindarajan, 2000), a process perspective highlights how such flows are enacted over time. In this view, embeddedness enables subsidiaries to access and combine knowledge, while initiative-taking (Birkinshaw, 1997) facilitates its transformation into new products and capabilities. Knowledge flows are thus understood as dynamically produced through managerial strategizing, rather than solely as antecedents or consequences of subsidiary roles.

However, competence-creating subsidiaries tend to be subject to less monitoring by headquarters and possess greater bargaining power and positive influence within the MNE. Their ability to leverage uniquely valuable capabilities and resources enhances their legitimacy and strategic standing, bolstering their influence (Bouquet and Birkinshaw, 2008b). Influence is defined as "*the capacity of a subsidiary to shape the decisions and actions of the corporate headquarters and other parts of the MNC"* (Bouquet and Birkinshaw, 2008b). Subsidiaries that effectively manage both technological and business-related resources for upgraded knowledge capabilities for product innovation have been found to achieve the highest levels of influence (Mudambi et al., 2014) and better strategic outcomes.

2.4. Strategic outcomes: innovation and survival

Knowledge accumulation is a key driver of subsidiary performance. By acquiring and leveraging new knowledge, subsidiaries not only improve their own capabilities but also contribute to the MNE's competitive advantage (Birkinshaw et al., 2005; Foss and Pedersen, 2002; Murray and Kotabe, 2005; Zeng et al., 2018). This process better aligns the subsidiary's objectives with those of the MNE, creating a mutually beneficial relationship. Effective subsidiary strategizing therefore leads to upgraded knowledge capabilities in the delivery of product innovation within the MNE thereby contributing to the organization's overall competitiveness. Competence-creating subsidiaries that successfully upgrade their knowledge capabilities often ascend to a strategic apex within the MNE's internal value chain, achieving higher-order mandates such as 'world product mandates' (White and Poynter, 1984) or 'centres of excellence' for product innovation (Holm and Pedersen, 2000; Frost et al., 2002).

Survival is ultimately a critical strategic outcome of being competence-creating. Subsidiary survival has been identified as a key measure of performance in recent meta studies (Meyer et al., 2020; Gundelach and Nielsen, 2023; Nguyen, 2024). However, the subsidiary's survival ultimately depends on headquarters' decisions. To enhance their survival prospects, subsidiaries must deliver value to the MNE through innovative products and processes that contribute to organizational success and sway headquarters' decisions in their favour (Delany, 2000; Cantwell and Mudambi, 2005). In summary, this study explores how competence-creating subsidiaries develop and enact strategy to upgrade their knowledge capabilities and generate advanced market offerings that sustain their strategic relevance within the MNE. We view these subsidiaries not merely as local implementers but as *strategic actors* that continuously interpret, adapt, and reconfigure their mandates through innovation and capability building. Such strategizing is crucial both for enhancing the subsidiary's contribution to the MNE and for ensuring its long-term viability within an increasingly competitive internal network. Accordingly, our central research question asks: *how do subsidiaries effectively strategize to develop and renew knowledge capabilities and advanced market offerings that underpin competence creation and strengthen their survival prospects within the MNE?*

3. Method

This study adopts a qualitative multi-case process research design to examine how foreign-owned subsidiaries in the Dublin financial services sector develop and enact strategy in becoming or remaining competence-creating units within MNEs. A qualitative process approach is particularly well suited to this research question, as it enables close examination of complex, temporally unfolding strategic processes and preserves the sequencing of actions, interpretations, and outcomes that are difficult to capture using variance-based methods (Eisenhardt, 1989; Miles and Huberman, 1994; Langley, 1999). It is especially appropriate for investigating

contextually embedded and evolving phenomena such as subsidiary strategizing, allowing for rich insights and contextualized explanations (Whetten, 1989; Welch et al., 2011, 2022).

Rather than seeking to generate theory from a blank slate, the study is designed as one of theory-guided mechanism integration and process modelling, synthesizing and temporally sequencing established constructs in the subsidiary strategy literature. Specifically, the research draws on prior work on subsidiary embeddedness, initiative-taking, autonomy, and influence to guide data collection and analysis, while remaining attentive to how these elements interact and evolve in practice over time. The contribution is positioned as providing a processual and mechanism-oriented account of subsidiary strategizing, complementing more static or structural treatments of subsidiary roles. By reconstructing sequences of managerial action, interpretation, and negotiation within and across cases, the study shows how recognized dimensions of subsidiary strategy combine dynamically to underpin competence creation and subsidiary survival. Consistent with this objective, the study draws on systematic combining as an analytical workflow (Dubois and Gadde, 2002, 2014), used descriptively to iteratively relate empirical material to relevant theoretical frameworks. Existing theory thus serves as a sensitizing and structuring framework throughout the research process, enabling focused inquiry into subsidiary strategizing and supporting the synthesis of an integrative process model grounded in rich empirical evidence.

3.1. Research context and setting

The Dublin financial services cluster provides a particularly revealing empirical setting for examining subsidiary strategizing within MNEs. The setting is characterized by a high concentration of foreign-owned subsidiaries operating within globally integrated financial networks, where strategic mandates are continually evaluated and reallocated by headquarters. Two features make the context especially suitable for this study. First, many subsidiaries located in Dublin have transitioned from relatively low-value operational roles to higher-value activities as competence-creating units that develop products and services tailored to international markets. Second, the survival imperative for subsidiaries in this sector is unusually high. In contrast to industries with high fixed investments, financial services operations are relatively mobile and inexpensive to relocate, meaning that subsidiaries must continually demonstrate strategic relevance to headquarters in order to retain and expand their mandates.

In less than four decades, Dublin has emerged as a significant European financial centre within a landscape traditionally dominated by hubs such as London, Frankfurt, and Zurich. Ireland's strategic position within the European Union, combined with a skilled English-speaking workforce and a favourable corporate tax environment, has enabled the country to develop specialized capabilities in areas such as fund management, aviation finance, and financial technology. By the end of 2023, Ireland hosted approximately 450 financial services firms employing around 47,000 people and contributing more than €6.4 billion in annual tax revenues (IDA Ireland, 2024; FIBI, 2024), with the majority of activity concentrated in Dublin. The cluster today includes international banks, asset and investment managers, insurers, aircraft leasing firms, fund administrators, and a rapidly expanding group of fintech, payments, and sustainable finance companies.

The development of Dublin's financial services sector reflects a combination of domestic policy initiatives and broader shifts in the global economy. During the 1980s and early 1990s, Irish industrial policy actively promoted financial services investment through a pro-business regulatory environment, access to the European single market, and the expansion of higher education programs in finance, accounting, and law that produced a pipeline of skilled professionals (Irish Funds, 2023). These developments coincided with the emergence of what has been termed a 'weightless' economy, in which high-value, knowledge intensive industries such as information technology and financial services became less constrained by geographic distance. As a result, MNE firms increasingly located service-oriented activities in Ireland, particularly in Dublin.

In its early stages, the International Financial Services Centre (IFSC) attracted relatively low-value activities such as back-office processing, fund administration, and treasury operations. Over time, however, MNE financial institutions progressively relocated more sophisticated functions to Dublin, including risk management, asset structuring, and investment banking activities (Central Bank

Table 1
Main areas of financial services activity in Dublin.

Fund Management and Administration
• 2nd largest fund domicile in Europe handling over 40% of the world's hedge fund assets Irish Funds. (2023)
Aviation Leasing
• Global leader in aircraft leasing, with more than half of the world's leased aircraft managed through Irish companies (Aviation Leasing Ireland, 2023)
Fintech & Payments
• Home to leading global players such as Stripe, PayPal, and Revolut.
Insurance & Reinsurance
• EU headquarters for several global insurance companies, including Zurich Insurance and AIG.
Banking & Treasury
• Dublin serves as a treasury hub for MNEs facilitating cash management, corporate banking, trade finance, and correspondent banking services.
Regulatory and Compliance Services
• Developed strong expertise in regulatory and compliance services, supporting firms in meeting EU and international financial regulations

of Ireland, 2020). Regulatory institutions also played an important role in facilitating this evolution. The Central Bank of Ireland developed regulatory frameworks that balanced oversight with openness to innovation, enabling firms to develop and manage increasingly complex financial products and services.

More recently, the United Kingdom's decision to leave the European Union further accelerated Dublin's development as a financial centre. In order to retain access to the EU single market, many international financial institutions relocated parts of their European operations from London to Dublin, bringing higher-value activities such as regulatory compliance, portfolio management, and trading functions (Luxembourg for Finance, 2021). This shift further strengthened the strategic importance of Dublin-based subsidiaries within MNE financial institutions.

Today, the cluster hosts several globally significant financial activities. Dublin is the second-largest fund domicile in Europe and the third largest globally, with approximately €4.1 trillion in assets under management and responsibility for more than 40 percent of global hedge fund assets (Irish Funds, 2023). The city is also the world's leading centre for aircraft leasing, with more than half of the global leased aircraft fleet managed through Irish-based companies (Aviation Leasing Ireland, 2023).

These structural characteristics make Dublin an analytically rich context for examining subsidiary strategizing (see Table 1). The sector's outward orientation, tax-driven foreign investment model, and strong dependence on MNE headquarters create conditions in which subsidiaries are particularly sensitive to mandate erosion, relocation, or withdrawal. High operational mobility and intensified competition among European financial centres following Brexit reinforce the importance of embeddedness, initiative-taking, autonomy, and influence as mechanisms through which subsidiaries actively secure strategic relevance within their MNE networks. While these mechanisms are likely to operate across many MNE contexts, their salience and sequencing may vary across industries and institutional environments. The Dublin financial services cluster therefore provides a theoretically informative setting for observing how subsidiaries actively strategize to sustain competence-creating roles within the MNE.

4. Data collection

Secondary data was initially collected to build a comprehensive picture of the research context of the Dublin financial services sector. Archival data such as media articles, industry and company reports, company and sectoral websites were searched to build a strong contextual foundation across a range of diverse financial service activities. Furthermore, such groundwork was a vital part of preparation for the primary interviews, allowing for a seamless and productive conversation without interruptions caused by any

Table 2
Interview list.

Participant	Area of Activity	Year of Establishment	Role	Duration (min)
P1	Fund Management	1998	Head of Trading	55
P2	Wealth Management	2014	CRO	72
P3	Payments	2004	CEO	63
P4	Financial Consultants	1982	CEO	73
P5	Asset Management	1994	CEO	85
P6	Capital Markets	1998	CEO	70
P7	Corporate Banking	1965	CEO	50
P8	Corporate Banking	1993	CEO	65
P9	Corporate Banking	1968	CRO	38
P10	Fund Management	1997	CEO	92
P11	Wealth Management	2003	CEO	35
P12	Corporate Banking	1994	CEO	110
P13	Wealth Management	2016	CFO	67
P14	Aviation Leasing	2012	CFO	70
P15	Payments	2010	CTO	65
P16	Fund Management	2000	CRO	55
P17	Capital Markets	1994	Head of Trading	48
P18	Capital Markets	1998	Head of Trading	67
P19	Fund Management	2003	CRO	60
P20	Corporate Banking	1973	CEO	45
P21	Aviation Leasing	2014	CFO	68
P22	Asset Management	1995	CEO	30
P23	Corporate Banking	1975	CFO	45
P24	Capital Markets	2016	CEO	47
P25	Financial Markets	2002	CEO	42
P26	Asset Management	2014	CEO	52
P27	Fund Management	2003	CEO	40
P28	Fund Management	2002	CEO	42
P29	Financial Markets	2015	CEO	72
P30	Fund Management	1996	CIO	55
P31*	Retail Banking	1972	CFO	88
P32*	Aviation Leasing	2001	CFO	32
P33*	Wealth management	1994	CFO	41
P34*	Corporate Banking	1986	CMO	35

reasonably avoidable lack of industry or company knowledge.

The primary research specifically focused on foreign-owned financial institutions operating under a license regulated by the Central Bank of Ireland and purposely excluded representative offices or boilerplate entities that lacked independent strategic decision-making duties. After thorough screening all of the final study population of competence-creating subsidiaries witnessed notable augmentation and upgrading in their mandates, with some achieving substantial mandate expansion for product innovation within their respective organizations. To ensure meaningful insights into subsidiary strategy process, only organizations with an established operational presence of at least seven years in Ireland were included. This time frame was deemed sufficient to observe the evolution and implementation of strategic decision-making within relevant subsidiaries. Additionally, participants were limited to executive subsidiary managers, reflecting their direct involvement in strategy development. In cases where executive-titled roles did not exist, as was observed in two capital markets' firms and one fund management firm, the 'head of trading' position was considered appropriate.

The interviews for this study were arranged using a combination of pre-existing industry connections and referrals through a snowball sampling approach. Given the challenges associated with cold-calling, as noted by Easterby-Smith et al. (2012), the personal availability of senior management was crucial. Initial email outreach to 44 potential participants resulted in 34 successful interviews with executive subsidiary managers. This approach ensured a broad participant pool and a comprehensive representation of organizations and perspectives. In line with Ghauri (2004), it was essential that the selected participants were central to the decision-making processes within their organizations.

As per Glaser and Strauss (1967) and Guest et al. (2006), saturation was reached circa the 25th interview when additional data collection failed to yield new themes or insights, indicating that the conceptual categories were sufficiently developed to support theoretical claims. Regardless, the remaining interviews proceeded to verify this outcome and because they had already been scheduled.

The study employed a purposive sampling approach, selecting 44 foreign owned institutions that explicitly met the criterion of being competence-creating subsidiaries. This ensured that the sample aligned directly with the research focus on how competence-creating subsidiaries strategize. Within these organizations, in-depth semi-structured interviews were conducted to capture detailed insights into the processes, practices, and managerial perspectives underpinning subsidiary strategy. The purposive design allowed for the deliberate targeting of cases most relevant to the theoretical objectives, rather than aiming for statistical representativeness. Thirty-four subsidiary units were initially assessed against the competence-creating classification criteria. Four were subsequently excluded because they did not satisfy the inclusion criteria, leaving a final sample of 30 competence-creating subsidiaries for analysis (Table 2).

In operationalizing competence-creating subsidiaries, we adopted a multi-criteria classification approach informed by prior research on subsidiary roles, mandate development, and competence creation. Given that innovation in financial services is typically expressed through incremental financial engineering, process innovation, regulatory solutions, and knowledge recombination rather than patenting or discrete product breakthroughs, competence creation was assessed through a combination of organizational, strategic, and innovation-related indicators. Rather than relying on a single indicator, subsidiaries were classified using a multi-criteria approach based on independently verifiable evidence of capability development and strategic upgrading (see Appendix A). To be included in the final sample, subsidiaries were required to satisfy at least three of the following four criteria:

1. Demonstrated mandate expansion beyond the original assigned role, evidenced by the addition of higher-value activities, expanded decision rights, or responsibility for new business lines.
2. Sustained involvement in product, process, regulatory, or service innovation over time, rather than one-off innovations.
3. Internal recognition within the MNE as a source of expertise, innovation, or capability development, including designation as a centre of excellence, product hub, specialist competence centre, or similar role.
4. Participation in cross-unit initiatives involving the transfer, development, or commercialization of knowledge across multiple units within the MNE network.

To strengthen the credibility, depth and construct validity of this research, a triangulated research design was employed, integrating multiple sources in line with established qualitative research best practices (Denzin, 1978; Patton, 1999; Nielsen et al., 2020). While the core data consisted of semi-structured interviews with subsidiary executives, these insights were systematically cross validated against archival sources, including industry reports, media publications, company records, and publicly available regulatory materials. Recognizing that much of the underlying material remains confidential, we offer three representative media articles that mirror the perspectives shared by interviewees in Table 3.

Three pilot interviews were conducted to enhance the quality of the research design and ensure the relevance of the research questions (Saunders et al., 2023). These pilot interviews served to test the conceptual subsidiary strategy process model and assess its coherence and applicability. The outcomes of these interviews were positive confirming that the research approach was deemed to be robust. This strong early validation exercise allowed the study to proceed to the full-scale data collection phase. The 34 interviews took place over a four-month period from July to October 2023. With the participants' consent, each interview was recorded and then transcribed using Otter.AI, a speech-to-text transcription software. The transcriptions were reviewed and edited to correct any errors made by the software. Following this, data reduction was carried out to extract the most pertinent information and eliminate any unnecessary details (Patton, 2002) (Table 3).

In advance of the interviews, each participant was informed of the research context via email. The interview schedule was then carefully crafted to balance structure and flexibility (See Appendix B for topics' content and questions). These semi-structured interviews allowed for a guided yet adaptable approach to data collection (Yin, 2003). This format enabled essential topics to be covered

Table 3
Primary data quotes and secondary data evidence.

Primary Data Quote	Secondary Data Evidence
The tax rate helps a lot, it is an extremely powerful incentive.	**US banks plan ahead for Uk exit from EU** "But Ireland's attractions for US banks include its low corporate tax rate, English speaking population, English-style legal system and eurozone membership" *(Source:*https://www.ft.com/content/9b555ed6-25f1-11e4-8bb5-00144feabdc0*)*
Our business has grown massively, and this ecosystem is very advantageous for us.	**Half of the top 5o world banks located in Ireland** "The key factors behind this success include the fiscal environment, the European standard regulatory regime (in particular the passporting regime), a relatively low cost base and a strong business infrastructure relating to international insurance and reinsurance." *(Source:* https://www.businessworld.ie/news-from-ireland/Half-of-the-top-50-World-banks-located-in-Ireland-563458.html*)*
We got closer to HQ management when they visited by having them meet government ministers, agencies and the like, which showed them that we could get things done here.	**Assets in Ireland-domiciled ETFs top €1tn for first time** "Ireland already has strong regulatory frameworks in place, and with clear government and industry support, we expect this market to continue its growth trajectory." *(Source:* https://www.ft.com/content/440a8e47-9571-425a-a080-a3487e16009c*)*

consistently across interviews while also permitting exploration of new insights and to delve and probe deeper into areas of particular interest as they emerged during the conversation (Bryman, 2016). Three ice-breaker questions were included at the beginning of each interview. These questions were designed to help participants settle and establish some early rapport with between the interviewer and interviewee. The ice-breaker questions were: "How long has the company been operating in Ireland?", "Can you tell me a bit about your role and how long you have been with the company?", "How did you end up in the financial services sector?". These questions not only helped to ease participants into the interview but also provided valuable about their backgrounds and perspectives, which was helpful in later understanding their responses to the more in-depth questions (Easterby-Smith et al., 2012). In addition to the ice-breaker questions, the interview schedule included a series of open-ended questions specifically designed to explore the holistic nature of the subsidiary strategy process model. These questions were crafted to elicit detailed and reflective responses, encouraging participants to share their experiences and insights in depth. Overly academic terminology, such as 'local embeddedness' was replaced with more familiar business language to ensure greater compatibility with the interviewees (Saunders et al., 2023).

4.1. Data analysis

Our data analysis followed a multistage process that integrated systematic coding with processual theorizing. The analysis combined the structured rigor of the Gioia method in data organization (Gioia et al., 2013) with the temporal and processual sensitivity of longitudinal process analysis (Langley, 1999; Langley et al., 2013), ensuring analytical coherence across multiple case studies.

Specifically, our data analysis follows a theory-guided qualitative process approach, aimed at synthesizing and temporally sequencing existing subsidiary strategy constructs through detailed empirical examination of how strategizing unfolds over time. Rather than seeking to generate theory de novo, the study is designed to connect and temporally sequence well-established concepts, embeddedness, initiative-taking, autonomy, and influence, within a coherent process model of competence-creating subsidiary strategy. We draw on systematic combining as an analytical workflow for iteratively relating empirical material and existing theory (Dubois and Gadde, 2002, 2014). Prior research on subsidiary roles and evolution informed the initial sensitizing concepts and the interview design, enabling focused data collection around recognized dimensions of subsidiary strategizing. The purpose was not to unsettle, displace, or extend these constructs, but to examine how they interact, reinforce one another, and unfold dynamically in practice.

Data analysis proceeded in three interrelated stages. First, interview transcripts and supplementary materials were systematically organized and coded using NVivo. Manual open and axial coding generated first-order concepts that were progressively aggregated into second-order categories corresponding to the four core constructs identified in the literature. This structured coding served primarily as a data-organization device, rather than a vehicle for inductive theorizing, ensuring analytical transparency and cross-case comparability. Second, we developed within-case process narratives for each subsidiary, tracing strategic trajectories, key decisions, and turning points over time. This narrative process analysis enabled us to preserve temporal ordering and to identify how embeddedness, initiatives, autonomy, and influence co-evolved within each case. Particular attention was paid to sequencing, feedback effects, and recursive dynamics, consistent with process theorizing in strategy research (Langley, 1999; Langley et al., 2013). Third, we conducted iterative cross-case comparisons, identifying recurrent patterns as well as meaningful variation in how subsidiaries enacted their strategizing processes. Through this comparative synthesis, we refined an integrative process model that connects existing constructs into a dynamic, mechanism-based explanation of competence creation. We further linked this to improved prospects for subsidiary survival. Throughout this stage, ongoing engagement with prior literature supported theoretical elaboration by clarifying boundary conditions, strengthening construct linkages, and sharpening conceptual distinctions.

Fig. 1 summarizes the analytical workflow underpinning this study, illustrating the iterative analytical pathway through which qualitative data were organized, analyzed, and integrated. The process began with systematic data structuring and manual coding

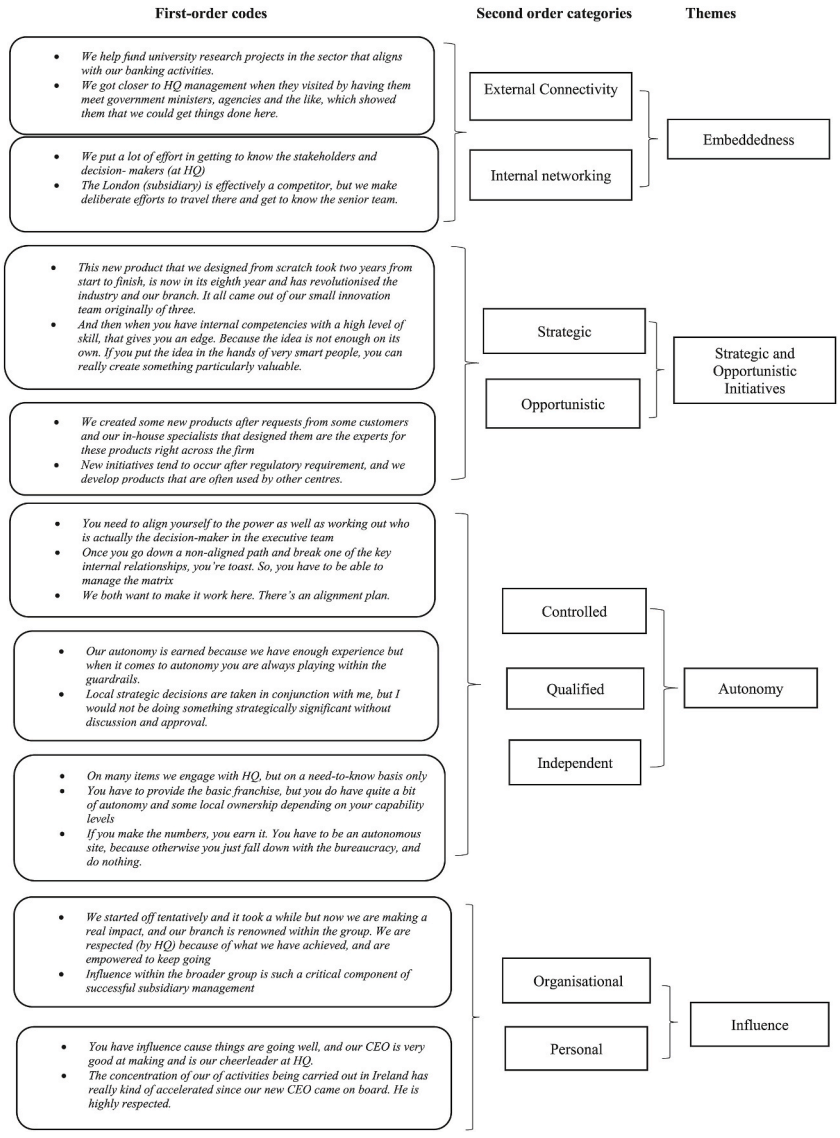

Fig. 1. Key concepts and their empirical basis.

(open and axial) to surface first-order concepts, followed by the aggregation of second-order themes through continuous comparison across cases. These emergent categories were subsequently integrated within a process-narrative framework, combining systematic data organization and coding with within-case narrative construction and cross-case comparison to reconstruct the dominant sequences through which strategic actions unfolded over time.

Iterative engagement between empirical material and theoretical framing (Dubois and Gadde, 2002, 2014; Van Maanen et al., 2007) enabled the successive development of the final process model. Importantly, the figure represents a theory-guided, integrative analytical workflow, rather than an abductive inferential logic based on empirical surprise. The resulting model does not introduce new core constructs. Instead, it synthesizes and temporally sequences established elements of subsidiary strategy to specify how they operate together over time, offering a processual and mechanism-oriented complement to prior structural or static treatments.

4.2. Stage 1: Systematic data Structuring and coding

In line with Pettigrew's (1990) recommendation to impose structure on complex qualitative datasets, we began by systematically organizing and managing the interview data and accompanying materials. All interviews were transcribed immediately after completion and imported from Otter AI into NVivo qualitative analysis software. Supplementary materials, including media articles, company website content, and researcher observation notes, were integrated into comprehensive case files to facilitate within-case depth and cross-case comparability (Eisenhardt and Graebner, 2007). We recognize that the Gioia data structure is most commonly

associated with inductive case research; however, in this study it is used primarily as an organizing framework to present the final data structure, rather than as a primary instrument for theory generation.

To ensure analytical rigor, we employed an iterative coding approach consistent with theory-guided qualitative analysis. During the initial open and axial coding stages, relevant quotations were manually coded and assigned to nodes representing emergent concepts, fostering close engagement with the data and enabling the identification of nuanced patterns within and across cases. First-order codes were derived from informant statements, preserving participants' language wherever possible, but were not treated as fixed labels. Instead, they were revisited as additional interviews were conducted and within-case narratives were developed. Through constant comparison across interviews and supporting documents, codes were merged, refined, split, or reinterpreted as their meaning became clearer across cases. Through successive coding iterations, first-order concepts were distilled into second-order categories and ultimately aggregated into four overarching themes, embeddedness, initiatives, autonomy, and influence, that capture the core dimensions of the subsidiary strategy process. Second-order themes emerged through sustained comparison of how similar practices and decisions unfolded across subsidiaries over time, revealing recurring patterns in subsidiary strategizing. This iterative movement between empirical material, emerging process narratives, and relevant theoretical frameworks enabled the progressive refinement of the data structure and ensured that the resulting analytical framework transparently links the empirical evidence to the conceptual model developed in this study (Magnani and Gioia, 2023).

4.3. Stage 2: Process and narrative analysis

The second stage employed a narrative process approach to uncover the dynamic and temporal mechanisms underpinning subsidiary strategizing (Langley, 1999; Pollock and Bono, 2013; Haley and Boje, 2014). For each case, we developed theoretically informed narratives that reconstructed the subsidiary's strategic evolution, highlighting key decisions, turning points, and episodes of change as described by interviewees. Drawing on the interview data compiled in the research dossier, this approach enabled us to reconstruct how strategy was enacted, adapted, and reinterpreted over time within broader organizational and environmental contexts (Buttriss and Wilkinson, 2006; Ragins, 2012). These retrospective accounts provided by subsidiary managers illuminated the strategic trajectories of their units, revealing critical junctures and shifts that shaped their development. This process-focused lens allowed us to reconstruct the sequence of events and situate them within their unfolding context, offering a rich understanding of the mechanisms driving strategic change. Through the combination of narrative and interpretive analysis, we distilled theoretically generalizable patterns and synthesized them into a contextualized explanation of the subsidiary strategy process (Welch et al., 2011).

The multi-case design facilitated recursive comparison across cases, enabling the identification of both convergent and divergent pathways in subsidiary strategy development (Eisenhardt, 1989; Boswell et al., 2019). Through iterative cross-case analysis, we examined how similarities and differences in autonomy, embeddedness, and local initiative-taking shaped the evolution of subsidiary strategic roles and their capacity to respond to external complexity. Throughout the analysis, the research team engaged in reflexive cycles of theorizing, repeatedly revisiting the data in light of emerging insights and evolving conceptual framings (Lincoln and Guba, 1985; Silverman, 2013; Grodal et al., 2021). These iterative engagements between empirical material and theory produced a deeper, theoretically grounded understanding of subsidiary strategizing as a dynamic and contextually embedded process. Narrative accounts were further validated through team discussions, iterative refinement of event sequences, and triangulation of interview data with secondary sources.

Ultimately, our data analytical process culminated in the development of a process model of subsidiary strategy, which integrates within- and cross-case insights into a coherent theoretical explanation of how subsidiaries interpret, negotiate, and reshape their strategic roles within complex MNE structures.

5. Findings

Fig. 2 summarizes the organization and structuring of our data through systematic axial coding. It presents the final data structure as an analytical summary of the coding outcomes, rather than a chronological representation of the iterative coding process. A total of 73 nodes were initially created and organized hierarchically to reflect the relationships between different concepts. To refine the coding framework, nodes with overlapping meanings were merged. For instance, 'internal relationship building' and 'internal networking' were combined, as were 'ambition of the subsidiary management team' and 'motivation of subsidiary management'. This iterative process resulted in 50 distinct first-order nodes. These nodes were then coded through NVivo for broader patterns and relationships, yielding 9 s-order conceptual categories. The coding process resulted in our representation of four key themes: the strategic stems of embeddedness and initiatives and the strategic levers of autonomy and influence. These primary themes serve as the central foundational components of the subsidiary strategy process where dynamic, interconnected and recursive elements are now presented in a narrative structure.

5.1. Scaffolding the subsidiary strategy process

The initial assigned role from headquarters ranges from basic competence-exploitation in simply adhering to basic headquarters' edicts, to competence-creation as almost independent local market operators with novel customized product offerings. On the former assigned role, several interviewees emphasized in their earliest existence that their subsidiaries originally were part of a hierarchical MNE structure with restricted autonomy over its assigned role and activities. The mandates allocated to the Dublin teams varied significantly in complexity. Some encompassed fundamental back-office operations and conventional corporate banking activities,

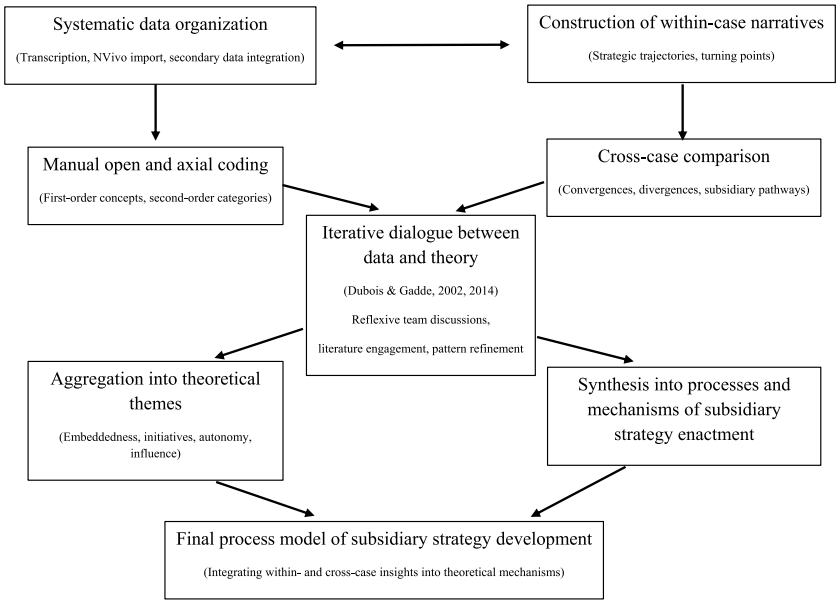

Fig. 2. Workflow for theory-elaborating multi-case process analysis.

wherein resources were directly leveraged from headquarters. In contrast, other mandates involved the provision of complex financial products and services, including aircraft leasing, structured tax solutions, derivative trading, and sophisticated market-making activities. The former basic competence exploitation circumstance relegated those subsidiaries to the bottom of the internal MNE value chain in simply fulfilling basic mandates. In time, the subsidiary managers actively lobbied for a greater degree of operational and strategic latitude, highlighting their identified requirement for a more '*hands-off*' approach from headquarters to deliver on their mandates. The strategic intent was to earn an upgraded role as or for competence creation in the MNE.

You are constantly trying to pull in higher value roles as the group (HQ) will switch you off if they need to.

We lobbied HQ for value added activities in order to grow.

The local environmental context was strongly considered by all study participants to provide unique opportunities that were crucial, particularly in shaping the early operational and developmental trajectories of these financial subsidiaries resulting in mandate accretion.

The arrival of financial services subsidiaries in Dublin commenced in earnest during the 1980s and was primarily facilitated by the introduction of favourable tax policies by the Irish government which incentivized FDI. This led to a significant proliferation of subsidiaries within the financial services sector. Ireland's attractive low-tax regime continues to play a key role in the magnetism of the Dublin location for financial services MNEs.

A large part of the reason we went into Ireland 30 years ago was because of the 10% tax rate.

The tax rate helps a lot, it is an extremely powerful incentive.

The appeal of the local ecosystem is moreover considered by these subsidiary managers to be a consequence of a wider set of inducements, including a well-educated local workforce with vanguard financial, legal and ICT skills, a supportive business-friendly immigration policy, generous government grants and incentives for inward invested awarded through the Industrial Development Authority (IDA) and the presence of a stable regulatory framework for financial and banking services.

The local (Dublin) ecosystem is key to our unit's success.

Our business has grown massively, and this ecosystem is very advantageous for us.

While the local environment provides numerous advantages for these subsidiary units, it is ultimately the strategic choices made by subsidiary managers that best leverage these competitive business conditions. During the initial stages of establishment, subsidiary management typically faced constrained strategic choice due to limited operational mandates and a narrow scope of influence within the MNE. However, the subsidiary managers were rapidly motivated to overcome the limitations of their resources and strategically chose to leverage their entrepreneurial potential.

We saw the opportunities the ecosystem offered and made conscious efforts and actions to grow the Irish unit and make the difficult decisions that are required.

We started going after value-add business that offered solutions and not the easy generic stuff.

There was a vivid realization that if the unit's mandate did not expand, the future of the local subsidiary could be compromised. For example, some study participants noted how historically the early-stage subsidiary managers that came before them had faced the reallocation of their low-value mandate to cheaper cost centres (mainly Eastern European countries) in the mid to late 1990s. This threat motivated them to strategically choose to develop and upgrade their capability base and successfully lobby headquarters for higher value-added mandates to improve their respective subsidiary units' positions.

> *The CEO at the time recognized that Ireland was merely a cost centre and therefore vulnerable to Eastern European countries. He was the one introduced higher value add business lines.*

> *The branch was only a transactional cost centre, and we lobbied hard internally for more value-added products. This was the turning point for us.*

Fundamental strategic choices and decisions on upgrading knowledge capabilities and product offerings for the market denoted the extent of dual embeddedness in both internal MNE relationships and with external local actors and strategic initiative-taking.

5.2. Subsidiary strategy stems: dual embeddedness and initiative-taking

Our study demonstrates that dual embeddedness is a multifaceted and intricate process that motivates deep levels of intentional strategic planning and intensive efforts. Establishing internal networks with headquarters and sister subsidiaries was identified as a foundational activity that subsidiary managers encouraged their teams to prioritize. The motive for this was calculatedly uniform: focus on building relationships with the strategic intention that such connections could be leveraged for future opportunities and resource acquisition. In the early days of the subsidiary's development, managers organized regular visits to headquarters to lobby for further work and growth opportunities and diplomatically draw attention to the subsidiary's successful performance especially in exceeding targets. The successful subsidiary managers are highly adept at diplomacy and politicking with headquarters.

> *We put a lot of effort in getting to know the stakeholders and decision-makers (at HQ) ….You need to align yourself to the power as well as working out who is actually the decision-maker in the executive team …..You have to know the right people and build positive engagement and interaction with, and you need these relationships to get things done.*

> *This required investing in relationships, building your entity as a credible location and making your voice heard. You had to find a voice, be a little pushy but retain your likeability. If you are (simply) a noisy entity, you get no investment.*

Managers were also deliberately specific in targeting the key decision-makers at headquarters. One subsidiary CEO recounted how ahead of a group congregation at headquarters, she had instructed her team to use every opportunity to engage with senior management rather than mix with each other. This CEO had even created a ‘scorecard system’ where she matched her team with the headquarters managers' with which she felt they would best relate.

> *I told my team in no uncertain terms that I didn’t want to catch them hanging out together. Breakfast, lunch, dinner and break times were to be used for networking. The scorecard system was developed as an incentive.*

Besides headquarters relations there were interactions with sister subsidiaries in the internal MNE network. Nearly all the subsidiaries in this study operate in the shadow of a larger and better-resourced sister subsidiary located in London's alpha financial services hub. The Dublin subsidiary managers deemed it essential to cultivate robust relationships with these larger corporate counterparts despite evidential competitive threats. There is also evidence of coopetition in cross-subsidiary internal relations.

> *The London (subsidiary) office is effectively a competitor, but we make deliberate efforts to travel there and get to know the senior team.*

> *London was a threat with better capabilities and deeper expertise, but we went out of our way to build relationships and included them in our decision-making in order to keep them on side. It worked. We have a seat at the top table now and considering our size, we should probably not be there.*

> *They (sister subsidiary) were very structured in how they did things, but they didn’t think outside the box. It became clear that Dublin was the more dynamic trading desk.*

In addition to the creation of a notable presence within the internal MNE network, the development and embedding of relationships with business and non-business actors in the local ecosystem was also a fundamental strategic step for these subsidiary managers. This primarily included vertical engagement with local customers. For the preponderance of the subsidiaries, product innovation first started through customer relationships. Clients demands for innovative product offerings and solutions grew as relations evolved, and the study subsidiaries were usually able to fulfil their needs. Some subsidiaries strategized to upgrade their knowledge activities around more complex product offerings. For example, one subsidiary CEO highlighted its deliberate business model transition from a team of product generalists to highly skilled product specialists to better serve the increasingly complex requirements of the local market. This proved even more rewarding when the new products they had developed were then adopted across the entire MNE organization and this Irish subsidiary became the designated in-house product category experts.

> *We created some new products after requests from some customers and our in-house specialists that designed them are the experts for these products right across the firm.*

Horizontal external engagements occurred principally with government, state enterprise agencies for economic development and

local universities' business schools (of which there are five in the greater Dublin city region).

The first thing you do is get to know everyone and everything. That is non-negotiable.

I know the Minister, industry lobby groups, the client base and I have research links with the universities. It's in my interests to know all these players and that they know that we know who they are.

Ireland is a small country and Dublin a mid-sized capital city where access to people and institutions can be easier than in many larger countries. When headquarters management of one subsidiary visited Ireland, significant efforts were made to impress them. This included the Irish subsidiary arranging introductions to senior government members and officials to demonstrate the subsidiary's access to high-level power that could impact supports, policy-making and regulatory activities.

We got closer to HQ management when they visited by having them meet government ministers, agencies and the like, which showed them that we could get things done here.

The subsidiaries in our study have approached their linkages with universities in a variety of ways. Some have research links through joint research projects around more complex product offerings.

We help fund university research projects in the sector that aligns with our banking activities.

Others are involved in expanding the local banking and finance talent pool and skills development. For instance, one subsidiary collaborated with a local university to develop a curriculum tailored specifically to its operational requirements, enabling the firm to hire interns who became pre-integrated into its organizational and business processes and future recruits.

We are working in conjunction with one of the universities and even align a module with our business. We take in 50 to 60 interns a year direct from the university. That has been hugely successful.

Dual embeddedness for these study subsidiaries operated in tandem with initiative-taking, both opportunistic and strategic. Several study participants recounted that early-stage initiatives were often opportunistically emergent and were predominantly a reaction to the requirements of the customer base or indeed the regulator:

We built some niche tax businesses that aren't really worked on that much elsewhere, but we did it about a year before Brexit happened and it became a big deal across the (MNE) network.

New initiatives tend to occur after regulatory requirement, and we develop products that are often used by other centres.

The strategic intent of initiatives advanced over time. Examples of diverse strategic initiatives exhibited across study subsidiaries included innovative utilization of tax strategies, the development of new products driven by regulatory requirements and the introduction of new products inspired by interactions with, and custom designed for European-headquartered MNEs based in Dublin.

Our study further reveals that subsidiary managers are willing to take even more calculated risks in their pursuit of ever more ambitious entrepreneurial initiatives once they have achieved a certain track record for strong performance and a level of internal MNE success. For instance, one subsidiary with a strong track record purely in local market service upgraded its value chain activities when it independently established and self-financed a dedicated innovation team originally comprising only of three individuals.

This new product that we designed from scratch took two years from start to finish, is now in its eighth year and has revolutionized the industry and our branch. It all came out of our small innovation team originally of three.

Strategic initiative-taking often stems from the success outcomes of previous initiatives. Inevitably however, strategic initiatives are not universally successful. An experienced manager noted that she was fortunate that one failed initiative had not been the first such strategic move by her subsidiary. A previous successful initiative had ensured that some credibility had been accumulated by the subsidiary. The subsidiary used this failure experience to circle back, take stock and then later take further initiatives. In time it went on to develop three centres of excellence (CoE) at its Dublin site.

5.3. Subsidiary strategy levers: autonomy and influence

In our study, the development of subsidiary embeddedness and initiative-taking were seen, across time, to amass greater autonomy and influence. This eventually afforded these study subsidiaries the levers to possess the knowledge capabilities for being competence-creating. However, low levels of autonomy were common in the early life stages of the subsidiary. Several subsidiary managers recounted how they or their predecessors were originally conscious not to injuriously depart from headquarters' edicts and respondents commonly acknowledged that alignment with headquarters' strategic vision and acceptance of headquarters' absolute control was of paramount importance for their early survival prospects.

At the end of the day power rests with corporate HQ. One can talk about being independent and autonomous, and having influence but actually the reality is that we are at the mercy of HQ.

They (HQ) want to know that you have control of the situation, so my role is having a plan that makes everything run smoothly that is in alignment with HQ.

Once you go down a non-aligned path and break one of the key internal relationships, you're toast. So, you have to be able to manage the matrix.

But for many managers excessive headquarters' attention, monitoring and control became problematic and commonly came to be seen to cause strategic inertia in their respective subsidiaries:

We (had) a constant stream of executive members of the board here and there (was) a sense as to this constant movement of senior people coming in checking and having a little look.

If our people are just executing, and everything is bureaucratic, then decision making becomes lax.

If governance is perceived as "I tell you what to do, when to do it, and so on", you're killing your business, because you're killing your opportunity from the location where you wanted to establish your business in the first place. You know, that's doesn't make any sense.

Increased autonomy would, they recounted, enable their units to operate at a higher level of performance and better contribute to the MNE's bottom line. Most managers worked to balance strategic and organizational alignment with some operational independence that would enable them to foster an entrepreneurial spirit within their unit. Autonomy increased as the subsidiaries began to design new solutions with their client base and headquarters, in response, granted the subsidiaries the latitude to exercise creativity, expand their capabilities, and spearhead their product innovations. Some of these strategic initiatives were originally concealed from headquarters. The quantum of autonomy sought and granted across the study population was not uniform. For some even high levels of autonomy were qualified and came with headquarters' guardrails.

Our autonomy is earned because we have enough experience, but when it comes to autonomy you are always playing within the guardrails …..On many items we engage with HQ, but on a need-to-know basis only.

We have a huge amount of autonomy that was both earned and assumed from prior performance and profile, but all the big stuff requires HQ approval.

Local strategic decisions are taken in conjunction with me, but I would not be doing something strategically significant without discussion and approval.

Largely, study participants reported that the greater the extent of freedom they were allowed the more the subsidiary added to the organization's competitive advantage through new product creation. Greater autonomy, whether granted or concealed, also provides subsidiary managers with wider strategic choice and decisions over actions such as talent acquisition, resource allocation, and the creation and expansion of relations with local stakeholders.

We had delegated authority, and with it, we could do a lot within our own little fiefdom

If you make the numbers, you earn it. You have to be an autonomous site, because otherwise you just fall down with the bureaucracy, and do nothing.

The power to shape internal corporate-level decision-making processes depends on the value the subsidiary brings to the MNE. The important contribution of product innovation to the MNE's competitive advantage and profitability gains increased influence for these subsidiaries. Influence for these subsidiaries provides a stronger voice to better sell initiatives, request resources, lobby for greater autonomy, and ultimately contribute to the strategic direction of the MNE in a virtuous cycle.

It's not (just)a matter of power, it's a matter of value. If you create value for the organization, then by definition you create power for your subsidiary within the firm.

Respondents stressed that the ability to impact decision-making at headquarters greatly increased after their subsidiary initially demonstrated a substantial monetary contribution to the MNEs overall performance but later more so from the generation of creative product solutions by highly skilled employees. Any such successful accomplishments needed to be promoted internally. Respondents frequently emphasized the particular importance of having an influential subsidiary CEO who is dynamic, well-connected, and adept at lobbying headquarters while deftly championing the subsidiary's accomplishments.

You have influence cause things are going well and our CEO is very good at making connections and is our cheerleader at HQ.

As CEO I'm always trying to make sure that Dublin is a viable part of the business.

Once a high degree of influence was established, subsidiary managers felt increasingly comfortable in requesting or assuming additional autonomy to deepen their local embeddedness and further explore their entrepreneurial initiatives, thereby activating the recursive dynamics of the strategizing process.

5.4. Strategic outcomes: assumed role and improved survival prospects

Our research highlights that, over time, many of these subsidiaries developed strategic competencies that facilitated significant expansions of their charters, and an assumed competence-creating role that positioned them as important contributors of market growth and product innovation within their organizations.

Our mandate now bears no resemblance to the original setup.

We started off tentatively and it took a while but now we are making a real impact, and our branch is renowned within the group. We are respected (by HQ) because of what we have achieved, and are empowered to keep going

The strategy process undertaken by these subsidiaries has put them in a position where they have become an integral and more indispensable cog in the MNE machine. Survival is never a guarantee. However, increased internal importance as a competence-creating subsidiary with a product innovation capability is shown to be positively associated with improved survival prospects. As an example, one subsidiary that had originally been set up simply for tax reasons and offered basic commercial banking products observed an increase in demand from MNE clientele co-located in Dublin for more complex banking services that headquarters specialized in. The subsidiary took the opportunity to harness the parent's expertise in this specialized field and expand their local market activity. It took the initiative to seek additional resources from headquarters to expand their operational scope in these more complex product offerings to MNEs in the local market. In the space of a few years, the subsidiary was able to accrue substantial expertise and subsequently position itself as the market leader locally. Increased autonomy was granted, and greater accumulated influence enabled the subsidiary units to further deepen its local embeddedness and independently take initiatives to introduce even more new products in a virtuous feedback loop system. They selectively hired skilled employees that would have previously been considered too expensive, built up their interdependency with their locally based hi-tech MNE clients and this led to the development of two innovative new products. These were initially trialed locally then across all this bank's international markets. The successful introduction of these products demonstrated the subsidiary's innovation and capability to headquarters. In time this subsidiary was designated by headquarters as a CoE for new product innovation within the MNE. This later expanded to three locally based CoEs.

The CoE for this particular product would usually reside in head office but we have that here in Dublin and we've managed to build it up because of our investment in skilled employees and knowing all the players in the market here. We have three CoEs here now.

In another success example, one now large subsidiary internally prevailed over 5 sister subsidiaries to become a global hub for artificial intelligence in financial services within its MNE. Management put their subsidiary's success in attracting such an important mandate down to their previous track record, attraction of high-skilled technical employees and local government incentives.

To complement the cross-case analysis and make the underlying process dynamics more transparent, Table 4 presents two

Table 4
Representative process vignettes of competence-creating subsidiary strategizing.

Vignette A – Incremental Capability Building Trajectory - From Tax Outpost to Competence Creator
Subsidiary A began in Dublin as a small booking centre established for fiscal and administrative reasons. With minimal local discretion, its initial mandate centred on routine processing rather than innovation. Still, early in its development, local managers identified emerging opportunities in two specialized global product domains and initiated a campaign to secure resources from headquarters to build capability in these areas. Their lobbying yielded limited autonomy at first, but it enabled the subsidiary to hire a small cohort of specialists from Dublin's financial and technology labour markets.
These first hires allowed the unit to establish early embeddedness with Irish regulators, universities, and multinational clients. As these relationships deepened, the subsidiary gained enhanced credibility within the corporate network, prompting headquarters to release greater autonomy and additional investment. This created the first recursive loop of our model: early initiative produced initial embeddedness, which yielded additional autonomy and expanded influence. This extended the subsidiary's scope for further initiatives.
With growing discretion, the Dublin leadership team embarked on more ambitious innovation initiatives, including the design and piloting of two new financial products for major clients. Their success strengthened the subsidiary's external embeddedness and elevated its political capital at HQ. This resulted in the creation of a Centre of Excellence (COE) designation for Dublin, a role previously concentrated at headquarters. These innovation wins triggered another recursive cycle, with strengthened embeddedness generating higher HQ trust, expanded autonomy and influence, and renewed opportunity for initiative.
Over time, the subsidiary used this expanding resource base to grow its technical teams, strengthen its client-facing embeddedness, and broaden its innovation portfolio. A second COE mandate was subsequently awarded. Today, the unit employs more than 700 people, including a substantive R&D capability, and is recognized globally within the MNE as a locus of advanced financial product development.
This trajectory illustrates the recursive dynamic at the core of our process model: early initiative enabled initial embeddedness, which generated increased autonomy and internal MNE influence, in turn expanding the scope for further initiatives that deepened embeddedness and reinforced the subsidiary's competence-creating role.
Vignette B – Turnaround and Realignment Trajectory - From Existential Crisis to Global Leadership
Prior to the Global Financial Crisis, Subsidiary B had drifted away from the group's strategic priorities and become heavily dependent on a single high-margin activity. When the crisis hit, revenues collapsed by more than 60%, regulators intensified scrutiny, and headquarters questioned the unit's viability. Three CEOs failed to stabilise the business, and closure or absorption into the much larger London subsidiary appeared increasingly likely.
A new CEO initiated a decisive turnaround by realigning the subsidiary with HQ's core mandate. This included eliminating peripheral products, rebuilding reporting discipline, and involving HQ and London executives in major decisions to restore transparency. This disciplined realignment re-established trust with corporate leadership, enabling headquarters to restore a degree of autonomy. This alignment activated the first recursive mechanism in our model: initiative to rebuild trust restored autonomy, which created influence and space for subsequent capability renewal.
With credibility gradually restored, the leadership team began reshaping the subsidiary's capabilities, shifting from generalists to specialist expertise by recruiting top talent from Dublin's financial and technology ecosystems. This enhanced capability base strengthened the subsidiary's ability to engage deeply with Dublin-based multinational clients, expanding its local embeddedness. These deepened relationships, in turn, created new insights and opportunities for co-developing financial and IT service offerings, many of which HQ later adopted globally. This shift from restored autonomy to renewed embeddedness fuelled another recursive loop, enabling additional innovation initiatives that further strengthened the subsidiary's strategic role.
As the subsidiary's credibility and capabilities grew, headquarters awarded it three Centres of Excellence (COEs), marking a complete reversal of its crisis-era vulnerability. The Dublin unit increasingly became a training and innovation hub for the broader MNE network, with local specialists diffusing best practices globally.
Subsidiary B's turnaround reflects the recursive cycles in our model, as renewed alignment rebuilt autonomy and expanded internal MNE influence, which enabled capability renewal and deeper embeddedness, generating new initiatives that further strengthened its competence-creating status within the MNE.

representative case vignettes. The vignettes are selected as theoretically representative trajectories observed across multiple cases, rather than as unique or exceptional instances. They trace the temporal sequencing of strategic actions within individual subsidiaries, illustrating how embeddedness, initiative-taking, autonomy, and influence interact recursively over time. Rather than serving as standalone cases, they provide illustrative evidence of the mechanisms identified in the analysis, showing how subsidiaries actively construct and reinforce competence-creating roles through iterative cycles of strategizing and capability development.

6. Discussion

This study contributes to IB theory on subsidiary strategy by focusing explicitly on the subsidiary as the unit of analysis. From this perspective, it moves beyond examining isolated elements, such as embeddedness, initiatives, or pairwise relationships, e.g., embeddedness and influence (Andersson et al., 2002), or initiatives and autonomy (Ambos et al., 2010)). Instead, this study synthesizes and temporally sequence these established constructs into an integrated, processual model of subsidiary strategy comprising embeddedness, initiative-taking, influence, and autonomy. Through this theory-guided mechanism integration and process modelling approach, we develop a framework of competence-creating subsidiary strategizing (see Fig. 3). The relationships it depicts are conditional and potentially reversible, rather than linear or uniformly positive.

The subsidiary strategy process model begins with the role assigned by headquarters (Birkinshaw and Hood, 1998). All subsidiaries must embed, to some extent, within their local environments; for those with competence-creating ambitions, such embeddedness provides the basis for learning and opportunity sensing. Acting on these opportunities involves initiative-taking, initially incremental but increasingly transformative over time. As noted by Ambos et al. (2010), such initiatives aim to enhance autonomy and influence within the MNE. In turn, initiative-taking reshapes both internal and external embeddedness and the balance between them (Andersson et al., 2001; Yamin and Andersson, 2011).

As autonomy and influence develop, the subsidiary's strategic choice set expands, enabling further cycles of embeddedness and initiative-taking. Crucially, autonomy and influence are not ends in themselves, as often implied in prior literature, but means through which subsidiaries pursue performance, innovation, and survival. The transition from an assigned role to a competence-creating one thus unfolds through a recursive and interdependent process rather than a linear progression. Evidence from the case vignettes illustrates how these elements co-evolve over time. For example, Vignette B strengthened internal embeddedness through successful initiatives aligned with headquarters' priorities, which in turn increased its autonomy. Conversely, Vignette A leveraged internal embeddedness to secure autonomy, enabling the recruitment of specialized talent that deepened local embeddedness and expanded initiative capacity. These dynamics highlight that the relationships between elements are multidirectional rather than sequential as depicted by the arrows in the model.

Building on this, subsidiary strategizing unfolds through four interdependent mechanisms, embeddedness, initiative-taking, autonomy, and influence, that collectively underpin capability upgrading, strategic repositioning, and ultimately survival within the MNE. These mechanisms operate recursively rather than linearly, each reinforcing the next in a virtuous cycle of competence creation and organizational endurance. Embeddedness acts as the foundational *relational mechanism* through which subsidiaries access and mobilize knowledge, legitimacy, and resources. Expanding on this foundation, initiative-taking represents the *entrepreneurial mechanism* through which subsidiaries act on these sensed opportunities. Initiatives, whether opportunistic or deliberate, signal proactive capability, transforming embedded relational capital into tangible innovations that deliver value to both local markets and the wider MNE (Birkinshaw, 1997; Delany, 2000; Ambos et al., 2010). As subsidiaries demonstrate success, autonomy emerges as an *enabling mechanism*, granting managers greater discretion to pursue locally relevant strategies (Birkinshaw and Hood, 1998; Ambos et al., 2011). Finally, influence functions as a *political and communicative mechanism* that converts performance into power within the MNE hierarchy (Bouquet and Birkinshaw, 2008b; Andersson et al., 2007). By cultivating trust and visibility at headquarters, influential subsidiaries secure resource flows, expanded mandates, and protection from rationalization or closure. Influence amplifies autonomy and reinforces embeddedness, establishing survival capability as a strategic outcome of the entire process. Together, these mechanisms form a dynamic architecture through which subsidiaries become strategically indispensable. In our study, competence creation emerges not only as a strategic role but as a pathway to survival, as subsidiaries that successfully innovate and contribute to the MNE enhance their security of tenure.

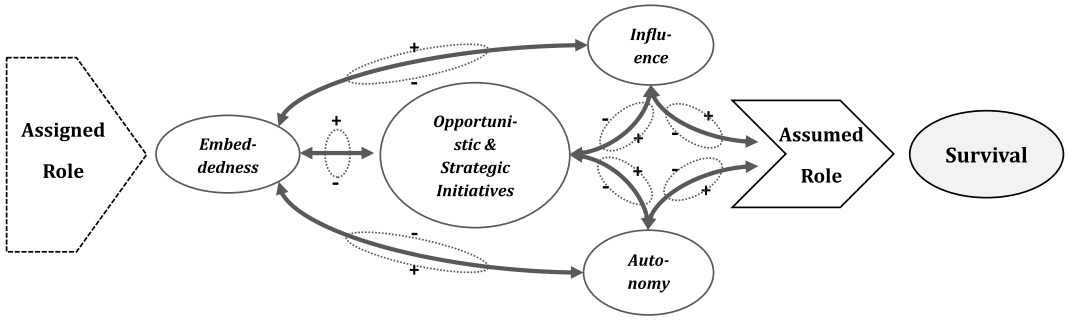

Fig. 3. Subsidiary strategizing process.

While these mechanisms often reinforce one another, the findings also reveal important contingencies and non-linearities that at times might lead to a vicious cycle between them (see the positive and negative signs in Fig. 3). Not all forms of embeddedness are uniformly enabling. While both external and internal embeddedness provide access to knowledge, legitimacy, and resources, excessive or narrowly configured embeddedness may result in lock-in effects, limiting strategic flexibility and narrowing opportunity recognition. Deep local embeddedness that is weakly aligned with headquarters' priorities may reduce a subsidiary's capacity to translate local learning into initiatives that are valued internally. In such cases, embeddedness can constrain, rather than enable, proactive strategizing.

Further, the transformation from initiative-taking to increased autonomy is conditional on perceived alignment and performance. Successful initiatives that demonstrably contribute to MNE objectives tend to generate trust and discretion. However, initiatives that are perceived as misaligned, overly independent, or politically disruptive may trigger heightened headquarters' scrutiny. In these instances, increased initiative-taking can paradoxically result in reduced autonomy through intensified monitoring and control (Ambos et al., 2010).

Autonomy itself is similarly ambivalent. While it enables experimentation and capability development, it also increases visibility and accountability, potentially activating headquarters' control mechanisms. As autonomy expands, subsidiaries may attract greater attention from headquarters, activating vigilance mechanisms that temper discretion. Autonomy therefore operates within implicit organizational guardrails and may generate both enabling and constraining feedback effects over time.

Finally, influence emerges as a cumulative and fragile outcome of prior successes, relational work and political acuity but may erode following strategic failure, leadership change, or shifting corporate priorities. This introduces the possibility of negative feedback loops, in which declining influence reduces latitude, limits initiative-taking, and weakens embeddedness. Consequently, these dynamics suggest that subsidiary strategizing unfolds through both virtuous and vicious cycles, shaped by contextual conditions, performance signals, and relational alignment. The process model therefore should not be interpreted as a deterministic pathway, but as a conditional architecture in which similar mechanisms may produce divergent outcomes depending on timing, sequencing, and organizational context.

In sum, our findings advance a mechanism-based process theory of subsidiary strategizing. Embeddedness, initiative-taking, autonomy, and influence are not static attributes but interacting processes that recursively reinforce or constrain one another. Through this interplay, subsidiaries build capabilities, develop innovative offerings, and sustain their strategic relevance within the MNE. Rather than introducing new constructs, our contribution lies in specifying the mechanisms and temporal interdependencies through which established dimensions of subsidiary strategy jointly underpin competence creation and subsidiary survival.

Accordingly, this study makes four interrelated contributions to theory on subsidiary strategy and MNEs. First, we reconceptualize subsidiary strategy as a holistic, integrated, and recursive process rather than a set of discrete dimensions. Building on Birkinshaw and Hood's (1998) foundational model of assigned roles, subsidiary choice, and local environmental determinism, we show that subsidiary strategizing unfolds through the dynamic interplay of embeddedness, initiative-taking, autonomy, and influence. While prior research has examined these elements largely in isolation (e.g., Young and Tavares, 2004; Birkinshaw, 1997; Delany, 2000; Garcia-Pont et al., 2009; Andersson et al., 2001; Taggart and Hood, 1999), we demonstrate that they operate as interdependent mechanisms within a single, evolving process through which subsidiaries develop and transform their roles over time.

In doing so, we challenge the implicit assumption that subsidiary strategy follows a linear or stage-based progression. Instead, subsidiary strategizing is theorized as a recursive and non-linear process, in which embeddedness, initiative-taking, autonomy, and influence interact through feedback loops that may reinforce, stall, or even reverse role trajectories. Subsidiary strategy thus emerges as contingent, politically mediated, and continuously renegotiated rather than cumulatively achieved. By integrating these elements into a unified process architecture, the analysis reframes them as interacting mechanisms through which subsidiaries actively construct and defend their strategic relevance within the MNE. The contribution therefore lies not in introducing new constructs, but in re-specifying how established concepts operate dynamically and conditionally over time, offering a more temporally grounded and realistic account of subsidiary strategizing.

Second, this study advances a mechanism-based process theory of subsidiary strategizing that explains how subsidiary advantage is actively constructed. While our process model builds on Birkinshaw and Hood's (1998) foundational account of subsidiary evolution, it also speaks directly to several adjacent and influential theoretical traditions in international business that have examined subsidiary roles from complementary perspectives. Making these connections explicit helps to more clearly position the theoretical contribution of this study. By specifying how embeddedness enables knowledge access, initiative-taking converts opportunities into capabilities, and autonomy and influence reinforce and scale these efforts, we move beyond descriptive integration toward explaining how subsidiary strategy actually happens.

The findings further contribute to the literature on knowledge flows within MNEs, particularly the work of Gupta and Govindarajan (2000), who conceptualize subsidiaries as differentiated nodes in an internal knowledge network. Whereas prior research has largely treated knowledge flows as structural outcomes of subsidiary roles or mandates, our process model extends this perspective by unpacking how such flows are enacted over time. Specifically, we show how local and internal embeddedness enable subsidiaries to access and recombine knowledge, while initiative-taking transforms this knowledge into new products and capabilities. In this sense, knowledge flows are not merely antecedents or outcomes of subsidiary roles but are actively produced through ongoing managerial strategizing.

The study also engages with the literature on SSAs (Rugman and Verbeke, 2001), which emphasizes the development of non-location-bound, transferable capabilities within the MNE. Our findings extend this view by demonstrating that SSAs emerge through the recursive interplay of embeddedness, initiative-taking, autonomy, and influence. Rather than treating SSAs as relatively static assets, our process model conceptualizes them as dynamically constructed and politically sustained within the MNE network. In

this context, autonomy and influence function as critical levers through which subsidiaries protect, scale, and internalize these advantages, thereby strengthening their strategic position and survival prospects.

Third, we reframe power and influence in headquarters–subsidiary relationships as dynamic and relational processes rather than static structural attributes. Consistent with research on subsidiary importance and agency (Birkinshaw and Hood, 1998; Andersson and Forsgren, 2000; Andersson et al., 2002, 2007; Ambos et al., 2010), we show that subsidiaries are not passive recipients of roles but active political actors that shape MNE outcomes. Whereas prior studies often emphasize discrete episodes of negotiation or mandate change, our process perspective reveals how power relations evolve incrementally through repeated cycles of performance, initiative success, and legitimacy building. In this model, influence is not an exogenous attribute but an outcome of sustained value creation and strategic alignment, which in turn enables further autonomy and role expansion. In this regard, we align with Andrews et al. (2022a,b) in reaffirming the continued relevance of the subsidiary, in contrast to calls for a 'subsidiary-free' perspective (Edwards et al., 2021).

Fourth, we shift the performance lens in subsidiary strategy by theorizing survival as the ultimate strategic outcome of competence creation. In contrast to traditional performance metrics, our findings support emerging work that positions survival as a central concern in subsidiary contexts characterized by headquarters' dominance and internal competition (Gundelach and Nielsen, 2023; Meyer et al., 2020; Nguyen, 2024). We show that competence-creating subsidiaries enhance their survival prospects by becoming strategically indispensable through sustained innovation and capability development, thereby reinforcing their role in driving MNE competitive advantage (Cantwell and Mudambi, 2005; Santangelo, 2012; Ryan et al., 2018).

In aggregate, these contributions shift the focus of subsidiary strategy research from static roles and structural positions to subsidiary strategizing as an ongoing, recursive, and politically mediated process. Rather than introducing new constructs, our contribution lies in integrating and reinterpreting established international business theories through a processual lens. By specifying the mechanisms through which knowledge flows, SSAs, and power relations co-evolve over time, the study offers a more dynamic and temporally grounded explanation of how subsidiaries construct, defend, and sustain their strategic relevance within MNEs.

Whilst this study offers novel insights into the competence-creating subsidiary strategy process, several limitations open important avenues for future research. First, the empirical focus on foreign owned subsidiaries within Dublin's financial services sector constrains the transferability of the findings. Although this context is both theoretically substantial and informative, future research should examine subsidiary strategizing across different industries, organizational forms, and geographic locations. Comparative, multi-industry studies would be particularly valuable in distinguishing context specific dynamics from more generalizable patterns in subsidiary strategy processes.

Second, the qualitative and process-oriented design, while enabling rich and contextually grounded insights, limits statistical generalizability. Future research could complement these findings through quantitative approaches, such as large-scale surveys or archival analyses, to test the relationships and mechanisms identified in this study and assess their prevalence across broader populations of subsidiaries. Particularly important and interesting is to theorize and test the potentially negative relations depicted in Fig. 3. For instance, we already know from Ambos et al. (2010) that initiatives have a positive impact on subsidiary autonomy and that this is countervailed by increased monitoring from HQ (although monitoring is not part of the model developed here). But how increased autonomy negatively affects internal embeddedness and over time make the subsidiary isolated from the rest of the MNE is one interesting question to be considered (see e.g., Monteiro et al., 2008). Furthermore, a strategic initiative that is "outside" the scope or strategy of the MNE might decrease a subsidiary's influence. When and how this can happen is another interesting area of research to be theorized and pursued.

Third, the study relies primarily on retrospective accounts from senior subsidiary managers to reconstruct strategizing processes over time. While such narratives are well established in qualitative international business research, they inevitably involve elements of sensemaking, selective recall, and post hoc rationalization. Accordingly, the process model should be interpreted as a reconstructed process logic. It is, in effect, an interpretive account of how managers understand and explain the sequencing and interdependence of strategic actions, rather than a precise real-time chronology. Although we mitigated these limitations through triangulation with secondary data, cross-case comparison, and careful attention to temporal markers, some micro-level dynamics, including real-time interactions, political negotiations, and moment-to-moment decision processes, remain only partially observable. This limitation points to a particularly promising avenue for future research. Longitudinal qualitative designs, repeated interviews, or real-time ethnographic approaches could capture subsidiary strategizing as it unfolds, offering deeper insight into the temporal dynamics, feedback loops, and micro-political processes that underpin strategy development. Such approaches would complement the reconstructed process logic presented here by revealing how strategic actions emerge, evolve, and are contested in situ.

Fourth, this study adopts a subsidiary centred perspective to examine how competence-creating subsidiaries strategize within MNEs, providing rich insight into subsidiary agency and sensemaking. However, a limitation of this approach is that influence and autonomy are interpreted primarily through subsidiary narratives, offering only a partial view of inherently bilateral power relationships and limiting direct observation of how headquarters' actors evaluate, negotiate, or adjudicate these dynamics. Future research incorporating matched headquarters–subsidiary data or multi actor designs could extend the model by examining how influence is co-constructed, contested, and recalibrated across organizational levels.

Fifth, a limitation of this study concerns case selection. The sample comprises only subsidiaries that had achieved, or were widely recognized as having achieved, competence-creating roles within their respective MNEs. As a result, the findings should be interpreted as a reconstruction of the mechanisms and process dynamics associated with successful competence creation rather than as an explanation of why some subsidiaries become competence creators while others do not.

Sixth, the findings of this study reconstruct the logic underpinning successful subsidiary strategy development rather than offering a contingent theory of subsidiary strategizing that explains both success and failure.

Finally, future research could further extend this work by adopting a micro-foundational perspective on subsidiary strategy.

Examining how individual level characteristics, such as managerial cognition, experience, decision making styles, and local knowledge, shape strategizing processes would provide a more fine-grained understanding of the human agency underlying subsidiary evolution. Integrating such micro-level insights with process and organizational perspectives represents a fruitful direction for advancing theory on subsidiary strategy.

6.1. Implications for management practice and policy

The findings of this study offer actionable implications for subsidiary managers, headquarters' executives, and policy actors, particularly in contexts such as financial services where regulatory complexity, geopolitical uncertainty, and high subsidiary mobility heighten the strategic importance of competence creation.

For subsidiary managers, the results underscore that competence creation must not only be achieved but also actively demonstrated and politically communicated. Subsidiaries seeking to expand or defend their mandates benefit from systematically articulating their value to headquarters through structured evidence of their contributions. This may include demonstrable innovation outputs, cross-unit collaboration, leadership in firm-wide initiatives, and external validation through client adoption or regulatory engagement. Such practices enable subsidiaries to translate locally embedded and often tacit capabilities into visible and credible signals that resonate with headquarters' evaluation criteria. More broadly, subsidiary managers must navigate the tensions of dual embeddedness by simultaneously cultivating strong local relationships, particularly with customers and institutional actors, while building trust, credibility, and influence within the internal MNE network. The development of political acumen is therefore critical in securing resources, expanding mandates, and positioning the subsidiary as a strategically indispensable unit within the MNE system.

For headquarters executives, the findings highlight the importance of designing governance arrangements that balance discretion with coordination. Excessive control may suppress local initiative and limit innovation, whereas unfettered autonomy risks misalignment and heightened monitoring concerns. Conditional autonomy regimes, where decision rights expand in line with demonstrated performance, alignment, and knowledge contributions, offer a pragmatic solution. Supporting mechanisms such as milestone-based evaluations, cross-unit innovation forums, and rotational leadership structures can help maintain strategic coherence while preserving space for local experimentation and capability development.

At the policy level, the study suggests that host-country institutions and development agencies play an important, if indirect, role in enabling subsidiary competence creation. By fostering dense networks among subsidiaries, regulators, universities, and industry bodies, policymakers can enhance external embeddedness in ways that strengthen subsidiaries' internal legitimacy within MNEs. In highly regulated sectors, regulatory credibility, institutional access, and ecosystem connectivity can themselves become strategic resources that subsidiaries leverage in their interactions with headquarters.

These implications suggest that effective subsidiary strategizing under conditions of uncertainty depends not only on balancing embeddedness, initiative, autonomy, and influence, but also on actively managing the interfaces through which these dimensions are evaluated, legitimized, and contested. Doing so enables subsidiaries, headquarters, and policymakers alike to sustain innovation while maintaining strategic alignment in increasingly complex and dynamic environments.

In conclusion, this study reconceptualizes the competence-creating subsidiary as an active strategist within the MNE, demonstrating that subsidiary advantage is not inherited but continually constructed through the recursive interplay of embeddedness, initiative, autonomy, and influence. By articulating the mechanisms through which subsidiaries build capabilities, secure strategic relevance, and enhance their survival prospects, we move subsidiary strategy research toward a more processual and explanatory footing. In an era of heightened uncertainty and intra-MNE competition, understanding how subsidiaries actively shape their roles is not only theoretically significant but strategically imperative for firms and policymakers alike.

CRediT authorship contribution statement

Niall O'Riordan: Conceptualization, Formal analysis, Investigation, Methodology, Resources, Software, Supervision, Writing – original draft, Writing – review & editing. **Paul Ryan:** Conceptualization, Investigation, Methodology, Supervision, Validation, Writing – review & editing. **Ulf Andersson:** Conceptualization, Methodology, Supervision, Validation, Writing – review & editing.

Appendix A. Supplementary data

Supplementary data to this article can be found online at https://doi.org/10.1016/j.lrp.2026.102674.

Data availability

The data that has been used is confidential.

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