Strategy implementation and decision making in the broader MNC network

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Strategy Implementation and Decision Making in the Broader MNC Network – An Introduction

INTRODUCTION

Within the broad body of literature on the topic of multinational (MNC) strategy, much research explored the standardization vs. localization dilemma, where MNCs face pressures to standardize processes, products and policies globally but also to adapt to local tastes, demands and requirements (Edwards et al., 2016; Jun et al., 2014; Pudelko & Harzing, 2008; Schmid & Kotulla, 2011; Theodosiou & Leonidou, 2003). The accommodation of standardization pressures leads to strategies focused on rationalized production, standardized products, concentrated production plants, concentration of innovation in the home country, centralized decision making and unidirectional product flows (Bartlett & Ghoshal, 1989; Harzing, 2000; Zentes et al., 2009). In contrast, the accommodation of localization pressures leads to strategies of adaptation, subsidiary autonomy, localized decision making, and limited interdependence among MNC network actors (Ghoshal & Nohria, 1989; Prahalad & Doz, 1987).

Strategic decisions, both in general and in the MNC context more specifically, are considered uncertain (Buckley & Casson, 2019), and therefore have a strong discretionary nature (Hutzschenreuter, Pedersen, & Volberda, 2007). However, a number of strategic decision-making arenas are discretionary at multiple levels, such as human resource / staffing decisions (Bélanger et al., 2013) or corporate social responsibility (CSR) decisions (Muller, 2006; Yin & Jamali, 2016), which may be taken at the headquarters or the subsidiary level, or pricing / discounting decisions, which may be taken by headquarters, the subsidiary, at the level of the retailer, or even at the level of the individual customer (Reichstein-Scholz et al., 2021).

Accordingly, scholars in international strategy, international marketing, and organization studies have sought to identify the optimal degree of standardization of MNC strategy depending on the environmental and situational contingencies faced by MNC parent companies and their subsidiaries (Bartlett & Ghoshal, 1989; Harzing, 2000; Nohria & Ghoshal, 1997; Rugman & Verbeke, 2008; Verbeke & Asmussen, 2016). Therefore, a great deal is known about how MNC strategy is affected by heterogeneity outside the MNC (e.g., institutional differences between host countries) and heterogeneity within the MNC (e.g., differences across subsidiaries and channel partners with respect to, e.g., roles and capabilities). These differences create information asymmetries within the MNC and lead to differences in strategy execution. However, the majority of this literature

considers such strategies at the level of the overall MNC, and focuses on ideal-type strategies such as "global integration" or "transnational", and equates formulated strategy to actual strategy.

In contrast, much less is known about the sources of heterogeneity that affect the actual implementation of strategy, in particular at the level of the individual subsidiary, and about how this strategy implementation translates into actual behavior by channel partners, which are external to the MNC (subsidiary), but play a crucial role in actual strategy implementation at the local level. There is a general agreement about the importance of subsidiary-level factors such as subsidiary roles, procedural justice, and operational capabilities (e.g., Birkinshaw & Morrison, 1995; Guth & Macmillan, 1986; Judge & Stahl, 1995; Kim & Mauborgne, 1993b; Lin & Hsieh, 2010; Nohria & Ghoshal, 1994; Pinkse et al., 2010; Roth et al., 1991), and increasing attention has been paid to actors outside the MNC such as channel partners that are essential for the MNC's success in host markets (Hada et al., 2013; Holm et al., 2005). Although these studies generate important insights, they tend to deduce effective strategy implementation from enhanced overall firm or subsidiary performance, or leave effective implementation unspecified altogether (cf. Katsikeas et al., 2006; Samiee et al., 2003). This is a crucial omission because MNC strategies may not be consistently communicated, interpreted, adopted, or executed by all actors in the MNC network in the same way (Gupta & Govindarajan, 1984; Judge & Stahl, 1995; Lin & Hsieh, 2010). As such, this thesis addresses the overall research question:

How do various sources of heterogeneity affect the translation of MNC formulated strategy to actual implementation by actors in the MNC's extended network?

To answer this question, we conducted the three empirical studies contained in this dissertation. Across the three studies, we utilized both quantitative and qualitative methods to understand antecedents and outcomes of heterogeneity in strategy implementation, but also to examine the dynamics between different actors in the MNC network: specifically, headquarters, subsidiaries, and channel partners. In the first paper, we use qualitative data to develop a model explaining how information asymmetries between actors in the MNC network affect the optimal level at which decisions should be made. In the second paper, we take a mixed-method approach to identify the source of 'strategy implementation gaps', defined as the subsidiary-level deviation in implemented strategy relative to the MNC's overall formulated strategy. In the third paper, we take a quantitative approach to understanding heterogeneity in decision making

by channel partners external to the MNC. Collectively, these three studies shed light on the sources of heterogeneity in strategy implementation across the MNC network.

To be able to delve more deeply into the complex mechanisms driving heterogeneity at these various levels, all three studies are focused on strategy related to one specific business activity that is subject to discretionary decision making at different levels in the extended MNC network. Specifically, we study these dynamics in the context of *goodwill decision making* at a single large European automotive MNC, known hereafter as 'ALPHACAR.' Goodwill refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired (Diez, 2006; Eggert, 2002; Meffert, 1982; Rosada, 1990). Automotive MNCs such as ALPHACAR typically have standardized goodwill policies in which the MNC headquarters issues goodwill policies for certain defect or vehicle types. Where no standardized goodwill policies are in place, goodwill decisions can be made at the local level. For instance, at ALPHACAR, local dealers pass goodwill decisions up to the local subsidiary, which then decides on the case and covers the costs. However, recognition that dealers are closest to the customer and thus likely better positioned than the subsidiary to value potential goodwill decisions led ALPHACAR to implement a new decentralization strategy. This strategy formulation and subsequent implementation process thus provides a rich and unique setting in which to map out the different sources of heterogeneity affecting MNC strategy implementation, including not only the standardization-localization dilemma, but also the role of fragmented information, subsidiaries' varying interpretation and implementation of this strategy, and independent channel partners' actual exercise of decentralized decision-making autonomy.

STRATEGY IMPLEMENTATION AND DECISION MAKING IN THE BROADER MNC NETWORK

The extensive debate on international strategy for MNCs was sparked by Levitt (1983), who argued that consumer preferences around the world are converging, leading to greater market similarities and more technological uniformity. These developments call for global product and brand strategies that allow firms to exploit economies of scale in production, distribution, and marketing. These ideas have given rise to numerous counterarguments

and discussions of conditions under which a global strategy may be most appropriate (Douglas & Wind, 1987; Porter, 1986a, 1986b; Yip, 1989).

The integration-responsiveness (I/R) framework is one of the most influential models for understanding MNC strategy (Bartlett & Ghoshal, 1989; Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). The I/R framework suggests that MNCs face both forces for global integration and forces for national responsiveness (Bartlett & Beamish, 2014; Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987), and can optimize their global efficiency by identifying the particular forces they face in the global marketplace and designing their strategies accordingly.

This pioneering work has led to a rich body of literature in the International Business (IB) field aimed at understanding the antecedents of MNC strategy. This research has focused on factors such as institutional distance, subsidiary roles, HQ-subsidiary relationships, decision making, centralization & autonomy, subsidiary initiatives, MNC external network, the role of channel partners, information asymmetries, and decision making at the boundary of the MNC (Bartlett & Ghoshal, 1989; Buckley & Casson, 2019; Hada et al., 2013; Harzing, 2000; Holm et al., 2015; Narula, 2019; Nohria & Ghoshal, 1997; Rugman & Verbeke, 2008; Verbeke & Asmussen, 2016).

However, this research typically focuses on the *formulation* of international strategy, and reveals little about its actual *implementation*. Extant research shows how various internal factors (i.e., those related to the MNC and how it is organized) and external factors (i.e., those related to the host-country institutional environment) can influence strategy implementation processes (e.g., de Oliveira et al., 2019; Floyd & Wooldridge, 1992; Gupta & Govindarajan, 1984; Jaworski et al., 1993; Li et al., 2008; Noble, 1999). Individual subsidiaries are exposed to unique combinations of these internal and external factors (Birkinshaw & Morrison, 1995; Ferner et al., 2005; Jarillo & Martínez, 1990; Nohria & Ghoshal, 1997; Roth et al., 1991; Roth & Morrison, 1992). This raises the question of whether one can expect a similar implementation of a single (in particular, standardized) strategic plan in different subsidiaries, or whether "strategy implementation gaps" may exist between MNC formulated strategy and subsidiary implemented strategy.

Not only do we lack a clear understanding of heterogeneity in strategy implementation at the subsidiary level, we know even less about strategy implementation by partners external to the MNC, that have to execute strategy on the MNC's behalf. While MNCs operate in host countries through their

subsidiaries, subsidiary operations are conducted in part through their local channel partners (Hada et al., 2013). Channel partners, such as suppliers and distributors, provide various critical functions essential to MNC strategy execution, such as carrying inventory, demand generation, sales, physical distribution, after-sales service, and extending credit to customers (Hada et al., 2013). They are considered especially important for MNC success in foreign markets, yet the fact that relationships between channel partners and the MNC are non-equity based creates a context of limited control. This has been termed "quasi-internalization" (Narula et al., 2019), because these externalized relationships rely neither on spot market transactions nor equity ownership, but rather on contractual arrangements and relational mechanisms that create normative (but not necessarily coercive) pressures.

In this context of "quasi-internalization," the constant push-pull between the opposing forces promoting standardization and localization within the MNC's (extended) network is especially salient (Narula et al., 2019; Young & Tavares, 2004), in particular as regards decision making (Ambos et al., 2020). Given that channel partners are independent parties with knowledge of the markets they operate in, MNCs search for the optimal mix of centralized and decentralized decision making, and considerable decision-making discretion is retained at multiple levels of the MNC network. Research taking a strategic perspective on organizational responses to institutional pressures, such as those formed by the MNC partner's newly implemented strategy (Durand et al., 2019; Oliver, 1991), suggests that channel partners do not always conform to such pressures. It is therefore important to understand which factors affect whether the MNC's newly implemented strategy is actually translated into decision making by the MNC's channel partners.

As such, the literature on MNC strategy takes an overly simplified view of strategy implementation in MNCs, with insufficient attention for the nuances that differentiate strategy formulation from actual implementation by individual entities within the extended network. With respect to the concept of MNC strategy itself, strategy can refer to an overarching strategy, or strategy with respect to specific activities, such as R&D strategy, production strategy, sourcing strategy, marketing strategy, etc. The literature suggests that different strategy domains are subject to different I/R pressures and that MNCs and even single subsidiaries formulate specific strategies for each domain (Rugman & Verbeke, 2001).

Of particular interest from an I/R perspective are strategy domains that are subject to tensions between the two sources of pressure. For instance,

strategy with respect to customer-facing activities such as sales or after-sales services face high localization pressures often clashing with formulated MNC strategies of standardization. Such a service context could provide for an even more nuanced setting where MNCs not only have to navigate the tension between (I/R) demands posed by their industry and different host country environments. Instead, demand heterogeneity exists also across different customers even within the same country (Zhang et al., 2019). Hence, substantial customization of services and complex processes of execution may be required for MNCs to optimize their global efficiency (Zhang et al., 2015).

To unpack these dynamics further, we break down the overarching research question of *"How do various sources of heterogeneity affect the translation of MNC formulated strategy to actual implementation by actors in the MNC's extended network?" into the following three subquestions:*

How can MNCs design their decision making to effectively respond to pressures for global standardization, local adaptation, and individual customization?

To what extent do strategy implementation gaps exist in the context of MNCs' global standardization strategies, and what factors might explain such gaps?

What factors drive channel partners' conformity to a new MNC strategy of decentralized decision making at the boundary of the MNC?

RESEARCH SETTING: GOODWILL (AT ALPHACAR)

The context of goodwill decision making is a fruitful setting in which to explore the tensions described above. Goodwill refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired (Diez, 2006; Eggert, 2002; Meffert, 1982; Rosada, 1990; Stauss & Schoeler, 2004; Walker & Cederburg, 2013). When customers experience problems with their products after the product warranty has expired, firms may decide to cover repair costs, despite the absence of any explicit legal or contractual obligation to do so (Diez, 2006; Meffert, 1982; Rosada, 1990). According to the limited existing literature on goodwill, such gestures aim at recovering customer satisfaction as well as maintaining or improving customer retention, not only to the brand, but also to dealers (Eggert, 2002). Thus, goodwill can contribute to a firm's profit via revenues generated through increased sales of products and services. Financial resources for

goodwill coverage however, need to be reserved by firms and directly impact their results. From a financial perspective in designing their goodwill strategies, firms should keep goodwill expenditures as low as possible to secure short term profits while exploiting the potential positive effects of goodwill gestures to the fullest, contributing to long-term profit goals via increased customer retention.

Each goodwill case starts with a customer experiencing some problem with a vehicle and contacting an ALPHACAR authorized dealership. If the failure is not the result of an accident or obvious customer misconduct it is eligible for goodwill coverage. The decision whether a goodwill offer will be made to a customer can be made at different levels of the MNC. A two-level goodwill strategy is pursued at ALPHACAR. At the first level, goodwill decisions for a defined set of known material defect patterns are made at the firm headquarters. Here, decision making is based on fixed parameters in terms of product model, age and mileage. Each customer facing one of these defect patterns and whose vehicle meets the specified parameters is supposed to receive the same goodwill offer. We refer to these goodwill policies as standardized goodwill throughout the thesis. These standardized goodwill policies are intended to result in relatively consistent patterns of goodwill approval across customers and across markets. Goodwill expenses based on standardized goodwill decisions are charged against headquarters' goodwill reserves. Standardized goodwill decisions typically apply worldwide except for NAFTA countries. This is because in some states of the US goodwill decisions may not be taken based on fixed parameters, unless the latter are published and are, with no exceptions, applied for every product within those parameters – which would turn them into defect specific warranties rather than discretionary goodwill gestures.

At the second level, in case there is no standardized goodwill decision made for a specific product failure at the first level, fully-owned subsidiaries can make goodwill decisions at the expense of a local budget for goodwill. Goodwill content and decision-making processes may vary across countries, as the local decision making lies in the respective subsidiary's responsibility. Recognition that dealers are closest to the customer and thus likely better positioned than the subsidiary to value potential goodwill decisions led ALPHACAR in 2014 to begin implementing a new decentralization strategy. Next to decisions made by subsidiary staff, an increasing number of subsidiaries authorize dealers, who are external contractors of ALPHACAR, to autonomously make goodwill decisions against the subsidiary budget

within certain parameters (age, mileage, repair costs). This strategy reflects a "quasi-integrated," balanced approach to the centralization-decentralization dilemma that has emerged among automotive networks more generally (Dietl et al., 2009, p. 25).

In some countries, where ALPHACAR does not own subsidiaries but partners with importers, these second-level goodwill gestures are covered by ALPHACAR headquarters and no decision-making authority is assigned to the business partner. Importers can request goodwill coverage while the decision is either made at headquarters or by an 'area manager aftersales' who is employed at headquarters but usually works and lives in the respective country or region.

There are several reasons why goodwill is particularly suitable for studying MNC strategy and heterogeneity in channel partner implementation. First, the tension between standardization and localization is particularly salient in this context. On the one hand there are pressures for globalization (e.g., consistent customer treatment across countries, global attention for automotive companies' goodwill discussed in social media). On the other hand, localization pressures are strong (e.g., country or region-specific warranty coverage, climate and road conditions, service culture/ customer preferences, legal frameworks, and competitive environments). There are even pressures for individualization (e.g., a wide range of customer segments addressed by automobile firms with different models and optional equipment etc.) of goodwill. As such, goodwill offers an opportunity to investigate these competing pressures in depth by only looking at one business activity that is subject to all pressures simultaneously.

Second, and in particular because goodwill is by definition discretionary (e.g., Stauss & Schoeler, 2004; Walker & Cederburg, 2013), goodwill offers a nuanced setting for studying the issue of centralized or decentralized decision making. Because there are no formal constraints on goodwill, the degree of centralization need not be uniform for all goodwill decisions made at automotive companies such as ALPHACAR. In contrast, organizational practice typically encompasses a mix of both fully centralized decision making and decentralized decision making even to the level of channel partners. With increasing decentralization there is an increase in customer proximity but also in loss of control by the MNC. Therefore, looking at the specific activity of goodwill decision making allows for a better understanding of the complexity related to information asymmetries, autonomy, opportunism, and channel partner characteristics.

Additionally, goodwill is a relevant context to investigate decision making under uncertainty in the international context (Buckley & Casson, 2019). This is because the benefits to goodwill (e.g., customer repurchase at the channel partner versus general MNC brand loyalty) are unknown ex ante and thus there is considerable uncertainty regarding how any potential benefits might accrue to the MNC and/or the channel partner. That is, goodwill is very costly, yet its success can hardly be quantified to guide decision making. Because it is almost impossible to identify what effect a goodwill gesture has had on the customer's loyalty for sales and aftersales purchases and therefore no clear guidelines can be formulated as to which goodwill offer will be effective for which customer in which country. This uncertainty makes information asymmetries particularly relevant. At the same time, governance issues and relational aspects (normative pressures, trust) also become very important, because there is a lack of ways to monitor whether actors of the MNC and its extended network have made "effective" decisions.

THE THREE STUDIES

In light of the overall research question for this dissertation, the three subquestions (see p. 6) are addressed by means of three different studies, visualized in Figure 1.1 below.

Figure 1.1 depicts a stylized MNC extended network, including the MNC headquarters, domestic and foreign subsidiaries, and host-country channel partners. Study 1 (the gray dotted box) addresses the issue of strategy formulation in the extended MNC network as a whole. This study identifies a fit model explaining how MNCs can adjust the locus of decision-making authority to the prevalent locus of relevant information within their network. Study 2 (the gray dashed box) focuses on heterogeneity in strategy implementation at the subsidiary level, and in particular between domestic and foreign subsidiaries. This study reveals the importance of differences in perception of the subsidiary's role as well as differences in interpretation of the strategic objectives behind the standardization strategy as key to the emergence of "strategy implementation gaps". Study 3 (the gray solid box) focuses on strategy implementation by external channel partners, who are tied to the MNC not through equity control but rather subject to normative pressures to conform to MNC strategy. This study highlights the role of channel partners' ability and willingness in exercising decisions on behalf

of the MNC, exposing an important source of heterogeneity in strategy implementation within individual host countries.

Figure 1.1: Positioning of the three studies in the MNC extended network

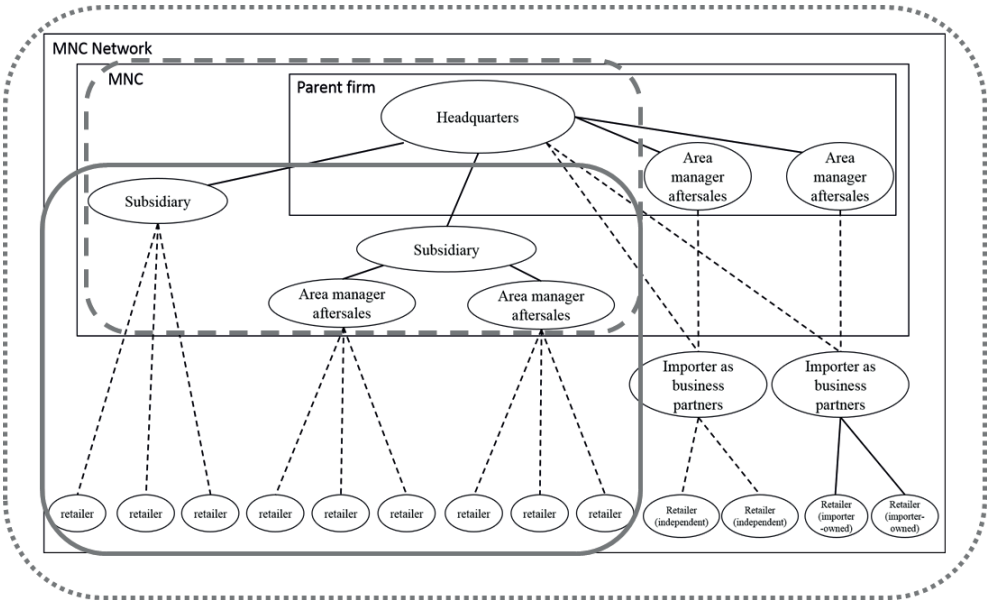


Table 1.1 provides an overview of the three studies, including addressed research questions, the respective level of analysis, main theoretical constructs, methodology, outcome variables and sources of heterogeneity studied.

Study 1: Goodwill Decision Making in MNCs

The classic I/R framework classifies pressures for global integration and local responsiveness for different industries (Bartlett & Beamish, 2014; Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987). Some authors have recognized the need for a more fine-grained usage of the framework and argued that pressures for integration and responsiveness may not only vary across industries but also across subsidiaries of the same MNC (e.g., Birkinshaw & Morrison, 1995; Harzing, 2000; Jarillo & Martínez, 1990; Nohria & Ghoshal, 1997) or suggested to add a third layer of pressures that are at work at a regional level (Verbeke & Asmussen, 2016).

In this study we argue that even single business activities are subject to pressures for standardization and adaptation (and in service settings also

Table 1.1: Overview of studies

Study	Research question	Level of analysis / MNC network	Theoretical frameworks / themes / constructs	Methodology & data	Outcome variable	Sources of heterogeneity
Goodwill Decision Making in MNCs	*How can MNCs design their decision making to effectively respond to pressures for global standardization, local adaptation, and individual customization?*	MNC internal and external network	I/R framework Differentiated fit Information asymmetries Centralization / Decentralization	Qualitative, inductive, theory building; 24 semi structured interviews with Managers responsible for more	Effective goodwill decisions	Cross country differences in environmental, market, customer, competition, product/industry, organizational, and managerial factors; Within country and cross situation differences in information asymmetries
Strategy Implementation Gaps in Global Standardization: Evidence from an Automobile MNC	*To what extent do strategy implementation gaps exist in the context of MNCs' global standardization strategies, and what factors*	Subsidiary; subsidiaryhead-quarter relati-onship	Subsidiary roles and subsidiary role perceptions / perception gaps Subsidiary initiative	Sequential mixedmethod; Explorative, quantitative analysis of over 20,000 goodwill cases in two European subsidiaries Qualitative analysis of interviews with seven managers	Presence of strategy implementation gaps / Level of standardization of goodwill decisions across countries	Perceived and actual subsidiary roles, subsidiary initiatives
MNC Channel Partners' Ability and Willingness: Heterogeneous Decision Making at the Boundary of the MNC	*What factors drive channel partners' conformity to a new MNC strategy of decentralized decision making at the boundary of the MNC?*	Channel partners in different subsidiaries	Quasi-internalization Embedded agency Normative pressures Willingness and ability	Quantitative, hypotheses testing; >40.000 observations at >2000 channel partners in 15 countries	Channel partners' exercise of (goodwill) decisionmaking autonomy	Channel Partner ability (operational capability and inertia) and willingness (goal congruence and embeddedness)

to pressures for customization (Zhang et al., 2015, 2019)) and these pressures may vary across countries but also across different situations *within* countries. As outlined in the previous section, goodwill decision making poses an example of such business activities. Goodwill is inherently subject to a mix of pressures at the global, local, and even individual level, and MNCs have considerable discretion as to whether and how to offer goodwill (Stauss & Schoeler, 2004; Walker & Cederburg, 2013). Heterogeneity of goodwill situations even within countries calls for different degrees of standardization and centralization of goodwill policies in response to volatile pressures for standardization, adaptation and customization. This context specificity means that existing frameworks in MNC strategy pay insufficient attention to individual activities and the complexities of competing pressures. Accordingly, in the first paper, we ask:

How can MNCs design their goodwill decision making to effectively respond to pressures for global standardization, local adaptation, and individual customization?

To answer this question and due to a lack of testable theory, we engaged in an inductive and theory-generating research approach which is particularly suitable when exploring previously unaddressed relationships or phenomena (Colquitt & Zapata-Phelan, 2007; Edmondson & McManus, 2007; Eisenhardt, 1989; Siggelkow, 2007). Despite the fact that multiple-case studies provide a number of advantages over single-case studies (see Eisenhardt & Graebner, 2007), data was gathered in only one firm due to opportunities for unusual research access (see Yin, 1994). We had access to a large number of managers involved in goodwill decisions both at ALPHACAR's headquarters as well as in subsidiaries in North America, Europe and Asia. Interviewees were managers who were or had been involved in goodwill decision making as a major part of their job description either at a global level at headquarters, at a regional level at headquarters, or at subsidiary level in one country. The initial semi-structured interview guideline was developed on the basis of an analysis of literature on standardization/adaptation and a priori observations, and then adapted continuously during the interview process (Miles & Huberman, 1994). We were able to conduct 24 semi-structured interviews, each lasting between 35 and 90 minutes. Each interview was taped and transcribed to ensure reliability, resulting in 400 pages/140.000 words of primary source material.

Data analysis occurred via recursive cycling among the case data, emerging theory, and existing literature on international strategy, international strategy for service firms, international marketing strategy, organization studies in the context of MNCs, and headquarters-subsidiary relationships. Through analysis of the interviews using the qualitative analysis software Atlas.ti, we identified the forces for global standardization, local adaptation, as well as individual customization that are present in goodwill cases. Depending on the goodwill situation, which is defined as a product of market-specifics, case-specifics, defect/failure type, and the purpose of goodwill, the relative intensity of the pressures for standardization, adaptation, and customization varies. This calls for a contingency model for understanding international goodwill strategy.

Accordingly, we generated a model of "fit" in which we show how different types of information asymmetries within ALPHACAR's network exist in different goodwill situations. This is because the information relevant for effective goodwill decision making is fragmented and distributed across the MNC network (e.g., at headquarters, subsidiaries or distributors). Additionally, the distribution of information across ALPHACAR's parties differs across countries due to market size, organizational structure, and maturity. Thus, the relevance of the different information pieces may vary *within* countries, while the distribution of these information pieces may also vary *across* countries. This leads to the following propositions:

Proposition 1: The interplay of situational factors determines the strength of pressures for global standardization/local adaptation/individual customization of goodwill policies.

Proposition 2a: High pressures for global standardization are associated with high relevance of information on product quality for goodwill decision making.

Proposition 2b: High pressures for local adaptation are associated with high relevance of market-specific information for goodwill decision making.

Proposition 2c: High pressures for individual customization are associated with high relevance of customer and case-specific information for goodwill decision making.

Proposition 3: Market configuration (market size x organizational structure x market maturity) determines how the different pieces of information (product quality, market/region specifics, customer/case specifics) are distributed across the MNC internal and external network.

This paper contributes to existing literature by providing a conceptual model of a two-layered differentiated fit that outlines the role of information asymmetries in goodwill decision making at different levels of the MNC network. By detecting the role of information asymmetries as a core variable for effective goodwill decision making in MNC networks, we explain why different degrees of centralization are effective in different goodwill situations in MNCs. In contrast to the vast majority of studies that offer positive-theoretical explanations for why firms standardize or adapt their marketing based on descriptive analyses, we offer a normative-theoretical explanation by investigating why MNCs have to adjust their goodwill decision making structures in order to enhance goodwill effectiveness. Our findings therefore respond to Schmid's and Kotulla's (2011) and other calls for well-grounded theoretical explanations and recommendations within the standardization/adaptation debate (see, e.g., Birnik & Bowman, 2007; Ryans Jr et al., 2003; Theodosiou & Leonidou, 2003). Furthermore, our findings add to the rare theoretical expressions for international service strategy (Javalgi & Martin, 2007; Lovelock & Yip, 1996; Rugman & Verbeke, 2008; Samiee, 1999).

Study 2: Strategy Implementation Gaps in Global Standardization

Perspectives on MNC strategy that emerged at the end of the previous century led to increased attention for the different strategic roles that subsidiaries can adopt or be assigned (Bartlett & Ghoshal, 1986, 1989; Birkinshaw & Morrison, 1995; Gupta & Govindarajan, 1991; Harzing, 2000; Harzing & Noorderhaven, 2006; Nobel & Birkinshaw, 1998; Nohria & Ghoshal, 1997; Roth & Morrison, 1992; Rugman et al., 2011). These roles are typically assigned labels such as "black holes," "local innovators," "implementers," "global innovators," "strategic leaders," or "integrated players" (Bartlett & Ghoshal, 1986; Gupta & Govindarajan, 1991), which each harbor different levels and types of capabilities, decision-making autonomy, and interdependence with other subsidiaries.

Given the heterogeneity of subsidiaries and their strategic roles, corporate strategy does not necessarily fully determine the strategy at the subsidiary level, even in MNCs with a global strategic orientation (Birkinshaw & Morrison, 1995; Harzing, 2000; Jarillo & Martínez, 1990; Morschett et al., 2015; Nohria & Ghoshal, 1997). Therefore, even though subsidiaries are (the) key actors responsible for the actual implementation of strategy in the MNC, the challenges stemming from these complexities render strategy implementation anything but straightforward. However,

although the importance of strategy implementation has been underscored by both academics and consultants, it is a complex phenomenon that remains poorly understood (de Oliveira et al., 2019; Li et al., 2008).

Several authors have reviewed existing definitions of strategy implementation and proposed new or adapted conceptualizations (e.g., de Oliveira et al., 2019; Li et al., 2008; Noble, 1999; Smith, 2009). All of them criticize normative perspectives that treat implementation as the straightforward operationalization of strategic plans and acknowledge the importance of structural and interpersonal influences. Thus, although existing literature emphasizes the importance of effective strategy implementation as part of the strategy process, most studies draw inferences about implementation from the strategy formulation process, formulated strategy, performance outcomes, or the relationships between them, with relatively little attention for actual strategy implementation, implementation outcomes, and whether those outcomes resemble formulated strategy.

Incorporating an understanding of strategy implementation outcomes at the subsidiary level is important because prevailing research tends to overemphasize the decisions and perspectives of headquarters, or develops a subjective view based on a single subsidiary (Katsikeas et al., 2006; Samiee et al., 2003). In this study, we propose incorporating "implementation outcome" into our understanding of the strategy process as an element that will help us to better conceptualize and identify "strategy implementation gaps." Consequently, in this study, we pose the following research question:

Does a strategy of global standardization as formulated by MNC headquarters lead to homogenous strategy implementation outcomes across subsidiaries, or do we see evidence of a strategy implementation gap?

Conceptualizing and identifying strategy implementation gaps is an important first step, but in order to understand such gaps, if they exist, we must also shed light on their origins in relation to the strategy formulation and implementation process. From the perspective that the MNC is a differentiated network consisting of heterogeneous subsidiaries with different roles and relationships with headquarters and embedded in different contexts, global standardization strategies will always be subject to an array of divergent forces. However, since we lack a clear understanding of actual strategy implementation, little is known about the nature and origins of strategy implementation gaps. This leads to the second research question:

If there is evidence of a strategy implementation gap, what dynamics in HQ-subsidiary relationships affect the processes of strategy formulation and implementation in ways that can explain that gap?

To answer the first research question of this study, we conducted an explorative, quantitative analysis of over 20,000 goodwill cases at two ALPHACAR subsidiaries – one foreign and one domestic – in the period preceding and following their rollout of globally standardized goodwill policies. Analysis of these goodwill cases, clustered into 2,080 vehicle-age and month brackets, shows that implementation outcomes varied markedly across the two subsidiaries, indicating the presence of a strategy implementation gap.

To answer the second research question of this study, we conducted semi-structured interviews with seven managers at the MNC's headquarters and the two subsidiaries to explicate factors underlying the strategy implementation gap. Interviewees were senior managers with authority to directly influence the goodwill policies. We followed an interview guideline containing open-ended questions on the strategic intention of standardized goodwill policies, the process of deciding on the implementation of the standardized goodwill policy that was the subject of the quantitative analysis, managers' perception of standardized goodwill policies, and the process of goodwill requesting and approval in dealerships. We then transcribed the recorded interviews and, after two cycles of coding transcripts, deduced first-order concepts which were finally summarized in second-order themes by means of qualitative data analysis tools (see M. B. Miles & Huberman, 1994).

Data analysis reveals that while the domestic subsidiary implemented the standardized policy as laid out by headquarters, the foreign subsidiary adapted the standardized policies based on their different perception of the subsidiary's role as well as different interpretation of the strategic objectives behind the standardization strategy. Surprisingly, implementation of a global standardization policy led to a substantially greater rise in goodwill cases in the domestic subsidiary than adapted implementation did in the case of the foreign subsidiary.

This paper makes three contributions to the literature on international strategy and international management. First, we enrich our understanding of the implementation of global standardization strategies by unpacking the concept of strategy implementation gaps, which we define as subsidiary-level

deviation of strategy implementation outcomes from the MNC's formulated strategy. Second, we open the black box of strategy implementation gaps to show how communication issues and misaligned subsidiary role perceptions affected processes of both strategy formulation and implementation, leading to an initiative at the foreign subsidiary that resulted in unexpected implementation outcomes. Third, our findings suggest that strategy implementation gaps need not be driven by subsidiaries' self-serving motives, nor are they necessarily harmful to the MNC's overall strategic objectives, even in the context of global standardization strategies.

Study 3: Heterogeneous Decision Making at the Boundary of the MNC

While MNCs operate in host countries through their subsidiaries, subsidiary operations are conducted in part through their local channel partners (Hada et al., 2013). These connections, often conceptualized in terms of subsidiary local embeddedness (Nell et al., 2011) are essential to MNC strategy execution. How the subsidiary works with its channel partners is therefore important to the MNC's success because channel partners allow the subsidiary to gain a better understanding of, and respond better to, customers' requirements and competitors' actions (Hada et al., 2013; Holm et al., 2005).

The fact that relationships between channel partners and the MNC are non-equity based implies that the control boundaries of the MNC may be distinct from the ownership boundaries of the MNC (Narula, 2019), a situation labeled "quasi-internalization" (Narula et al., 2019). In this sense, the boundaries between MNCs and their external channel partners can be conceptualized as semipermeable, characterized by hybrid governance forms (Zobel & Hagedoorn, 2020). This is a major departure from the traditional conceptualization of the MNC in the IB literature, in which ownership and control were synonymous, to focus more on how MNCs manage their offshore activities in the absence of ownership (Strange & Humphrey, 2019).

In this context of quasi-internalization, the constant push-pull between the opposing forces promoting centralization and autonomy within the MNC's (extended) network is especially salient (Narula et al., 2019; Young & Tavares, 2004), in particular as regards decision making (Ambos et al., 2020). Decision making is central to the domain of IB (cf. Buckley & Casson, 2019), but in the IB context is particularly subject to risk and uncertainty, for instance due to lack of information (Casson et al., 2014). Given that channel partners are independent parties with greater knowledge of the markets they

operate in, MNCs search for the optimal mix of centralized and decentralized decision making. That is, tension exists between the establishment of policies and strategies at the central level that are then disseminated to the network elements at the local level, and a certain degree of autonomy in decision making retained at the local level.

As such, this quasi-internalized setting can be seen as a context in which channel partners are subject to normative pressures to adopt certain practices (De Marchi et al., 2014; Gibbon et al., 2008). Such normative pressures arise for instance when the MNC implements changes in strategy that require new investments and adjustments by its channel partners (Weiss & Kurland, 1997), such as redesigning long-established practices (Durand & Jourdan, 2012) or streamlining inefficient distribution processes (Waldron et al., 2013). However, channel partners' responses to normative pressures, such as those generated by the MNC to act in accordance with certain guidelines or policies, are governed to a large extent by channel partners' *ability* and *willingness* (Durand et al., 2019; Oliver, 1991).

Specifically, ability relies on expertise, knowledge, routines and practices that facilitate the accommodation of such pressures (Helfat & Winter, 2011), whereas willingness harbors cognitive and motivational elements that affect the ranking of options and choices (Bundy et al., 2013). Ability and willingness are important in particular for decision making that requires up-front investments in adaptation and change, as is the case when an MNC implements a new strategy, because decision making is inherently uncertain and the outcomes to any decision are unknowable ex ante (Alvarez & Porac, 2020; Buckley & Casson, 2019). Therefore, in this paper we ask:

What factors drive channel partners' conformity to a new MNC strategy of decentralized decision making at the boundary of the MNC?

To answer this question, we integrate resource-based arguments into the institutional perspective to explicate two dimensions of ability (operational capability and inertia) and two dimensions of willingness (goal congruence and embeddedness) that we propose help explain heterogeneity at the level of the channel partner, even though the MNC's strategy of decentralized decision making applies equally to all channel partners. Based on this reasoning we derive the following four hypotheses:

Hypothesis 1: There is a positive relationship between the level of the channel partner's operational capability and the extent of the channel partner's conformity to a new MNC strategy of decentralized decision making.

Hypothesis 2: There is a negative relationship between the level of the channel partner's inertia and the extent of the channel partner's conformity to a new MNC strategy of decentralized decision making.

Hypothesis 3: There is a positive relationship between the level of goal congruence of MNC and channel partner objectives and the extent of the channel partner's conformity to a new MNC strategy of decentralized decision making.

Hypothesis 4: There is a negative relationship between the level of the channel partner's host-country embeddedness and the extent of the channel-partner's conformity to a new MNC strategy of decentralized decision making

In the context of our research setting, the state of quasi-internalization typically manifests itself in a "quasi-integrated," balanced approach to the centralization-decentralization dilemma that has emerged among automotive networks (Dietl et al., 2009, p. 25). Recognition that dealers are closest to the customer and thus likely better positioned than the subsidiary to value potential goodwill decisions led ALPHACAR in 2014 to begin implementing a new decentralization strategy under which local dealers, within specific parameters, were afforded the option to make autonomous goodwill decisions themselves, alongside the preexisting option to defer to the national subsidiary. The rate at which dealers make such decisions themselves (as a proportion of the total of all goodwill decisions) is known as the dealer self-authorization (DSA) take rate.

Empirical analysis of more than 40,000 monthly DSA take rates from 2,265 dealers across 15 host countries (from September 2017 through July 2019) modeled using a GLM specification with a logit link and of the binomial family shows that operational capability and goal congruence positively relate to the DSA take rate, while inertia negatively relates to the DSA take rate. The findings for embeddedness were non-significant.

This study contributes to IB research first by extending our understanding of the MNCs' channel relations in the host country (Hada et al., 2013; Holm et al., 2005). Specifically, we develop a framework highlighting the role of two dimensions of both channel partner ability and willingness in the exercise of decision making under "quasi-internalization" (Narula, 2019). Second, by exploring heterogeneity at the level of the channel partner,

this study adds richness and nuance to the prevailing MNC- and country-level perspective in the IB literature and its static and coarse-grained view on issues such as centralization versus decentralization (Meyer et al., 2011; Vigneau, 2020). That is, we extend beyond studies considering a single or a "typical" channel partner in a "typical" host country (Hada et al., 2013) to enhance our understanding of variance in responses to MNC strategy implementation *across* channel partners within a given host country.

DISSERTATION OUTLINE

The remainder of this dissertation is structured as follows. Chapters 2, 3, and 4 each deal with one of the three research questions respectively. Chapter 2 explains the exploratory empirical study that deals with identifying the most suitable degree of decision-making centralization under cross-country as well as within-country heterogeneity. Chapter 3 explores the phenomenon of strategy implementation gaps, where subsidiaries implement the same MNC strategy in different ways resulting in heterogeneous implementation outcomes. Chapter 4 deals with the role of channel partner heterogeneity and its effects on MNC strategy implementation and decision making. All three empirical chapters are fully self-contained and so all information relevant to individual chapters is included in each of these chapters. Chapter 5 revisits the overall research question; it summarizes the main findings of these three studies and discusses their implications in terms of theory and practice. Finally, some limitations of this dissertation are laid out and directions for future research are given.

Collectively, this dissertation contributes to IB scholarship by: exploring the role of information asymmetries at different levels of the MNC network in determining the optimal level of standardization versus localization in the MNC; identifying factors that lead to 'gaps' between formulation and implementation at the subsidiary level; and identifying factors that shape external (channel) partners' conformity to the normative pressures that stem from the MNC's newly implemented strategy. In so doing, it enhances our understanding of the forces driving strategy in the MNC as well of sources of heterogeneity in its implementation, both across countries and within countries.

CHAPTER 2

Goodwill Decision Making in MNCs[1]

Based on rich qualitative data gathered at ALPHACAR, we inductively develop a fit model that explains how multinational companies (MNCs) can increase the effectiveness of goodwill decisions by adjusting the locus of decision-making authority to the prevalent locus of relevant information within their network. In order to effectively respond to pressures for standardization/adaptation/customization, firms therefore have to differentiate their goodwill decision-making structures across countries as well as across cases. Our findings and theoretical understanding suggest a conceptual model of a two-layered differentiated fit that outlines the role of information asymmetries at different levels of MNC networks.

[1] I would like to thank John Hagedoorn for his helpful comments and useful suggestions. I also appreciate the helpful comments by conference participants at the doctoral colloquia at the AIB annual meeting 2015, as well as the AIB UKI chapter conference 2016, on earlier versions of this paper. I am also grateful to Martin Delfmann and his support in recruiting warranty managers at subsidiaries of the case firm for interviews as well as to the managers who agreed to participate in this study as key informants and who provided valuable insights. This paper received the Michael Z Brooke Prize for the best paper by a doctoral student (AIB UKI, 2016) and an R&R from the Journal of International Business Studies.

INTRODUCTION

When customers experience problems with their products after the warranty has expired, firms may decide to cover repair costs, despite the absence of any explicit legal or contractual obligation to do so (Diez, 2006; Meffert, 1982; Rosada, 1990). This form of service provision is known as goodwill. According to the limited extant literature on goodwill, such gestures aim at restoring customer satisfaction as well as maintaining or improving customer retention, not only to the brand, but also to dealers (Eggert, 2002). Thus, goodwill can contribute to a firm's profit via revenues generated through increased sales of products and services. Financial resources for goodwill coverage, however, need to be reserved by firms and directly impact their results. From a financial perspective, firms should keep goodwill expenditures as low as possible when designing their goodwill strategies in order to secure short term profits while exploiting the potential positive effects of goodwill gestures to the fullest, contributing to long-term profit goals via increased customer retention. As a consequence, firms should only engage in goodwill gestures that are expected to be effective. Thus, a goodwill decision is deemed effective when

- a goodwill gesture is offered, or a goodwill request is approved when goodwill gestures increase customer loyalty, enhance brand image, or prevent existing customers from leaving the brand
- a goodwill request is rejected, or no goodwill offer is made, when a goodwill gesture would neither increase customer satisfaction and loyalty, enhance brand image, nor prevent existing customers from leaving the brand.

In the context of a multinational company (MNC), a broad range of factors, external as well as internal to the MNC, play a role in goodwill effectiveness. Goodwill gestures that are effective in one region, country or specific case (i.e., towards one individual customer with a specific product failure) may not be effective elsewhere, because customers in different market environments may face diverse product failures as well as have different expectations towards the MNC's goodwill behavior. Even within the same market, customer expectations of goodwill may vary, e.g., due to the customer's previous loyalty to the brand or to the product segment they bought from. At the same time, increasingly homogenous customer preferences across countries, as well as the fact that goodwill is closely linked to product quality and frequently discussed in social media, call for

certain levels of consistency in goodwill policies across markets and across customers. MNCs must therefore be able to respond to pressures for global standardization, local adaptation, as well as individual customization of goodwill policies. Hence, MNCs striving to improve the global effectiveness of their goodwill policies are confronted with the question of how to design their international strategies for goodwill decision making. Therefore, the overarching research question guiding this paper is:

How can MNCs design their goodwill decision making to effectively respond to pressures for global standardization, local adaptation, and individual customization?

A considerable number of theories and findings in international strategy, international marketing strategy, and organization studies in an MNC context shed light on the optimal degree of internationalization of MNC strategy depending on the environmental and situational contingencies faced by MNCs and their subsidiaries (e.g. Bartlett & Ghoshal, 1989; Harzing, 2000; Nohria & Ghoshal, 1997; Rugman & Verbeke, 2008; Verbeke & Asmussen, 2016). The specific issue of goodwill policies, however, calls for additional theoretical consideration. This is mainly because situational contingencies relevant to goodwill decision making not only vary across subsidiaries or regions, but also from case to case. In addition to adapting goodwill decision making to different market environments across countries or regions, MNCs must be able to respond to volatile goodwill cases within these countries or regions. Furthermore, since dealers and other external partners are strongly involved in the process of goodwill decision making, our understanding must not only include the role of the parent firm and its subsidiaries, but also consider all parties of the MNC's internal and external network that are involved in goodwill decision making.

Therefore, in this paper, we engage in an inductive and theory-generating research approach (see Eisenhardt, 1989). Based on a qualitative research strategy through a large number of interviews with warranty managers at headquarters as well as several subsidiaries of an automobile manufacturing MNC hereafter designated as 'ALPHACAR', we identify the forces for global standardization, local adaptation, as well as individual customization that are present in goodwill cases. Depending on the goodwill situation, which is defined as a product of market specifics, case specifics, defect/failure type, and the purpose of goodwill, the relative intensity of the pressures for standardization, adaptation, and customization varies. This calls for a contingency model for understanding international goodwill

strategy. We show how information asymmetries within ALPHACAR's network result from different goodwill situations: different pieces of information are relevant for effective goodwill decision making in different goodwill cases. The different pieces of information are located at several parts of the MNC network, e.g. at headquarters, subsidiaries or dealers. Thereby, the distribution of information across ALPHACAR's parties differs across countries due to market size, organizational structure, and maturity. Thus, the relevance of different pieces of information may vary across cases within countries, while the distribution of these pieces of information may also vary across countries.

Ultimately, our goal is to develop a theoretical framework that models how MNCs can increase the effectiveness of their goodwill policies through responding to varying forces for standardization/adaptation/customization by adjusting the locus of goodwill decision making according to the locus of relevant information within the MNC network. This paper contributes to existing literature by providing a conceptual model of a two-layered differentiated fit that outlines the role of information asymmetries in goodwill decision making at different levels of the MNC network.

THEORETICAL BACKGROUND

Environment - Strategy Fit in the International Strategy Literature

The extensive debate on international strategy for MNCs that emerged in the 70s and that has continued since is to a large extent fueled by Levitt (1983) who argued that customers around the world are becoming more and more alike, leading to greater market similarities, more technological uniformity, and higher convergence of consumer preferences. These developments call for strategies of global products and brands and allow firms to exploit economies of scale in production, distribution, and marketing. Levitt's (1983) seminal arguments have given rise to numerous counterarguments and discussions of conditions under which a global strategy may be most appropriate (Douglas & Wind, 1987; Porter, 1986a, 1986b; Yip, 1989). In that context, the integration-responsiveness (I/R) framework is one of the most influential models for understanding MNC strategy (Bartlett & Ghoshal, 1989; Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). Following earlier work by Fayerweather (1968), the I/R framework suggests that MNCs face both forces for global integration and forces for national responsiveness

(Bartlett & Beamish, 2014; Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987). According to the I/R framework, firms can optimize their global efficiency by identifying the particular forces for global integration and national responsiveness they face in the global marketplace and design their strategies accordingly (Prahalad & Doz, 1987)

In each country, the local subsidiary of an MNC is expected to be responsive to local customers, distribution channels, market structures, governments, and regulatory agencies for its ongoing institutional legitimacy and economic success (Prahalad & Doz, 1987). MNCs can benefit from locally adapting their products, strategies, and activities in an effective country-by-country differentiation to accommodate 'forces for national responsiveness' (Goshal & Nohria, 1993; see also Bartlett & Beamish, 2014). However, different local environments may also be linked to each other (Ghoshal & Nohria, 1993; Prahalad & Doz, 1987), due to common customer preferences across countries, transferability of knowledge across countries, and the presence of multinational clients, suppliers, competitors, and regulatory agencies (such as the EU). Such linkages across national boundaries, described as 'forces for global integration' (Bartlett & Ghoshal, 1989), pressure MNCs to standardize and coordinate their international activities.

The I/R framework suggests that the environmental circumstances of an MNC can be classified by means of two dimensions (local responsiveness and global integration) and that the strategic orientation of the MNC should be contingent on the nature of the external context (Bartlett & Ghoshal, 1989; Ghoshal & Bartlett, 1990). In other words, in order to reach balanced global and national competitive advantages, the globalization of an MNCs strategy needs to be aligned with the globalization potential of the respective industries in which it operates (Yip, 1989).

The I/R framework has been influential although it has been extended in recent years. Verbeke and Asmussen (2016), drawing on Rugman's work on regional strategies (Rugman & Verbeke, 2004), suggest to add a regional layer to the I/R framework. This extension not only considers forces for global integration and national responsiveness, but also regional integration/responsiveness (e.g. in East Asia or Europe) and a regional strategic orientation in the typology of MNCs. Others, (e.g. Birkinshaw & Morrison, 1995; Jarillo & Martínez, 1990) stress that an MNC's strategy does not necessarily fully determine the strategy at the subsidiary level as the forces for integration and responsiveness may vary among subsidiaries. In this perspective, referred to as the differentiated network, the role of the

subsidiary must be considered separately (Harzing, 2000; Morschett et al., 2015; Nohria & Ghoshal, 1997). At the level of the subsidiary, the relevant environment does not only include external elements but also the larger internal, corporate network in which the subsidiary is embedded. Since different subsidiaries may have different value-added chains, resources, local contexts, capabilities, and performance, subsidiaries' strategic roles within an MNC may be heterogeneous, even in globally-oriented MNCs (Morschett et al., 2015).

Situation - Strategy Fit in the International Marketing Literature

MNCs also face the challenge of finding a balance between global standardization and local adaptation of their marketing strategies across national borders (Schlie & Yip, 2000). The prominent standardization/adaptation debate in the international marketing literature has a history going back at least five decades (Elinder, 1965; Katsikeas et al., 2006; Keegan, 1971; Levitt, 1983; Roostal, 1963; Samiee et al., 2003; Schmid & Kotulla, 2011; Shoham, 1996; Sorenson & Wiechmann, 1975; Theodosiou & Leonidou, 2003; Walters, 1986). Most of these studies base their analyses and recommendations on the concept of situation-strategy fit and argue that the decision to standardize or adapt elements of a marketing strategy should be contingent on certain situational factors, also referred to as 'antecedent factors' (Birnik & Bowman, 2007; Chung et al., 2012; Schmid & Kotulla, 2011; Solberg, 2002; Theodosiou & Leonidou, 2003). These antecedent factors consist not only of environmental conditions but also include factors internal to the firm or the subsidiary. In their review of the literature on the standardization/adaptation of international marketing strategy, Theodosiou and Leonidou (2003) identify seven categories of antecedent factors relevant to firms' decisions to standardize or adapt their international marketing strategies; namely: environmental, market, customer, competition, product/industry, organizational, and managerial factors.

In addition, the role of decision-making structure in the standardization or adaptation of an international marketing strategy has become of growing interest in recent research within the standardization/adaptation approach (Chung, 2009; Chung et al., 2012; Jain, 1989; Laroche et al., 2001; Ozsomer et al., 1991; Quester & Conduit, 1996; Solberg, 2002; Xu et al., 2006). It is widely agreed that a firm's choice of decision-making structure is a major driving force behind the formulation and implementation of a standardization/adaptation strategy (Chung et al., 2012; Jain, 1989; Kirpalani et al., 1988;

Laroche et al., 2001; Ozsomer et al., 1991). A range of studies have focused on the relationship between an MNC's centralization of decision making and the degree of marketing standardization, albeit with contradicting results. Some studies reveal a positive relationship between more centralized decision making and higher levels of standardization (Jain, 1989; Kirpalani et al., 1988; Laroche et al., 2001; Ozsomer et al., 1991), others find no direct relationship, but propose that instead of having a direct effect, decision-making structure may have an influence on marketing standardization when it is jointly considered with other situational or environmental factors (Chung, 2009; Picard et al., 1998; Quester & Conduit, 1996; Tai & Wong, 1998).

In more recent work, instead of studying whether or how the degree of decision-making centralization predicts the degree of marketing strategy standardization, Chung et al. (2012) introduce a contingency model that stresses that different combinations of degrees of centralization and standardization (high/high, high/low, low/high, low/low) will have different performance implications in different situations. Depending on factors controlled by a firm to influence consumers (i.e., its marketing mix) as well as other factors such as firm size and international business experience, performance varies across the four strategic combinations of degrees of centralization and standardization (Chung et al., 2012). In general, recent papers in the standardization/adaptation debate suggest that research on international marketing strategy needs to employ a contingency perspective and identify a performance-enhancing fit between a marketing strategy in terms of standardization/adaptation and a firm's external and internal environment (see e.g. Chung, 2010; Chung et al., 2012; Katsikeas et al., 2006; Schmid & Kotulla, 2011; Xu et al., 2006).

Environment - Structure Fit in the Organization Studies Literature

The effectiveness of organizational structure in different environments represents an important theme in organization studies in an MNC context. One of the earliest models in this branch is the 'stages model' introduced by Stopford and Wells Jr (1972). This model defines the organizational complexity faced by an MNC in terms of two dimensions, i.e., foreign product diversity (the number of products sold internationally) and foreign sales (foreign sales as a percentage of total sales).

Over the years, MNC research has developed a more elaborate understanding of MNC organizations. As Bartlett (1986) explains, in

analyzing the organizational capabilities a firm needs, one must not only consider an MNC's anatomy (formal structure), but also its physiology (core management processes) and its psychology (management mindset). In subsequent work, Ghoshal and Nohria (1993) propose a model of fit between environment and organizational structure that is not defined in terms of traditional structural forms (area, product, matrix, etc.) but that instead focuses on the MNC's internal pattern of headquarters-subsidiary relations. Here, headquarters-subsidiary relations are defined in terms of the extent to which governance is based on formalization, normative integration, and centralization (Ghoshal & Nohria, 1993). Formalization concerns decision making through bureaucratic mechanisms such as formal systems, established rules, and prescribed procedures. Normative integration relates to the socialization of managers into a shared set of goals, values, and beliefs that then shape their perspectives and behavior. Finally, centralization refers to the role of formal authority and hierarchical mechanisms in the MNC's decision-making processes (Ghoshal & Nohria, 1993).

Ghoshal and Nohria (1993) derive four structural patterns for MNCs. In structural uniformity, all subsidiaries are governed in highly similar ways, and overall integration of the governance types is high while differentiation is low. In differentiated fit, different governance modes are applied in subsidiaries with different local contexts (e.g. amount of local resources or level of environmental complexity). In integrated variety, the logic of differentiated fit is adopted, but is overlaid with an overall integrative mechanism through either strong centralization, formalization, or integrative integration. Finally, in ad hoc variation, there is neither a dominant integrative mechanism nor an explicit pattern of differentiation to adapt to local contexts. In classifying MNCs' environmental conditions, Ghoshal and Nohria (1993) rely on the four conditions introduced by Bartlett and Ghoshal (1989), namely: global, multinational, transnational, and international. Ghoshal & Nohria (1993) suggest that a fit between environmental contingencies and MNC structure in terms of headquarters-subsidiary relations positively affects MNC performance. Specifically, they argue that structural uniformity is best suited for MNCs facing a global environment, differentiated fit best matches multinational environments, integrated variety is the best structure for MNCs in transnational environments, and ad hoc variation will lead to better performance at MNCs operating in international environments (Ghoshal & Nohria, 1993).

The research of subsidiary–headquarters relationships and subsidiary roles within the MNC evolved as an important theme in the literature (Daniels, 1987; Gates & Egelhoff, 1986; Egelhoff, 1988; Ghoshal & Nohria, 1993; Picard et al., 1998; Quester & Conduit, 1996) and has become more sophisticated over time. More recent research, such as by Rugman and Verbeke (2001), goes beyond previous work as it no longer evaluates subsidiary roles and capabilities from a mere corporate 'portfolio analysis' perspective where roles and capabilities to subsidiaries are allocated by corporate headquarters. Rugman and Verbeke (2001) argue that an MNC parent company and one of its subsidiaries cannot simply decide on a single structural context that would determine all their interactions. Instead of defining subsidiary roles or types, they describe headquarter-subsidiary relationships in terms of patterns of competence-building within MNCs and stress that a single subsidiary may be associated with several patterns simultaneously and with different patterns for different value-creating activities.

Implications for Goodwill Policies?

In sum, the international strategy, international marketing, and organization studies literatures offer insights into how MNCs design their strategies and structures in accordance with the environments and situations they face. While the three strands of research take different perspectives on what constitutes an MNC's environment / situation and investigate different dimensions of strategy, they share an emphasis on the concept of fit and use of contingency frameworks in theoretical considerations.

Important insights for this paper can be drawn from existing literature regarding a) the understanding of tensions between environmental pressures that MNCs and industries face and that call for a contingency framework for goodwill strategy rather than a one-size-fits-all approach, b) the classification of firms' external and internal factors that may be homogenous or heterogeneous across contexts and that specify the pressures for local adaptation at play, and c) the importance of adjusting MNC structure, especially decision-making authority and procedures, to environmental or situational contingencies.

However, existing theories and propositions cannot yet provide exhaustive explanations in the context of goodwill policies for two reasons. First, studies on MNC strategy and structure have in most accounts focused on overall firm strategy/structure. While many studies indicate that

the environment-strategy/structure fit may differ for different business activities, few have looked at specific business activities in depth, and none of those are much related to the issue of goodwill policies. An increasing number of papers on the internationalization of service strategy explains how models of environment-strategy fit for these firms must take into account additional environmental factors and specific strategies (Javalgi & Martin, 2007; Kowalkowski et al., 2011; Lovelock & Yip, 1996; Rugman & Verbeke, 2008; Samiee, 1999; van Birgelen et al., 2002). However, given the specifics of goodwill services and the nascent state of theory on the internationalization of services and aftersales services, extant literature cannot provide reasonable propositions for the effective design of MNC goodwill policies. Marketing studies have analyzed strategies for specific marketing elements, such as pricing, distribution channels, product name, or sales promotion. While goodwill gestures can serve marketing purposes, goodwill policy is not an element of marketing strategy and in most firms it is not managed by marketing departments, but designed and managed by sales, aftersales, or quality departments. Due to the strong link between product quality and goodwill, theories from marketing studies can only partially be applied to goodwill. Second, in the context of goodwill, strategic and structural decisions should not solely be based on the environments of and relationship between headquarters and its subsidiaries, but need to incorporate subsidiaries' dealer networks as well, since dealers are to a large extent involved in the process of goodwill requesting and servicing and have the closest contact to consumers. In countries where MNCs do not own subsidiaries but sell their products via external partners, the role of these partners in goodwill decision making needs to be taken into account as well.

METHODOLOGY

Research Design

As existing theory is of limited transferability to the phenomenon of international goodwill and theoretical assumptions for international goodwill strategy at MNCs cannot be sufficiently derived from existing literature, we engage in a theory-building research design which is particularly suitable when exploring previously unaddressed relationships or phenomena (Colquitt & Zapata-Phelan, 2007; Edmondson & McManus, 2007; Siggelkow, 2007). Instead of testing theory, an inductive and theory-generating approach aims at building theory (Eisenhardt,

1989). Systematically analyzing qualitative data is deemed particularly helpful for creating new constructs and patterns when investigating complex subject areas (Edmondson & McManus, 2007; Morgan & Smircich, 1980). We therefore designed this study to yield a rich content base of interview data from which we can generate theoretical propositions (see Mantere & Ketokivi, 2013).

We conducted interviews with managers from both headquarters and subsidiaries of a multinational automotive corporation. Data analysis occurred via recursive cycling among the case data, emerging theory, and existing literature on international strategy, international strategy for service firms, international marketing strategy, organization studies in the context of MNCs, and headquarters-subsidiary relationships.

Sampling and Data Collection

We undertook a single-case study at ALPHACAR, a major automobile manufacturer headquartered in Europe. Despite the fact that multiple case studies provide a number of advantages over single case studies (see Eisenhardt & Graebner, 2007), data was gathered in only one MNC due to opportunities for unusual research access (see Yin, 1994). We had access to a large number of managers involved in goodwill decisions both at ALPHACAR's headquarters as well as in subsidiaries in North America, Europe and Asia.

The primary source of data is formed by 24 semi-structured interviews, each lasting between 35 and 90 minutes. The initial semi-structured interview guideline was developed on the basis of an analysis of literature on standardization/adaptation and a priori observations, but maintained enough flexibility and openness to allow for emerging issues and concepts throughout the interviews. Following Miles and Huberman (1994), initial data analysis took place already in early stages of data collection which led us to continuously modify the interview questions. The constant advancement of the interview guideline assisted in accumulating rich data. Furthermore, early data analysis allowed us to engage in theoretical sampling of interviewees (see Glaser & Strauss, 1967; Jaccard & Jacoby, 2011). We continued collecting data up to a point where no additional concepts or ideas were revealed and the data reached a point of saturation (see Glaser & Strauss, 1967).

Each interview was taped and transcribed to ensure reliability, resulting in 400 pages/140.000 words of primary source material. Interviewees were

managers who were or had been involved in goodwill decision making as a major part of their job description either at a global level at headquarters, at a regional level at headquarters (with responsibility for several countries belonging to that region), or at subsidiary level in one country. In order to get an unbiased and complete representation of goodwill decision making, and in order to avoid "… retrospective sensemaking by image-conscious informants …" (Eisenhardt & Graebner, 2007, p. 28), several highly experienced managers with different perspectives on goodwill (financial, marketing, processes, sales, quality, etc.) responsible for different geographical regions were included in the sample. Managers we interviewed (excluding those operating at a global level) were responsible for the following countries: Abu Dhabi, Afghanistan, Austria, Bangladesh, Brunei, Bulgaria, Cambodia, Canada, China, Cyprus, Czech Republic, Dubai, Fiji, Germany, Greece, Guam, Hong Kong / Macao, Hungary, India, Indonesia, Japan, Jordan, Lebanon, Malaysia, Malta, Mongolia, Nepal, the Netherlands, New Caledonia, New Zealand, Oman, Palestine Territories, Philippines, Poland, Romania, Singapore, Slovakia, Slovenia, Sri Lanka, Tahiti, Taiwan, United Kingdom, United States of America, and Vietnam.

A two-level goodwill strategy is pursued at ALPHACAR. At the first level, goodwill decisions for a defined set of known material defect patterns are made at the firm headquarters. Here, decision making is based on fixed parameters in terms of product model, age and mileage. These goodwill decisions are intended to result in relatively consistent patterns of goodwill approval across customers and across markets. Goodwill expenses based on centralized goodwill decisions are charged against headquarters' goodwill reserves. These standardized goodwill decisions apply worldwide except for NAFTA countries. This is because in some states of the US goodwill decisions may not be taken based on fixed parameters, unless the latter are published and are, without exception, applied for every product within those parameters.

At the second level, in case there is no standardized goodwill decision made for a specific product failure at the first level, fully-owned subsidiaries can make goodwill decisions at the expense of a local budget for goodwill. Goodwill content and decision-making processes may vary across countries. Next to decisions made by subsidiary staff, an increasing number of subsidiaries authorize dealers, who are ALPHACAR's external channel partners, to autonomously make goodwill decisions against the subsidiary budget within certain parameters (car age, mileage, repair costs).

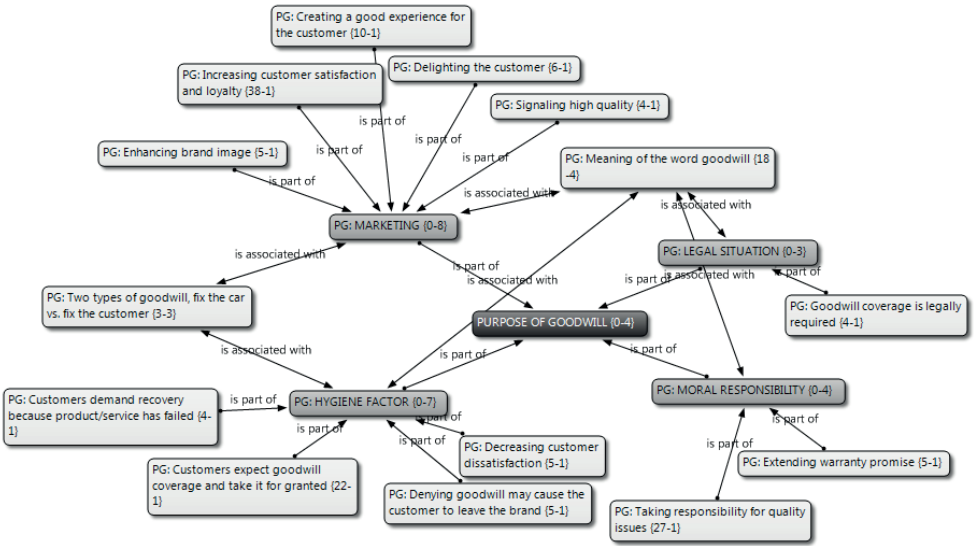
In countries where ALPHACAR does not own subsidiaries but partners with importers, these second-level goodwill gestures are covered by ALPHACAR headquarters and no decision-making authority is assigned to the business partner. Importers can request goodwill coverage while the decision is either made at headquarters or by an 'area manager aftersales' who is employed at headquarters but usually works and lives in the respective country or region.

Data Analysis

An important characteristic of inductive studies is that theorizing occurs during as well as after data collection. As recommended by Miles and Huberman (1994), we already initiated the analytical process in parallel to data collection using an 'open coding' technique (see also Glaser & Strauss, 1967) in Atlas.ti qualitative research software. Atlas.ti offers tools that help users locate, code, and annotate findings in primary data material, weigh and evaluate their importance as well as visualize complex relations between them (Lewins & Silver, 2007).

In the process of open coding, we studied every passage of the interview and labeled it with at least one appropriate provisional code. All transcripts were coded with English labels during the process of open coding. Open coding is not just intended to prepare the data for analysis, but also drives ongoing data collection and is a form of early analysis that can lead to reshaping one's perspective (M. B. Miles & Huberman, 1994). After coding the first few interviews, we proceeded from a mainly descriptive to a more conceptual level by bringing together different first-order codes that were linked together through higher-order categories. For example, one question we asked in the beginning of every interview was "*Why does ALPHACAR actually engage in goodwill gestures, even though the latter are costly and voluntary?*" From the codes that we created during open coding of the respective answers it soon became apparent that there are different 'purposes of goodwill'. We assigned all codes related to the purpose of goodwill to at least one of four emerging categories (to be described later), making use of an Atlas.ti feature, where codes and quotations can be organized in networks (see Figure 2.1).

Figure 2.1: Codes and categories for the purpose of goodwill



The white boxes in Figure 2.1 are the open codes that were generated directly from interview transcripts. The network feature in Atlas.ti allows for displaying the number of quotations that have been coded with the respective code (the first number in brackets), as well as the number of other codes that the respective code has been linked to (the second number in brackets). The light gray boxes are the four categories that were identified after open coding. Together, they constitute the concept of 'purpose of goodwill', as illustrated by means of the dark gray box in the center of Figure 2.1. We noticed how our data became more saturated, when statements on the purpose of goodwill in subsequent interviews did not yield any new codes or categories.

While the purpose of goodwill was a theme we already had in mind when developing the initial interview guidelines, there were also themes that emerged during the early stages of coding and building categories. When we started this study, we assumed that a central theme in optimizing an MNC's goodwill decisions is whether goodwill policies should be globally standardized, locally adapted, or individually customized. However, many codes established during open coding would fit neither of those approaches but referred to who was in charge of decision making. Thus, new constructs / themes (in this case the centralization / decentralization of decision making) that we did not have in mind at the beginning of data collection emerged and consequently became a part of more refined interview guidelines.

At the stage of axial coding (see Charmaz, 2006), relationships among the categories built from open codes were identified. For example, we detected how some of the categories refer to the situation or premises in which a goodwill decision needs to be made, while other categories deal with the actual effectiveness of a goodwill decision in a specific situation. Through applying several techniques for within-case analysis suggested by Miles and Huberman (1994), the relationship between information asymmetries and distribution of decision-making authority emerged as a 'core variable', a central phenomenon, in the data. Finally, in selective coding (see Charmaz, 2006) we reread all transcripts and selectively coded any data related to the core variable, while progressively refining the theoretical framework that had evolved.

MAIN FINDINGS

This section provides an overview of the main concepts that emerged from interview data. First, pressures for standardization, adaptation, and customization are present in goodwill cases and the strength of these pressures can vary case by case. Second, MNCs can respond to these pressures by adjusting the degree of decision-making centralization. At ALPHACAR, decision-making authority may be assigned to different parties of the MNC network, including external partners. Third, goodwill situations comprise a number of factors which together determine the pressures for standardization, adaptation, and customization present in a goodwill case. Fourth, goodwill decisions may be based on different pieces of information regarding a specific goodwill case. These different pieces of information are dispersed across several information holders creating information asymmetries within ALPHACAR's network.

Pressures for Global Standardization, Local Adaptation, and Individual Customization

In their investigation of international strategies in the automotive industry, Schlie and Yip (2000, p. 343) argue that "… the key in global strategy is to find the best balance between local adaptation and global standardization …". Firms can optimize their global efficiency by identifying the forces for global standardization and local adaptation that they face in the global marketplace and design their strategies accordingly (Prahalad & Doz, 1987). Pressures for and benefits from global standardization and local adaptation

can be identified for the specific issue of goodwill policies. These, however, differ to some extent from the pressures that have been previously identified for overall firm strategies (see Schmid & Kotulla, 2011; Theodosiou & Leonidou, 2003). Furthermore, in addition to pressures for global standardization and local adaptation, there are pressures for individually customizing goodwill policies.

Pressures for global standardization of goodwill policies Among the pressures for global standardization, one issue that was frequently addressed by managers is the need for consistency among goodwill decisions. In order to avoid damage to brand image, customers facing the same product failure need to be treated in the same way. Especially due to the fact that goodwill policies are frequently discussed in social media, customers are well informed about product quality and the frequent occurrence of certain failures, as well as the amount of goodwill coverage that other customers under the same or similar conditions received. A few managers mentioned that customers compare ALPHACAR's goodwill behavior across countries which shapes their expectations towards goodwill policies: Dutch customers are reportedly likely to check German-language social media, UK customers tend to find out about goodwill policies in US/Canada, and Canadian customers read US blogs when searching the internet. According to interviewees, globally-consistent policies are furthermore beneficial to customers who experience product failures when travelling across countries. Without a standardized approach towards product failure that customers face, dealers and subsidiaries have no incentive to offer goodwill to transit customers since, in contrast to the overall brand, they are unlikely to benefit directly from potentially increased customer loyalty.

In the strategy literature, global standardization of products and activities has been associated with the potential for scale and scope economies (e.g. Levitt, 1983; Yip, 1992). Standardized goodwill policies can reduce the overall decision-making effort in goodwill cases, because they allow for the application of standardized rules for the approval or denial of goodwill. The reduction of decision-making effort through the application of standardized rules could be labeled as a sort of economy of scope. This is related to another important benefit of standardized goodwill policies mentioned by several interviewees, namely the speed of goodwill decision making. At ALPHACAR, a standardized goodwill policy means that a certain defect code is associated with a rule on the amount of goodwill coverage within certain car age and mileage limits. As soon as a failure with that specific

defect code occurs, ALPHACAR dealers in different countries can find out about the standardized goodwill rule from an IT System and inform the customer about the repair cost coverage on the spot. There is no need for time-consuming further research regarding the specific customer or for discussions on a goodwill request between customer, dealer, and subsidiary. According to managers, increased speed of decision making is associated with increased customer satisfaction.

Pressures for local adaptation of goodwill policies Numerous pressures to locally adapt goodwill policies to market needs were mentioned by managers. Great importance was attached to respecting local market-specific needs. Additionally, the importance of adjusting goodwill policies in response to competitors' activities was underlined by several managers.

Another force for local responsiveness mentioned frequently is the flexibility of goodwill policies. In contrast to globally standardized goodwill policies, local regulations can quickly be adapted to changing market-environments. ALPHACAR could benefit more from locally adapting its goodwill policies via enhanced revenues by better serving country-specific customer needs, keeping up with local competition and thereby increasing customer satisfaction and loyalty.

Pressures for customization of goodwill policies In addition to pressures for global standardization and local adaptation, we identified pressures to customize goodwill decisions individually. Interview data suggest that customers may have diverse expectations in the case of product failures due to their individual prior history of loyalty to the product and/or brand. Furthermore, customers may use their products in different ways and show diverse behaviors of product maintenance. Interviewees further mentioned different expectations towards aftersales servicing among customers who bought cars located in different product segments. Additionally, owners of new products may have higher expectations towards goodwill coverage compared to second-hand product owners. All of these factors may affect the specific expectations customers have in the case of product failure. According to interviewees, customizing goodwill decisions based on the circumstances shaping an individual case may enhance customer satisfaction with the product or brand and increase chances of future brand loyalty in the process.

The volatility of pressures for standardization, adaptation, and customization of goodwill The pressures identified above differ from the pressures of the I/R framework and the pressures for the standardization/

adaptation of marketing in a substantial way: While the I/R framework helps describing an industry's, MNC's, or subsidiary's environment, the pressures for standardization/adaptation/customization of goodwill policies are variable not only across industries, MNCs or subsidiaries, but also across goodwill cases. Thus, even within the same subsidiary, at the same dealer, in one goodwill case (one customer requesting and/or being offered goodwill coverage) there might be high pressures for locally adapting the goodwill decision, while in the next case, pressures for making a customized goodwill decision may predominate. Consequently, analyzing the MNC as a differentiated network (see Harzing, 2000; Morschett et al., 2015; Nohria & Ghoshal, 1997) is necessary but not sufficient. Not only are different goodwill strategies effective in different market environments, but, additionally, different goodwill strategies are effective in different goodwill cases within the same market environment.

Centralization - Decentralization of Goodwill Decision Making

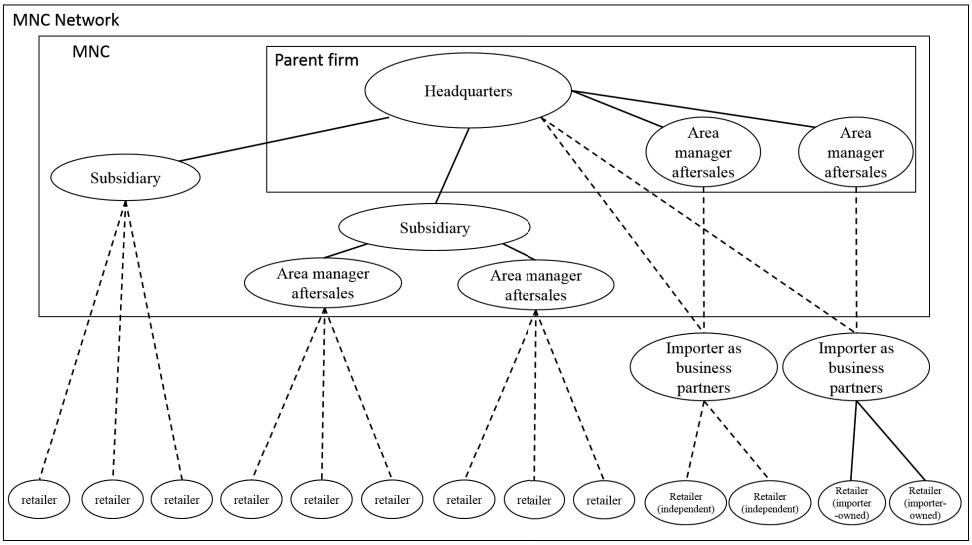
When designing their goodwill strategies, MNCs need to find a way to address the forces for global standardization, local adaptation and individual customization that may be present in a goodwill case. Since the strength of these different forces may vary from country to country and, furthermore, from case to case, MNCs must have the flexibility to employ different decision-making strategies in different situations. Interview data show that adjusting the degree of decision-making centralization within ALPHACARs network allows for responding to the different pressures at work in diverse goodwill situations.

In the literature, centralization deals with the division of decision-making authority between headquarters and subsidiaries of the MNC (Gates & Egelhoff, 1986; Ghoshal & Nohria, 1993). When it comes to goodwill, however, decision-making authority may be further dispersed and can, e.g., also be assigned to external channel partners. Consequently, in this study, centralization or decision-making structure does not only concern the division of decision-making authority within the MNC, but also across the MNC's external network. At ALPHACAR, several parties of its network can be involved in goodwill decision making. Most managers refer to three parties involved in decision making, namely headquarters, subsidiaries, and dealers. Whereas this is the case in the majority of countries and the most frequently discussed scenario in interviews, it does not hold for all countries where ALPHACAR markets its products and services. The highest degree of

centralization always equals decision making at MNC headquarters, and the lowest degree always means that decisions are made by a person working at the channel partner. The degrees in between, however, may differ across countries. Some subsidiaries operating in very large markets assign goodwill decision-making authority to aftersales area managers. These area managers are part of the subsidiary. However, they do not work at the subsidiary's head office but rather in one area of the respective country. Thus, area managers constitute an additional level where decision making can take place. Yet in other countries or regions (i.e., groups of countries), ALPHACAR does not own subsidiaries but partners with importers. These importers are external channel partners that either own dealerships or partner with dealers in that country or region. In these countries or regions there are also aftersales area managers that can be involved in goodwill decision making. These, however, are employed by, and therefore part of, ALPHACAR. These area managers can but do not necessarily have to be involved in decision making. The importer office can also directly turn to MNC headquarters for a goodwill decision. Figure 2.2 displays four typical configurations of the parties that can potentially be involved in goodwill decision making at ALPHACAR. Dotted lines represent relationships between parties that are independent of each other, i.e., between units of ALPHACAR and channel partners, or between two separate channel partners.

The locus of decision-making authority is an issue that was frequently addressed by managers and oftentimes perceived as playing a central role in effective goodwill decision making. Interview data show that different degrees of decision-making centralization are appropriate to respond to the pressures for global standardization, local adaptation, and customization. Simultaneously, the centralization and decentralization of decision making, respectively, can minimize risks that are present in goodwill decision making in the context of ALPHACARs network.

Figure 2.2: Parties in ALPHACAR's network involved in goodwill decision making



Centralized goodwill decision making at ALPHACAR The majority of interviewees propose that in some situations centralized goodwill decision making at headquarters may offer some advantages over decentralized decision making. They argue that centralized goodwill decision making creates consistency across cases and across markets. Globally consistent goodwill policies help shape brand image and signal the parent firm's willingness to take responsibility for product failures. Apart from signaling conscientiousness and reliability towards customers, some managers argue that central principles and guidelines can further transport and shape a unique mindset or attitude regarding how to treat customers in case of failures throughout the MNC network. Furthermore, centralized goodwill decision making ensures that product failures are actually treated the way they should according to the MNC's values and feeling of responsibility, and headquarters is in control and can assure that goodwill decisions comply with corporate objectives. This also reduces uncertainty among dealers and subsidiaries, because central goodwill decisions at ALPHACAR imply that repair costs will be covered by headquarters.

Decentralized goodwill decision making at ALPHACAR Decentralized goodwill decision making at ALPHACAR can take various forms. While decentralized decision making can mean that decisions are made by managers working at a subsidiary's main site, decisions can also be made by, e.g.,

area managers who are only responsible for a certain area within a market. Furthermore, authorizing external channel partners such as dealers to make goodwill decisions against the subsidiary's budget is a common practice at ALPHACAR. From interview data, several benefits of decentralized decision making can be identified that allow APLHACAR to respond to forces for local responsiveness and individual customization. The most important advantage of decentralization, according to case data, is the high flexibility provided. Subsidiaries, area managers, dealers and so forth can adapt goodwill policies to fulfill market as well as individual needs. Furthermore, they can quickly react to changing environments, such as developments in the competitive environment. Many interviewees argue that decentralized goodwill decision making allows for better responsiveness to customer expectations. Decision making at the subsidiary- or channel partner level can assure consistency within a market while respecting market-specific needs. Dealers are usually the level of ALPHACAR's network that has the closest contact with customers, thus assigning decision-making authority to dealers is associated with the best opportunities for responding to individual (and oftentimes unpredictable) customer expectations of goodwill. Generally, managers suggest that the more decentralized goodwill decision making is, the better one can react to pressures for individual customization.

Which exact degree of decentralization offers the best opportunities for responding to pressures for adaptation and/or customization, however, may differ from subsidiary to subsidiary. For instance, managers from China and the US gave numerous examples of different customer expectations in different areas of the country. They argue that decision-making authority located at the subsidiary's main site does not offer sufficient potential for locally adapting goodwill decisions. In New Zealand, on the other hand, there are fewer than ten ALPHACAR dealerships in the whole country and there is close contact and frequent communication between dealers and subsidiary. Here, the subsidiary is able to make customized goodwill decisions while still respecting market needs and ensuring consistency across cases.

Overall, three factors, that we refer to as 'market configuration', can be identified from interviews and these factors may result in different decision-making structures being effective in different countries: First, organizational structure determines the parties that can potentially make goodwill decisions in one country (see figure 2.2). Second, market size refers to the geographical size of the market and the number of dealerships situated in the market. Some large countries are confronted with important within-country differences,

such as climate zones, customer perceptions in rural vs. urban areas, or road conditions. Product failure types and customer expectations with respect to goodwill may be heterogeneous across different areas of such countries. In terms of the number of dealerships, managers state that, when there are only a few dealerships in a country, there is much more frequent communication on goodwill issues between dealers and the subsidiary. While joint discussion of goodwill cases is deemed advantageous for effective decision making, only small markets have the capacity to do so because the number of goodwill cases is much lower. Third, market maturity represents the average dealer's age and corresponding experience with goodwill decision making as well as the number of established relationships with customers, and the experience of subsidiary and dealership staff with goodwill decision-making processes and regulations.

Decision-making structure and the minimization of risks The decision to centralize or decentralize decision-making structure has often been associated with the objective to minimize risk (Ghoshal et al., 1994; Quester & Conduit, 1996). According to Garnier (1982, p. 895), there are three elements of risk that are important in headquarters-subsidiary relationships and that have varying impacts on the degree of centralization: the MNC's dependence on foreign operations and revenues; the difference between the subsidiary's (local) environment and the MNC's home environment in terms of political, social, cultural, legal, and economic factors; and the degree of variability and unpredictability of changes in relevant foreign environments.

These three elements of risk can also be found in interview data. In fact, these risks are highly related to the pressures for global standardization and local adaptation of goodwill policies. First, foreign goodwill practices are reportedly important to the MNC headquarters, since goodwill gestures may help retaining customers and shape brand image in the foreign market. Inconsistent goodwill decisions and denial of goodwill requests may negatively affect brand image. Furthermore, at ALPHACAR, parts of the costs for goodwill are covered by headquarters. Thus, leaving all decision making to local executives would come with financial risk for the MNC. This element of risk is strongly related to the pressures for standardization identified above.

Second, the risk of poor goodwill decisions made at headquarters was mentioned frequently by all interviewees that had been involved in goodwill decision making at a subsidiary or area. Numerous examples given by interviewees show that there exist various factors (environmental, market,

customer, competition, product/industry, organizational, and managerial) that may differ across countries or regions and that may lead to diverse customer expectations towards goodwill (these factors are further discussed in the goodwill situation section below). Goodwill decision makers at the headquarters, however, may not be aware of the market specifics, and thus may misinterpret a goodwill situation and end up making an ineffective goodwill decision. The risk of misinterpreting market needs is also an important pressure for local adaptation, as described above.

The third element of risk suggested by Garnier (1982) is present in the interview data as well. Managers gave several examples of market developments that called for a quick response in terms of goodwill gestures. Some examples are control units that failed in large numbers of vehicles when temperatures dropped suddenly and severely in Canada, changes in the competitive environment in China and the US when competitors proactively communicated their goodwill policies to customers, or a fuel quality scandal in Germany that led to numerous breakdowns of ALPHACAR products. The ability to quickly respond to changing environments is also an important pressure for local adaptation of goodwill policies.

In addition to these three elements of risk, a fourth element can be identified within this case study that goes beyond the headquarters-subsidiary relationship and highlights the important role of the dealer as an external partner. Several interviewees mention that neither headquarters nor subsidiary staff have direct customer contact and may misinterpret customer expectations or make faulty assumptions regarding how effective a specific goodwill decision will be. However, in order to make the most effective goodwill decision, in some cases, customer/case-specific factors need to be taken into account. Being able to understand and respond to customers' individual needs and expectations is also a key pressure for the individual customization of goodwill decisions. In these cases, managers recommend assigning decision-making authority to dealers.

Table 2.1 displays exemplary quotes for each of the four risks that may be present in goodwill situations and that can be reduced by altering decision-making structure within the network.

Case data show that adjusting goodwill decision-making structure can help respond to the forces for global standardization, local adaptation and individual customization present in a goodwill situation and minimize the risks that accompany those pressures in different goodwill situations.

Table 2.1: Elements of risk in goodwill decision making and exemplary quotes

Element of risk	Exemplary quote
Dependence of parent firm on foreign operations (see Garnier, 1982)	*"I think there definitely need to be some parameters around goodwill or monitoring of goodwill, because without some parameters or monitoring of goodwill, we're not going to get the value we want, especially when the field guys have the authority to approve money, they're gonna, you know, there's a lot of field guys, and some of them, they don't like, maybe they don't like saying no to the dealer when they're asked, so, they will just approve everything. But by knowing we're still monitoring them, we're looking over their shoulder a little bit, they're gonna make more strategic decisions. So I think having that general central policy in place allows to keep everybody on the same level to some extent, so I'm not against that."*
Misinterpreting messages from foreign environments (see Garnier, 1982)	*"This is going beyond the issue of goodwill but generally about how difficult it is to convince a centralist from your local circumstances and its consequences, be it cultural consequences regarding customer expectations, or technical consequences. This is because the colleagues live here in the [domestic] climate 365 days with summer and winter and if you tell them about a problem with melting glues in October, they will be thinking about making an appointment to switch to winter tires. That's always very difficult, takes a lot of negotiation to convince the colleague that something that's never been a problem here, can be a massive problem somewhere else."*
Rapidly changing and unpredictable foreign environment (see Garnier, 1982)	*"At some point it worked out, but it took two or three years to convince my colleagues at headquarters that in deed do have a local but heavy problem."*
Misinterpreting individual customers' expectations and needs	*"It would theoretically be easier if we had a group of people sitting in New Jersey, answering all the goodwill requests, and then you would have a more uniform response, but that's not really serving our customer, because the customers are not uniform. The requests are not uniform. So why should we give a uniform response? We have to tailor our response to the expectations of individual customers."*

Goodwill Situation

From the findings described above it becomes clear that MNCs must be able to respond to volatile pressures for global standardization, local adaptation, and individual customization and that they can do so by adjusting their decision-making structures. The strength of the different pressures depends on the situational contingencies present in a specific goodwill case. Four factors can be identified from interview data that together determine the type of goodwill situation at hand. Each goodwill situation is a product of the purpose of goodwill coverage, the type of failure that goodwill coverage is considered for, market-specific factors, and case/customer-specifics.

Purpose of goodwill coverage Goodwill gestures are provided by firms and dealers on a voluntary basis and have been deemed an effective marketing

tool to increase customer satisfaction as well as customer retention (Diez, 2006; Eggert, 2002; Meffert, 1982; Rosada, 1990). In line with the literature, the voluntariness of goodwill gestures and their use as a marketing tool is formally emphasized at ALPHACAR (e.g., through documents, guidelines, etc.). However, next to serving marketing purposes, i.e., increasing customer satisfaction, brand loyalty and brand image, other types of motivation for goodwill coverage can be identified from interview data. While pleasing customers was most frequently mentioned as a reason to offer goodwill, managers also stress that in many situations goodwill coverage is required to reduce customer dissatisfaction and anger and to avoid damage to the brand rather than enhancing brand image. Additionally, several managers provided examples of cases where product quality was not acceptable from their point of view and where they felt morally obligated to offer cost coverage to customers. The different purposes to provide goodwill to customers can be grouped into three main categories: Marketing: Exceeding customer expectations; Hygiene Factor: Meeting customer expectations; and Moral Obligation: Meeting own expectations.

Table 2.2 shows an overview of the three categories displaying the motivations (codes that were generated) stated in interviews together with illustrative quotes.

Table 2.2: Purposes of goodwill

Purpose Category	Codes	Illustrative Quotes
Marketing: Exceeding customer expectations	enhancing brand image, delighting the customer, increasing customer satisfaction and loyalty, signaling high quality, creating a good experience for the customer	*"In my opinion goodwill is actually buying customer satisfaction."* *"Make people feel that they're appreciated and understood, then they're more likely to say, okay, I'm gonna stay loyal to the brand, because they take care of me when something does happen."*
Hygiene Factor: Meeting customer expectations	decreasing customer dissatisfaction, customers demand recovery for failure, customers expect goodwill and take it for granted, denying goodwill may cause the customer to leave the brand	*"Either they feel that the car has failed, the product has failed or they feel that the process by which we service their vehicle has failed. And they are looking at us to give them something in return."* *"If we said no, we're not gonna go sell another car: The next time they look to buy a new car they may look at another brand, cause they've had a bad experience with our brand."*
Moral Obligation: Meeting own expectations	extending warranty promise, taking responsibility for quality issues, moral responsibility	*"It doesn't matter what the component is, but if we have a component that is poorly engineered and it's identified, you know what, this is unreasonable, it's not good enough quality, … it doesn't matter whether the customer is happy to pay the bill or not, morally the customer should not be paying that bill."*

Type of failure Product defects that are not the fault of the customer (i.e. not caused by, e.g., customer-caused accidents or missed service intervals) and that were inherent in the product at the time of delivery are covered under warranty within the warranted time period (e.g. Blischke & Murthy, 1992; Murthy & Blischke, 2006; Murthy & Djamaludin, 2002). These defects are also referred to as material defects (Eggert, 2002). Manufacturing firms may use the same rules for goodwill cases, i.e., only cover those repair costs caused by material defects (as suggested e.g. by Eggert, 2002). While documents and guidelines at ALPHACAR follow this approach, interviewees state that in practice things are not so 'black and white' and, in order to please customers, manufacturers need to follow a more tolerant approach, not only covering material defects, but using goodwill gestures for diverse types of defects and problems experienced by customers.

The type of failure that goodwill coverage is considered for can be of high relevance for effective goodwill decision making. Table 2.3 displays different types of defects and problems that may be experienced by customers. The latter may in turn be the result of different causes. While formally only those technical defects caused by a material defect, such as poor parts quality or poor engineering, would be covered under goodwill, financial support is requested and approved at ALPHACAR for all of the listed types of defects or problems.

Table 2.3: Types of failures, their potential causes and examples

Type of failure	Cause of failure	Examples
Technical defect	Poor parts quality (incl. unreasonable wear and tear), poor engineering	Engine breaks down at low mileage and low vehicle age, unreasonable early wear and tear of brakes
	Product design / concept	A bottle of water leaks in the trunk, water leaks into control unit causing malfunction
	Insufficient care	Engine breaks down caused by missed oil servicing
	Wear and tear	Brake discs are down
Conceptual issues	Product design / concept	Customers wearing varifocals experience problems with certain types of headlights; seat height adjustment too limited for customers taller than average

Type of failure	Cause of failure	Examples
Cosmetic issues, acoustics, smells	Product design / concept	Customers are annoyed by sounds despite those being in line with the series' standard
	Insufficient care	Seat leather stained because customer got in the car with wet, dark leather jacket
	Wear and tear	Ripped seams / stitching on seats, leather steering wheel worn off; Rattling sounds, wind sounds, tire sounds developing over time
Repeat repairs, many defects	Poor quality of previous repairs	Same defect occurs over and over, defect cannot be resolved within one workshop visit
	„Lemon" product	Extraordinary high numbers of technical defects within one product
Loss of mobility	logistic issues, late service appointments, delayed parts delivery	Problems with IT system, parts not available for days or weeks

Type of failure and purpose of goodwill are closely related. Depending on the failure type, different purposes may be pursued when offering goodwill coverage. For instance, some managers report that they feel a moral obligation to consider goodwill coverage for failures that result from poor product quality. This is, however, not the case, where customers complain about incidences of wear and tear which are reasonable from a technical point of view. In these cases, a goodwill offer may still be considered in order to seek marketing effects, if there is a chance to increase future revenues via future sales or services purchased by that customer.

Market-specific factors In every country a local subsidiary faces local customers and governments and diverse market and distribution infrastructures, which may exert pressures to adapt strategies to the local situation (Zentes et al., 2009). Regarding goodwill, interviewees notice the existence of international differences and market-specific factors that may be relevant in designing effective goodwill policies.

Case data reveal a number of situational or antecedent factors that may differ across regions or countries and hint at the need for locally adapting goodwill policies. While some factors identified in marketing studies are also relevant to goodwill (such as customer taste, cultural aspects, or the competitive environment), interview data reveal additional issues specific to the goodwill theme (e.g., typical maintenance behavior) and to the automotive industry (e.g. road or fuel quality). Table 2.4 displays all factors mentioned by interviewees that may differ across markets and may be relevant to the

design of goodwill policies. The number of statements associated with each factor is given in brackets. Factors are organized along the lines of the seven categories suggested by Theodosiou & Leonidou (2003).

Table 2.4: Market- or region-specific factors / international differences

Category	Elements	Examples mentioned in interviews
Environmental (26)	Climate	Technical defects caused by high / low temperatures, importance of paint quality in sunny regions
	Fuel Quality	Technical defects occurring at poor fuel quality
	Street Quality	Damage caused by large potholes
	Speed Limit	Some failures do not occur in some markets or regions because cars are never driven at high speed
	Altitude	Technical defects occurring at high altitudes
Market (61)	Economic Situation	Experts observe differences in customer expectations depending on a country's economic situation
	Legislation	No standardized, central goodwill possible in NAFTA States, legislation on product quality in NL, NZ
	Gray market	Countries with high levels of gray imports (e.g. NL) face difficulties with goodwill budget
	Proximity to other markets, Islands	No transient customers in the UK, thus less need for consistency with other European countries. But UK customers check US websites, Canadian customers compare to US, but US "lemon laws" don't apply in Canada
	Brand reputation	Perception of ALPHACAR as a premium brand may differ across countries
	Fleet-business	Percentage of fleet business can impact the importance and effects of goodwill coverage, end user does not benefit from goodwill directly, but the leasing firm does.
	Length of warranty	Warranty expires after: 2 years in Germany ; 3 years in UK and China; 4 years in US and Canada
	Size	NZ has eight dealers, direct communication on goodwill decision making btw. dealer and subsidiary
	Market maturity, state of development	Eastern Europe: More mature markets with bigger customer base and higher profits (e.g. Poland) were more demanding towards HQ than younger and less experienced markets (e.g. Slovenia)
	Prices, high-price country	Higher customer expectations in high-price countries, financial coverage may be lower for central goodwill, as HQ cover factory transfer prices for spare parts instead of retail prices
Customer (53)	Length of car ownership	Goodwill may be less important where customers do not drive their cars longer than warranty period

Category	Elements	Examples mentioned in interviews
	Culture	Social networks in Middle East countries, individualism vs. collectivism, power distance
	Customer expectations	Different customer expectations due to brand perception, experience with premium products and service, service culture etc. Rather an effect/a result of other factors than a situational factor itself?
	Customer behavior (e.g. maintenance)	UK customers put less attention to maintenance and care of their car than for example German customers do
	Customer preferences / taste	Japanese customers very sensitive towards noises, customers in Singapore sensitive towards surface structure (perception of defects, noise sensitivity)
	Complaint behavior	Willingness to complain and ask for goodwill, feeling comfortable/uncomfortable to negotiate (e.g. China: Customers from the South much more demanding and willing to argue about repair costs)
	Relevance of coverage	Related to economic situation?
	Annual Mileage	Japanese customers only drive about 8,000 miles a year, thus experiencing different defect patterns
Competition (18)	Competitive environment	DELTACAR is a competitor in some markets, in others not, in some markets ALPHACAR is considered the most premium brand, in others they face fiercer competition
Product / Industry (26)	Product / Model landscape	Only big, expensive models in some markets (China, India, Eastern Europe), just introduced small models in US & Canada leading to more diverse customer base, small models constitute highest volume in many North European markets
	Technical defect landscape	Diverse patterns of technical defect due to environmental factors, model landscape, etc.
Organizational (5)	NSC vs. Importer	Different transparency, systems, decision-making authority in Importer markets compared to NSCs
	Expertise of employees	New dealerships open up in China every week, staff has no experience with aftersales business
	Age / Maturity of foreign unit	Market maturity (Market)
Managerial (39)	Mindset towards goodwill	Profit orientation / business orientation /customer orientation
	Relationship with HQ	Cooperation, transparency, linkages
	Goodwill budget	Local goodwill budget at the expense of market profit, small markets with small budget may experience serious problems when covering five engine failures in a year, markets with higher budgets are a lot more flexible

Customer and case-specifics On top of market specific factors, customer- and/or case-specifics may also need to be respected in goodwill decision making. Within the same country or area, different customers may have different expectations regarding goodwill coverage and the effectiveness of goodwill coverage may vary across customers. Some interviewees point out how customer expectations regarding goodwill policies and service quality in general have increased over time. Given the large diversity of defect types and defect circumstances, substantial importance is attached to offering individual solutions.

Four different categories of customer/case specifics can be identified from case data: product details, a customer's previous relationship to the brand, customer characteristics, and the customer's product usage. The four categories are displayed in Table 2.5. Each factor contains several elements/aspects mentioned by interviewees that may differ across cases and customers.

Table 2.5: Customer- or case-specific factors / individual differences

Category	Elements
Technical details	Age and mileage of the vehicle; characteristics of failure (different expectations e.g. for break downs, security-relevant defects, etc.; customer expectations also different for very expensive repairs
Previous relationship to the brand	Customer's history of loyalty to the brand, to the dealership; customer's fleet (some customers own larger numbers of cars); Customer planning a new purchase; first hand vs. second hand customer; private or business vehicle
Customer characteristics	Costumer's personality; technical knowledge, customer's social environment/network (friends, family, VIP customers, "Opinion makers"); Customer's cultural background/mentality; age/generation; financial situation; customer's perception of the car (functional, emotional, financial meaning…); product segment
Customer's product usage	Servicing and maintenance behavior; customer's treatment of the car; driving behavior

Information Asymmetries in Goodwill Cases

When asking interviewees about the most appropriate degree of centralization in different goodwill situations, they typically explain their choices by referring to the information that the goodwill decision is based on. In fact, every goodwill decision is based on some sort of information, experience, or knowledge. Interview data reveal that there are different pieces of information on each goodwill case that may or may not be relevant

for effective goodwill decision making, depending on the characteristics of the goodwill situation at hand. These different pieces of information on a goodwill case are dispersed across the organization. As a result, the different actors within the MNC network each hold different pieces of information relevant for a specific goodwill case, creating information asymmetries within the network.

Pieces of information and relevance of information The following pieces of information can be identified from interview data that are available on each goodwill case:

- Information on product quality:
    - data on product quality, common technical defects and causes of technical defects (poor parts quality, poor engineering quality).
- Information on market specifics:
    - presence and nature of market specifics (environmental, market, customer, competition, product/industry, organizational, and managerial factors)
    - presence and nature of changes in the market place (e.g. activities of competitors, prominent issues regarding product quality and goodwill policies in press and social media).
- Information on customer- and case specifics
    - product details (such as age and mileage of the vehicle)
    - customer's previous relationship to and experience with the brand
    - customer characteristics
    - customer's product usage.

Not all pieces of information are relevant for effective goodwill decision making in all goodwill cases. Instead, the characteristics of a specific goodwill situation and the resulting pressures for standardization/adaptation/customization determine which pieces of information are required for effective decision making. Managers interviewed at ALPHACAR stress the importance of product quality information when pressures for standardized goodwill policies are high: global goodwill regulation would only be effective when there is a technical product failure that actually occurs globally. On the other hand, when product failures occur in only one country or region or when customers living in a certain culture have specific expectations regarding ALPHACAR products and services, pressures for local adaptation are high. In these cases, understanding the market environment and its dynamics is

essential for setting effective goodwill policies. Finally, when an individual customer experiences a random product failure or if ALPHACAR's products and services cannot fulfil a single customer's expectations, knowledge of that specific customer and their products is essential for effective goodwill decision making. In these cases data on global product quality or information on market specifics will be less helpful in making a goodwill decision that can ensure that customer's future loyalty.

Information holders and locus of information The pieces of information available on each goodwill case listed above are not always available to all parties of the network. Instead, different parties have access to different pieces of information. Contingent on the goodwill situation, the information held by one information holder may be more relevant than that held by another.

Our case data reveal that the nature of information asymmetries is contingent on the pressures for standardization/adaptation/customization evolving from different goodwill situations. On top of the variability that exists across different goodwill situations, information asymmetries further diverge across countries. Which exact actor in the MNC network has the most adequate access to which information may vary across countries, mainly due to differences in market configuration, market size, and maturity of the subsidiary or dealer network. The following instances exemplify how the distribution of information is contingent on market configuration: For comparable goodwill situations with high pressures for customization in e.g. Germany, China, and New Zealand, the dealer in Germany might have the most valuable information. Germany is one of ALPHACAR's most mature subsidiaries where dealers have been in business for many years, established close relationships with their customers and benefit from long-term experience with ALPHACAR's goodwill decision-making processes. In China, a still emerging and rapidly growing market, many dealers and their staff are relatively inexperienced and have not yet built up relationships with their customers. Even though these Chinese dealers have close customer contact, they may lack knowledge of ALPHACAR headquarters' goodwill philosophy and might make goodwill decisions that are not in line with the desired brand image. Here, the subsidiary may be the actor that can better make an effective goodwill decision because subsidiary managers already have extensive experience regarding the common attitudes and perceptions of Chinese customers towards the brand. In New Zealand, with its very small number of ALPHACAR dealerships, dealers have close relationships

with their customers and the resources to make effective goodwill decisions. Nevertheless, in New Zealand, dealers often discuss their customized goodwill decisions with subsidiary managers in order to make sure they comply with national goodwill practices. In a different example where understanding the regional environment is critical and thus pressures for local adaptation are high, the subsidiary in the UK may have the best information due to their access to quality data of the whole nation. In the US, a large market with different climate zones and road conditions and where decision-making authority can also be assigned to area managers who themselves live in the areas where they decide on goodwill requests, these area managers have the best knowledge of the regional environment.

GOODWILL DECISION MAKING IN MNC NETWORKS: PROPOSITIONS AND CONCEPTUAL MODEL

The main findings described above represent the results of open coding and contain the main categories that emerged from interview data (see Glaser & Strauss, 1967; Miles & Huberman, 1994). In the subsequent steps of axial and selective coding as well as through applying techniques for within-case analysis as recommended by Miles and Huberman (1994) we were able to detect the relationships that are entailed in the following propositions. A conceptual model that integrates these proposed relationships emerged in the more mature stages of data analysis.

Propositions

Goodwill situation and pressures for global standardization, local adaptation, individual customization Our findings suggest that goodwill situations can be classified by means of four factors: the purpose to provide goodwill (marketing, hygiene factor, moral obligation), the type of defect or failure (which is always a combination of the 'symptoms' and the cause of the failure/defect), the presence of market-specifics (environmental, market, customer, competition, product/industry, organizational, managerial) as well as customer and case-specifics (technical details, customer's previous relationship with the brand, customer characteristics, customer's product usage). Table 2.6 summarizes the situational factors that may comprise goodwill cases.

Table 2.6: Overview of situational factors in goodwill cases

Goodwill situation			
Purpose of goodwill	**Type of failure**	**Market-specifics**	**Customer/ case-specifics**
1. Marketing 2. Hygiene factor 3. Moral obligation	1. Technical defect 2. Conceptual issues 3. Cosmetic issues, acoustics, smells 4. Repeat repairs, many defects 5. Loss of mobility	1. Environmental 2. Market 3. Customer 4. Competition 5. Product / Industry 6. Organizational 7. Managerial	1. Technical details 2. Customer's previous relationship with the brand 3. Customer characteristics 4. Customer's product usage

Interview data reveal numerous examples of goodwill cases with different combinations of situational factors and suggest that different goodwill situations require different degrees of standardization/adaptation/customization of goodwill policies. The following scenarios exemplify how the characteristics of a goodwill situation together determine the strength of the different pressures at work.

In a goodwill situation where a customer is faced with an engine breakdown that was caused by poor engineering, known as a common defect to the MNC and maybe to customers as well via social media (type of failure) that occurs around the globe (market-specifics are not relevant), goodwill can probably not increase customer satisfaction, but may prevent customers from turning to another brand or going to court (purpose of goodwill). In this case, forces for globally standardized goodwill decisions are high, while pressures for customization are low (it does not matter which segment the customer's product is in or whether the customer has been loyal to the brand before).

In a different scenario, a technical defect caused by poor engineering (type of defect) may only occur in countries or areas with poor road quality or a hot climate (market specifics). Given the cause of the defect managers may feel responsible for offering help to affected customers (purpose of goodwill) while making sure that all affected customers are provided equal help. In this case, pressures for local adaptation are high.

Market-specific customer preferences can also lead to high pressures for local adaptation. According to interviewees, some cosmetic and conceptual imperfections may only be perceived as actual failures in some cultures.

Customers in some countries, such as Japan, are very sensitive to noises while customers in Singapore are reportedly highly critical regarding paint quality. Pressures for customization are high in a goodwill situation where, e.g., an engine breakdown occurred, however not due to poor engineering but due to insufficient care (missed maintenance intervals). Here, the purpose to cover repair costs would probably be marketing effects (purpose of goodwill) and which goodwill decision will have the desired effect depends largely on the specific customer's expectations (customer specifics).

The findings of this study suggest that the internationalization potential as described by the I/R framework may not only differ by industry, dimension of strategy, or element of the value-adding chain but that in the case of goodwill policies, it may also vary depending on the situational characteristics of a goodwill case. Furthermore, for the case of goodwill policies, there are not only pressures for global standardization and local adaptation, but also for individual customization. Accordingly, we suggest:

Proposition 1: The interplay of situational factors determines the strength of pressures for global standardization/local adaptation/individual customization of goodwill policies.

Pressures for standardization, adaptation, and customization and relevance of information The findings of this study suggest that depending on the specific goodwill situation and the resulting strength of forces for standardization/ adaptation/ customization, the value of the different pieces of information for making an effective goodwill decision varies. Different pieces of information could be identified from interview data that are either related to product quality, market specifics, or customer and case specifics. Contingent on the purpose of goodwill, the type of failure and market specifics, as well as customer and case specifics, present in the goodwill case at hand, these pieces of information may or may not be relevant for effective goodwill decision making.

Data from ALPHACAR suggest that if pressures for global standardization are high, knowledge on product quality is important in goodwill decision making. When pressures for local adaptation are high, market- or region-specific knowledge becomes more relevant. In a similar vein, when pressures for individual customization are high, details about the specific customer, their product, and their expectations are most valuable.

Hence:

Proposition 2a: High pressures for global standardization are associated with high relevance of information on product quality for goodwill decision making.

Proposition 2b: High pressures for local adaptation are associated with high relevance of market-specific information for goodwill decision making.

Proposition 2c: High pressures for individual customization are associated with high relevance of customer and case-specific information for goodwill decision making.

Market configuration and locus of information Different actors in the MNC network have access to different pieces of information relevant to a given goodwill case, creating information asymmetries. At ALPHACAR, headquarters reportedly has best access to global quality data. According to case data, subsidiaries, area managers or importers, and in smaller countries also dealers, usually have the best understanding of market- or region-specific environmental and soft factors. Subsidiaries are mostly reported to know best about rapid changes in their respective market place. Details on customers, their expectations, and their products are generally most easily available to the person who is servicing customers. Which exact party of the MNC network has the most adequate access to which type of information, however, may vary across countries mainly due to differences in organizational structure, market size, and the maturity of the subsidiary or dealer network. Thus, the information asymmetries present in goodwill cases are not necessarily equivalent across countries. Hence:

Proposition 3: Market configuration (market size x organizational structure x market maturity) determines how the different pieces of information (product quality, market/region specifics, customer/case specifics) are distributed across the MNC internal and external network.

Information asymmetries and decision-making structure, locus of relevant information and locus of decision making Case data suggest that when aiming at optimizing their goodwill policies, MNCs can adjust their decision-making structures to be able to respond to the varying pressures at work in different goodwill situations. Due to differences in market configuration, i.e., market size, market maturity, and organizational structure in different countries, however, the optimal degree of centralization in a specific goodwill situation may differ across countries, even when the pressures for standardization/

adaptation/customization are the same. Thus, it cannot be directly derived from the pressures at work which decision-making structure will be most effective in a goodwill case.

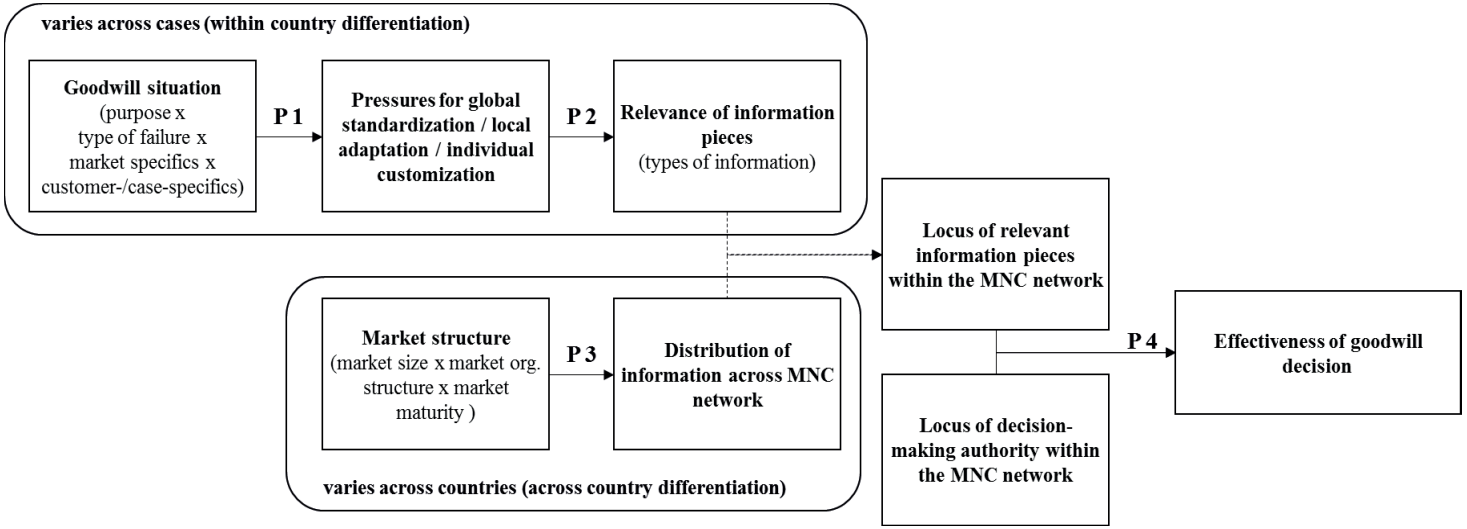
This gives rise to the question of how it can be determined which degree of decision-making centralization can best ensure an effective goodwill decision in a specific goodwill situation. Case data reveal that the effectiveness of goodwill decisions is strongly related to the information content that a goodwill decision is based on. Interview data suggest that decision-making authority should be located with the actor in the MNC network that has access to the most relevant information in a specific goodwill situation. Clear patterns are observable in the data: interviewees arguing for or against the centralization or decentralization of decision-making structure typically justify their recommendations with the knowledge, experience or information that the decision-maker does or does not hold. Together, the relevance of different pieces of information and the distribution of these pieces of information across the parties that could potentially make goodwill decisions determine the locus of relevant pieces of information within the MNC network. Interview data reveal that alignment between who has the most adequate access to information in a specific goodwill situation (i.e., the locus of relevant pieces of information within the MNC network) and who has the authority to make the goodwill decision (i.e., the locus of decision-making authority within the MNC network) leads to more effective goodwill decision making. Hence:

Proposition 4: A fit between the locus of relevant pieces of information within the MNC network and the locus of goodwill decision-making authority within the MNC network enhances the effectiveness of a goodwill decision.

Goodwill Decision Making in MNC Networks: a Conceptual Model of Two-Layered Differentiated Fit

Figure 2.3 gives an overview of the proposed relationships, based on our propositions, and integrates these relationships into a conceptual model. The characteristics of a goodwill situation are expected to determine the strength of the forces for global standardization, local adaptation and individual customization of goodwill policies (proposition 1). Depending on those forces, some pieces of information on the specific goodwill case (data on product/manufacturing quality, market-specific information, customer/case specific information) are suggested to become more relevant than others for goodwill decision making (propositions 2a-2c). Market configuration within

Figure 2.3: Conceptual model of relationships in MNC goodwill decision making for consumer durables



the respective country comprised of market size, organizational structure, and market maturity is expected to determine how the different pieces of information are distributed across the MNC network (proposition 3). While the distribution of information across the MNC network can vary country by country, the value of information may vary case by case within countries. Together, the relevance of pieces of information and the distribution of the latter across the MNC network determine the locus of relevant pieces of information across the MNC network. A fit between the locus of relevant information and the locus of decision-making authority within the MNC network is proposed to enhance the effectiveness of goodwill decisions (proposition 4). The twofold differentiation across countries as well as across goodwill cases within countries explains why there is neither a direct relationship between goodwill situation and optimal decision-making structure nor any hints towards an optimal decision-making structure for a specific subsidiary. Instead, the most effective decision-making structure for goodwill cases will differ across countries as well as across different situations within one country.

Determining performance-enhancing fit between situational or environmental conditions and MNC strategy or structure has been the subject of numerous studies in international strategy, marketing, and organization studies. The model developed above illustrates the way in which goodwill decision-making structure in MNC networks is related to the effectiveness of goodwill policies in different goodwill situations. In addressing our basic research question, case data does not reveal stable, performance-enhancing configurations of goodwill situation and goodwill strategy in MNCs. However, we uncover how information asymmetries arise in different goodwill situations in different countries and that a fit between the distribution of information and the distribution of decision-making authority within the MNC network may enhance MNCs' opportunities to respond to pressures for standardization, adaptation and customization of goodwill policies.

Differentiation between and within subsidiaries The view that MNC strategy does not necessarily result in uniform subsidiary strategies became prominent in the 1990s (Birkinshaw & Morrison, 1995; Harzing, 2000; Jarillo & Martínez, 1990; Nohria & Ghoshal, 1997). In the perspective of the 'differentiated network', pressures for global integration/standardization and local responsiveness/adaptation may not only vary across industries but furthermore across countries due, e.g., to differences in trade barriers and

technological standardization. While transnational organizations are most prone to differentiation between subsidiaries, heterogeneous subsidiaries are common also in MNCs with other strategic orientations (Harzing, 2000; Morschett et al., 2015). Nohria and Ghoshal (1994, 1997b) show that adjusting the formal structure of headquarters-subsidiary relations to fit the contexts of an MNC's different subsidiaries enhances overall MNC performance. Formal structure is composed of formalization and centralization. Conditions of fit occur when there is an optimal trade-off between the cost of the structural elements and their efficacy in the context of the respective subsidiary (Nohria & Ghoshal, 1994). Specifically, Nohria and Ghoshal (1994) suggest that in subsidiaries with higher environmental complexity, local resources, and low levels of centralization will lead to higher performance. Regarding centralization, they explain that the value of the subsidiary's local knowledge increases with greater environmental complexity, thereby drawing a direct relationship between the locus of relevant information and the locus of decision-making authority. This relates well to our finding that the degree of centralization should fit the distribution of the different pieces of information in a goodwill case.

While our findings are in line with previous research employing the perspective of the 'differentiated network' (see Nohria & Ghoshal, 1994), we argue that for the issue of goodwill decision making, differentiation between countries is not sufficient when aiming at enhancing fit between the specific goodwill context and decision-making structure. This is because the goodwill context is comprised of situational factors that may not only vary across countries, but also across goodwill cases within a single country. Our findings thus support Rugman and Verbeke's (2001) suggestion of a multidimensional nature of subsidiary function in the MNC. We further suggest that subsidiary-headquarter linkages may not only differ across value-creating activities within a single subsidiary but even within goodwill decision making, i.e., within a specific value-creating activity.

Multidimensional nature of subsidiary function in the MNC For goodwill the concept of centralization is extended beyond MNC headquarters and subsidiaries to include more actors within the MNC's extended network, such as area managers as a separate level within subsidiaries, but also dealers and other external partners of the MNC that can be involved in goodwill decision making. All of these parties hold some pieces of information, and the relevance of this information varies subject to the nature of the specific goodwill situation. The distribution of information within a country differs

across countries, and the value of different pieces of information varies across cases within countries. Consequently, reaching fit between the locus of relevant information and the locus of decision-making authority implies not only differentiating decision-making structure across countries, but also across goodwill cases within countries. The resulting two-layered model of differentiated fit provides an extension to the perspective of the differentiated network that is specifically relevant to theory on the internationalization of service firms and after-sales servicing in manufacturing MNCs, where direct customer contact is essential for performance and where external partners are involved in servicing.

Extending the I/R framework The I/R framework originally intended to help identify the internationalization potential of firms operating within specific industries by identifying the pressures for global standardization and local adaptation present in the respective industry. Depending on the internationalization potential of the industry, different strategic orientations for the firm were proposed to enhance firm performance (Bartlett & Beamish, 2014; Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987). Several authors state that strategy choices must not only be made at the level of the overall MNC but strategy choice should depend on the dimensions of strategy and the element of the value-adding chain where pressures for standardization and adaptation may differ from the overall industry (Kogut, 1985; Lovelock & Yip, 1996; Prahalad & Doz, 1987). Following these authors' suggestions and identifying the pressures that can be present in goodwill cases, we contribute to existing literature in two ways. First, in addition to specifying pressures for global standardization and local adaptation for the issue of goodwill policies, we identify a third dimension, namely pressures for individual customization. Second, existing research (Rugman and Verbeke, 2001; 2004; 2008) that investigates pressures for global standardization and local adaptation makes the assumption of relatively stable pressures, i.e., within an industry or a subsidiary the operating pressures can be detected and strategy choices can be made accordingly. For the case of goodwill gestures, pressures are variable, changing case by case, subject to the specific situation. Hence, no stable operating pressures can be detected and no stable strategy choices can be made for one market. Instead, strategy choices should depend on the contingencies of single goodwill cases. We expect that utilizing the I/R framework and complementing it with pressures for customization as well as considering the variability of pressures within subsidiaries or industries may be a helpful approach for studying international strategies for services.

CONCLUSIONS

By applying a qualitative, inductive research methodology (Colquitt & Zapata-Phelan, 2007; Edmondson & McManus, 2007; Eisenhardt & Graebner, 2007) we reveal the underlying fit mechanism that explains how adjusting the degree of decision-making centralization within the MNC network can lead to more effective goodwill decisions. As stated above, before starting data collection, we expected to identify the optimal degrees of goodwill standardization/ adaptation/customization in different goodwill situations. The importance of decision-making structure and the locus as well as value of different pieces of information in goodwill cases emerged from case data during the different stages of coding which are rooted in the methodology of grounded theory (Glaser & Strauss, 1967; M. B. Miles & Huberman, 1994). As pointed out by Colquitt and Zapata-Phelan (2007) empirical papers that follow the inductive model may draw on existing theory to guide the categorizing of observations, although the data gathered are not used to explicitly test those theories.

By detecting the role of information asymmetries as a core variable for effective goodwill decision making in MNC networks, we explain why different degrees of centralization are effective in different goodwill situations in MNCs. In their literature analysis of articles on the standardization/ adaptation debate in international marketing, Schmid and Kotulla (2011, p. 493) point out that only few of the analyzed papers provide normative-theoretical explanations of performance enhancing situation-strategy fits from which prescriptive recommendations can be derived. Instead, the vast majority of reviewed studies offer positive-theoretical explanations for why firms standardize or adapt their marketing based on descriptive analyses. In this paper we intended to provide a normative-theoretical explanation by investigating why MNCs have to adjust their goodwill decision-making structures in order to enhance goodwill effectiveness. Our findings therefore respond to Schmid's and Kotulla's (2011) and other calls for well-grounded theoretical explanations and recommendations within the standardization/ adaptation debate (see e.g. Birnik & Bowman, 2007; Ryans Jr et al., 2003; Theodosiou & Leonidou, 2003). Furthermore, our findings add to the rare theoretical expressions for international service strategy (Javalgi & Martin, 2007; Lovelock & Yip, 1996; Rugman & Verbeke, 2008; Samiee, 1999).

Limitations and Future Research

By revealing and describing the role of information asymmetries in goodwill decision making, our inductive investigation establishes new insights into fit models for situation-structure configurations in MNCs. The findings of this study need to be understood against the background of goodwill for consumer durables and the case firm from the European automotive industry. As with any qualitative and explorative research, the findings cannot be broadly generalized. We nevertheless believe that this study provides a number of important contributions to research on MNC strategy design in the light of versatile as well as volatile markets and goodwill situations. Despite its contributions, this study is subject to several limitations that also suggest themes for future research.

First, our study does not include an analysis of communication patterns between the different actors of the MNC network that may blur the locus of information. Despite the finding that information tends to be less dispersed in smaller countries due to more frequent communication between subsidiary and dealers, this study does not analyze how communication might moderate the relationship identified in our third proposition. Current developments in communication technology and an increasing digitization of industries, such as the automotive industry, may create opportunities to reduce information asymmetries. Future research on this issue could provide important managerial implications.

Second, while we could interview managers involved in goodwill decision making at ALPHACAR headquarters, subsidiaries, and markets where the firm partners with external partners, our sample does not include dealers. Adding the perspective of dealers to our data might have offered additional insights on the types of information that are available to dealers, but might not be directly accessible by other levels of the MNC network and across different regions within countries.

Finally, this study detects that in different goodwill situations, different actors of the MNC network have the best resources (information) to make effective goodwill decisions. This, however, does not necessarily imply that, when given decision-making authority, those parties will actually make decisions that will be effective in terms of increasing customer satisfaction or retention. The most effective goodwill decision might actually interfere with the decision maker's own interests. For instance, in a scenario where a dealer's workshop is underutilized, approving a goodwill request might

be in the interest of the dealer, even when the goodwill gesture is ineffective from the MNC's perspective. Such a scenario represents a classic principal-agent problem that suggests an interesting topic for further study of adequate incentives for the agent.

CHAPTER 3

Strategy Implementation Gaps in Global Standardization: Evidence from an Automobile MNC[2]

Despite general agreement concerning its importance for the strategy process, strategy implementation has received relatively limited attention in international business and strategic management research. Studies that examine strategy implementation often assume straightforward enactment of formulated strategy, infer implementation from performance outcomes, or base their conclusions on managers' subjective perceptions. This is particularly problematic when considering the context of MNC strategies of global standardization, given the range of divergent influences, both internal and external, to the MNC that can affect actual subsidiary-level implementation outcomes. In this study we address this issue by unpacking the concept of 'strategy implementation gaps', which we define as the deviation of subsidiary-level implementation outcomes from the MNC's formulated strategy. We employ a sequential mixed-method approach to more directly identify strategy implementation gaps and to generate a more nuanced understanding of the complex interplay of factors that underlie them. Our exploratory quantitative analysis that compares strategy implementation outcomes between a foreign and a domestic subsidiary of a major European car manufacturer following the introduction of a standardized strategy, reveals clear evidence of a strategy implementation gap. Our qualitative analysis of interview data collected at both headquarters and subsidiaries reveals how communication issues and misaligned subsidiary role perceptions affect both strategy formulation and implementation, leading to entrepreneurial behavior at the foreign subsidiary that resulted in unexpected implementation outcomes.

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INTRODUCTION

While strategy is essential to organizational survival, research suggests that more often than not, organizations fail to execute on their strategic initiatives (Allio, 2005; Carroll, 2000; Miller, 2001). In the context of multinational corporations (MNCs), extant literature has sought to explain such failures in terms of subsidiaries' inability to implement corporate strategy, relational elements affecting subsidiary motivation to implement that strategy, and exigencies associated with the (host-country) institutional environment that cause subsidiaries to deviate from that strategy (Edwards et al., 2016; Ferner et al., 2005; Kostova & Roth, 2002; Xu & Shenkar, 2002). Much of this research has explored the standardization vs. localization dilemma, where MNCs face pressures to standardize processes, products and policies globally but also to adapt to local tastes, demands and requirements (Edwards et al., 2016; Jun et al., 2014; Pudelko & Harzing, 2008; Schmid & Kotulla, 2011; Theodosiou & Leonidou, 2003). Accordingly, international strategy scholars have highlighted the effects of important factors such as subsidiary roles, procedural justice, operational capabilities, and the institutional context (e.g., Birkinshaw & Morrison, 1995; Guth & Macmillan, 1986; Judge & Stahl, 1995; Kim & Mauborgne, 1993b; Lin & Hsieh, 2010; Nohria & Ghoshal, 1994; Pinkse et al., 2010; Roth et al., 1991).

Although these studies generate important insights, they tend to deduce effective strategy implementation from enhanced overall firm or subsidiary performance, or leave effective implementation unspecified altogether. Yet effective strategy implementation may not lead to enhanced performance, and enhanced performance need not derive from effective strategy implementation. Others use subjective measures that rely on perceptions, and often fail to relate the subsidiary level to the MNC's overall formulated strategy (Ferner et al., 2005; Katsikeas et al., 2006; Kostova & Roth, 2002; Samiee et al., 2003). Within the prominent standardization versus adaptation debate, conclusions on the optimal degree of standardization are usually drawn based on formulated strategy with no attention to the standardization degree that is actually exerted at the subsidiary level (cf. Katsikeas et al., 2006; Samiee et al., 2003). We argue that in order to deepen our understanding of strategy implementation in MNCs, an examination is needed of how strategy is actually implemented at the subsidiary level, in what ways it deviates from the MNC's formulated strategy, and why. We study what we call 'strategy implementation gaps' that occur when strategy implemented at the subsidiary level deviates from strategy formulated by headquarters.

We build on prior research highlighting the roles of middle- and subsidiary management (e.g., Gupta & Govindarajan, 1984; Guth & Macmillan, 1986; Judge & Stahl, 1995; Kim & Mauborgne, 1993b) and subsidiaries' strategic roles with respect to strategy execution (e.g., Birkinshaw & Morrison, 1995; Roth et al., 1991) to develop a more nuanced understanding of actual strategy implementation at the subsidiary level.

This earlier research suggests that as a consequence of heterogeneity in subsidiary management characteristics and subsidiaries' strategic roles, MNC strategies may not be consistently communicated, interpreted, adopted, and executed across subsidiaries (e.g. Gupta & Govindarajan, 1984; Judge & Stahl, 1995; Lin & Hsieh, 2010). Such strategy implementation gaps are especially relevant in the context of global standardization strategies, where the same implementation outcomes are expected across subsidiaries but where diverse internal and external factors may shape implementation processes in different ways, in particular for foreign subsidiaries (e.g., Birkinshaw & Morrison, 1995; Judge & Stahl, 1995; Roth et al., 1991). Yet the failure thus far to explore implementation outcomes at the subsidiary level directly indicates that we know little about the context of strategy implementation at the subsidiary level. We aim to shed light on the phenomenon of strategy implementation gaps in the context of MNCs' global standardization strategies by addressing the following overarching research question:

To what extent do strategy implementation gaps exist in the context of MNCs' global standardization strategies and what factors might explain such gaps?

In the following, we first review the literature on global standardization strategies, subsidiary roles, and strategy implementation in MNCs to both better conceptualize strategy implementation and to identify factors internal and external to the MNC that affect strategy implementation outcomes. Empirically, we employ a sequential mixed methods research approach. First, we performed an explorative, quantitative analysis of over 20,000 goodwill cases at two subsidiaries – one foreign and one domestic – of a large European automobile MNC in the period preceding and following their rollout of globally standardized goodwill policies. In this context, goodwill refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired. Analysis of these goodwill cases, clustered into 2,080 auto-age and month brackets, shows that implementation outcomes varied markedly across the two subsidiaries, indicating the presence of a strategy implementation gap. Second, we conducted semi-structured interviews with managers at the MNC's headquarters and the two subsidiaries to

explicate factors underlying the strategy implementation gap. Qualitative analysis of these interviews reveals that the foreign subsidiary adapted the standardized policies as a result of their different perception of the subsidiary's role as well as different interpretation of the strategic objectives behind the standardization strategy. Surprisingly, implementation of a global standardization policy led to much higher numbers of goodwill cases in the domestic subsidiary, and thus considerably higher costs to headquarters, than adapted implementation did in the case of the foreign subsidiary. This observation supports the notion that standardization can lead to moral hazard problems whereby subsidiaries no longer feel ownership of strategy and decision making, leading to higher costs for headquarters, whereas the foreign subsidiary's adaptation process can lead to greater ownership and more strategic decision making, and lower costs.

Our study generates three contributions to the international business and strategic management literatures. First, we deepen our understanding of the implementation of global standardization strategies by unpacking the concept of strategy implementation gaps, which we define as subsidiary-level deviation of strategy implementation outcomes from the MNC's formulated strategy. We empirically assess differences in implementation outcomes between foreign and domestic subsidiaries and evaluate them in relation to headquarters' original strategic objectives. Second, we open the black box of strategy implementation gaps to show how communication issues and misaligned subsidiary role perceptions affected processes of both strategy formulation and implementation, leading to entrepreneurial behavior at the foreign subsidiary that resulted in unexpected implementation outcomes. In so doing, we go beyond the focus in extant research on foreign subsidiaries' perceptions of procedural injustice, opportunism, lack of or misfit of operational capabilities, or on subsidiaries' defiance of headquarters. Third, our findings suggest that strategy implementation gaps need not be driven by subsidiaries' self-serving motives, nor are they necessarily harmful to the MNC's overall strategic objectives, even in the context of global standardization strategies. Hence, strategy implementation gaps in global standardization not only point towards differences in strategy execution across subsidiaries but may also reflect non-sanctioned subsidiary initiatives that the MNC could leverage throughout the corporate network.

THEORETICAL BACKGROUND AND RESEARCH QUESTIONS

Despite the important role implementation plays in the strategy process, there is a relatively small body of literature that explicitly addresses strategy implementation and few studies have analyzed actual strategy implementation in the context of the MNC. According to extant research, various internal factors (i.e., those related to the MNC and how it is organized) and external factors (i.e., those related to the host-country institutional environment that a subsidiary is embedded in) can influence strategy implementation processes (e.g., de Oliveira et al., 2019; Floyd & Wooldridge, 1992; Gupta & Govindarajan, 1984; Jaworski et al., 1993; Li et al., 2008; Noble, 1999). As prior research shows, individual subsidiaries are exposed to unique combinations of these internal and external factors (e.g., Birkinshaw & Morrison, 1995; Ferner et al., 2005; Jarillo & Martínez, 1990; Nohria & Ghoshal, 1997; Roth et al., 1991; Roth & Morrison, 1992), which raises the question of whether one can expect a similar implementation of a strategic plan in different subsidiaries. Especially concerning strategies of global standardization, the assumption of equal implementation outcomes across subsidiaries may be unrealistic, given these internal and external forces.

Global Standardization Strategies and Heterogeneous Subsidiary Roles

A global strategic orientation focuses on the benefits of global efficiency. It is characterized by rationalized production, standardized products, concentrated production plants, concentration of innovation in the home country, centralized decision making and unidirectional product flows (Bartlett & Ghoshal, 1989; Harzing, 2000; Zentes et al., 2009). MNCs with a global strategic orientation focus on exploiting knowledge, new products or processes of the parent company by transferring them to foreign markets without adapting to host countries (Perlmutter, 1969; Zentes et al., 2009). In the context of business unit strategies (e.g. marketing strategy) or specific elements of the value chain (e.g. product portfolio, distribution channels, advertising), the global integration of business activities has also been referred to as a strategy of global standardization (Pudelko & Harzing, 2008; Schmid & Kotulla, 2011; Theodosiou & Leonidou, 2003). Studies on standardization typically focus on antecedent factors that determine the strategic decision to standardize (versus locally adapt) and/or associated performance outcomes (see Schmid & Kotulla, 2011 for a comprehensive review). Generally, these

studies suggest that global standardization of strategy elements is better supported when the external and internal environment are homogenous across subsidiaries (e.g., Evans et al., 2008; Grewal et al., 2008; Ko et al., 2007; Lim et al., 2006; O'Donnell & Jeong, 2000; Tai & Pae, 2002).

Perspectives on MNC strategy that emerged at the end of the previous century, such as those elucidating the concept of a transnational organization or the differentiated network perspective, led to increased attention for the different strategic roles that subsidiaries can adopt or be assigned to (Bartlett & Ghoshal, 1986, 1989; Birkinshaw & Morrison, 1995; Gupta & Govindarajan, 1991; Harzing, 2000; Harzing & Noorderhaven, 2006; Nobel & Birkinshaw, 1998; Nohria & Ghoshal, 1997; Roth & Morrison, 1992; Rugman et al., 2011). These roles are typically assigned labels such as 'black holes', 'local innovators', 'implementers', 'global innovators', 'strategic leaders', or 'integrated players' (Bartlett & Ghoshal, 1986; Gupta & Govindarajan, 1991), that each harbor different levels and types of capabilities, decision making autonomy, and interdependence with other subsidiaries.

Given the heterogeneity of subsidiaries and their strategic roles, corporate strategy does not necessarily fully determine the strategy at the subsidiary level, even in MNCs with a global strategic orientation (Birkinshaw & Morrison, 1995; Harzing, 2000; Jarillo & Martínez, 1990; Morschett et al., 2015; Nohria & Ghoshal, 1997). Importantly, the subsidiary's role does not necessarily follow from headquarters' mandate but may be adopted independently by the subsidiary itself (Birkinshaw & Hood, 1998). Moreover, headquarters and subsidiary management may have entirely different perceptions of the subsidiary's role and may be unaware of those perception gaps (Birkinshaw et al., 2000). Rugman et al. (2011) extended beyond these ideas to suggest that individual subsidiaries may even take on different roles for different value-chain activities. Therefore, even though subsidiaries are (the) key actors responsible for the actual implementation of strategy in the MNC, the challenges stemming from these complexities render strategy implementation anything but straightforward.

Strategy Implementation and the Strategy Process

Well-formulated strategies have little value without effective implementation (Noble, 1999). While many companies excel at the difficult task of formulating strategic plans, many also fail at the even more difficult challenge of converting these plans into action throughout the organization (Hrebiniak, 2006).

According to Noble (1999), a host of factors may impact the implementation of strategic plans, including organizational structure and control mechanisms (e.g., Gupta, 1987; Jaworski et al., 1993; R. E. Miles et al., 1978), interpersonal processes (e.g., Floyd & Wooldridge, 1992; Schweiger et al., 1989; Wooldridge & Floyd, 1989), autonomous strategic behaviors (e.g., Connors & Romberg, 1991; Hutt et al., 1988), diffusion barriers (e.g., Robertson & Gatignon, 1986), leadership styles (e.g., Gupta & Govindarajan, 1984), strategic consensus (e.g., Kellermanns et al., 2011; Rapert et al., 2002), and communication and interaction processes (e.g., Argyris, 1989; Sandy, 1991).

However, although the importance of strategy implementation has been underscored by both academics and consultants, it is a complex phenomenon that remains poorly understood (de Oliveira et al., 2019; Li et al., 2008). Scholars have devoted much more attention to the formulation of strategy than to its execution (Smith, 2009), such that implementation "… is treated by some managers and many scholars as a strategic afterthought …" (Noble, 1999, p. 119). Yet even though considered 'mundane' (Hambrick, 2004, p. 95) and 'not spectacular' (Powell, 2004, p. 79), effective strategy implementation is crucial to organizational success. Thus, recognition of the criticality of effective implementation as part of the strategy process has grown, even though its exact definition, antecedents, and outcomes remain subject to debate (Allio, 2005; de Oliveira et al., 2019; Floyd & Wooldridge, 1992; Hrebiniak, 2006; Li et al., 2008; Noble, 1999; Smith, 2009).

Several authors have reviewed existing definitions of strategy implementation and proposed new or adapted conceptualizations (e.g., de Oliveira et al., 2019; Li et al., 2008; Noble, 1999; Smith, 2009). All of them criticize normative perspectives that treat implementation as the straightforward operationalization of strategic plans and acknowledge the importance of structural and interpersonal influences. For instance, Nobel (1999) points out that strategy implementation entails the communication, interpretation, adoption and enactment of strategic plans. Similarly, Li et al. (2008, p. 6) combine process and behavior perspectives to suggest that strategy implementation should be understood as "… a dynamic, iterative and complex process (…) comprised of a series of decisions and activities by managers and employees – affected by a number of interrelated internal and external factors – to turn strategic plans into reality in order to achieve strategic objectives …" (Li et al., 2008).

In sum, although existing literature emphasizes the importance of effective strategy implementation as part of the strategy process, most studies

draw inferences about implementation from the strategy formulation process, formulated strategy, performance outcomes, or the relationships between them, with relatively little attention for actual strategy implementation, implementation outcomes, and whether those outcomes resemble the formulated strategy.

Strategy Implementation in the MNC

Given the scarcity of theoretical and empirical considerations of actual strategy implementation, it does not come as a surprise that the literature on strategy implementation in the context of the MNC is very limited, especially in light of the additional complexities posed by the MNC's international environment. The majority of studies on the implementation of international strategies was published in the early 1990s (e.g., Jarillo & Martínez, 1990; Judge & Stahl, 1995; Kim & Mauborgne, 1991, 1993a; Nohria & Ghoshal, 1994; Roth & Morrison, 1992) but the issue has also provoked interest more recently (e.g., Epstein & Roy, 2007; Ferner et al., 2005; Kostova & Roth, 2002; Lin & Hsieh, 2010; Pinkse et al., 2010). This research typically considers a variety of factors that can affect the transfer and adoption of policies and practices across the MNC. Many studies focus on internal factors, those specific to the subsidiary as well as to its relationship with the MNC as a whole, while others emphasize external factors, those stemming from differences between home- and host country institutional environments (Ferner et al., 2005; Li et al., 2008; Roth et al., 1991).

With respect to internal factors, some scholars focused on issues such as subsidiaries' lack of the necessary operational capabilities (e.g., Birkinshaw & Morrison, 1995; Lin & Hsieh, 2010; Nohria & Ghoshal, 1994) or insufficient absorptive capacity (e.g. Epstein & Roy, 2007; Pinkse et al., 2010). Others emphasized tensions surrounding the subsidiary's (assumed) role in the MNC (Bartlett & Ghoshal, 1986, 1989; Birkinshaw & Morrison, 1995; Gupta & Govindarajan, 1991; Harzing, 2000; Harzing & Noorderhaven, 2006; Nobel & Birkinshaw, 1998; Nohria & Ghoshal, 1997; Roth & Morrison, 1992; Rugman et al., 2011). Subsidiary roles are commonly conceptualized as a function of, e.g., the subsidiary's strategic importance to the MNC (e.g., Bartlett & Ghoshal, 1986; Gupta & Govindarajan, 1991; Harzing & Noorderhaven, 2006; White & Poynter, 1984), the subsidiary's bargaining and innovation power (Ambos et al., 2006; Dörrenbächer & Gammelgaard, 2011; Mudambi & Navarra, 2015), and the host-country market's importance to the MNC (e.g., Birkinshaw & Morrison, 1995; Roth & Morrison, 1992; Taggart, 1997).

Yet this literature often implicitly assumes that subsidiary roles are assigned by headquarters, when in reality the perceptions of headquarters and the subsidiary may diverge (Birkinshaw et al., 2000; Chini et al., 2005; Denrell et al., 2004; Schmid & Daniel, 2011). To the extent that both parties are aware of such divergent perceptions, tensions can arise between headquarters and subsidiaries. In this context, issues such as procedural justice, i.e., "… the extent to which the dynamics of a multinational corporation's strategy-making process are judged to be fair by the top-managers of its subsidiaries …" (Kim & Mauborgne, 1993b, p. 503), can inhibit subsidiary-level implementation of corporate strategy. Procedural injustice perceptions result in a lack of cooperation and compliance and may even cause subsidiary managers to ignore or undermine corporate strategic decisions and decrease the quality of their implementation (Guth & Macmillan, 1986; Kim & Mauborgne, 1993b).

Such perception misalignment can also cause subsidiaries to undertake 'initiatives' (Birkinshaw, 1997) in terms of entrepreneurial proactive behavior in organizational subunits (Strutzenberger & Ambos, 2014, p. 314). Subsidiary initiatives can range from operational improvements to disruptive business creations and be confined to the local level or affect the whole MNC to the point where they may augment a subsidiary's position in the MNC (Schmid et al., 2014). While such initiatives may be tolerated or even encouraged by headquarters (e.g., Asmussen et al., 2019; Bartlett & Ghoshal, 1989; Nell et al., 2017), they can also interfere with corporate strategy such that headquarters may need to intervene in order to safeguard the global brand and ensure standards across countries (Bartlett & Han, 2011). In some cases subsidiary initiatives are not sanctioned by headquarters, which means that "… head office managers are either unaware of the initiative, or they are turning a blind eye towards it …" (Birkinshaw, 1998, p. 358). Hence, subsidiary initiatives could cause situations where local entrepreneurship interferes with the consistent implementation of global standardization strategies across countries (Taggart, 1997).

With respect to external factors, scholars have focused on differences in the business environment between the home country and the host country, considering factors such as institutional or psychic distance (Johanson & Vahlne, 1977; Kostova & Roth, 2002; Kostova & Zaheer, 1999; Xu & Shenkar, 2002). MNC subsidiaries face the challenge of maintaining both internal and external legitimacy which implies that their strategies, practices and processes must be seen as appropriate within the context of the MNC as well as within the context of the local host-country environment (Kostova & Zaheer, 1998).

External legitimacy pressures can cause foreign subsidiaries to deviate from policies of headquarters when those policies are considered inappropriate in the host-country context. In general, such misaligned perceptions contribute to or exacerbate existing tensions stemming from different perceptions about the subsidiary's role. Similarly, information asymmetry stemming from institutional differences can create inconsistencies in implementation because headquarters may be unaware that certain elements of is strategy are inappropriate for a given host-country context or may overestimate their ability to negotiate the host-country environment. At the level of the subsidiary, institutional distance between the home and host country can undermine subsidiary managers' sense of ownership of corporate strategy or their motivation to execute this strategy. Also, in practice the resources and capabilities necessary for implementing strategy in a particular host-country context may be insufficient (Campbell et al., 2012; Ferner et al., 2005).

As such, previous research suggests that internal and external factors interact to affect strategy implementation (cf. Li et al., 2008). Judge and Stahl (1995), for instance, developed a conceptual model of implementation effort by middle managers in a multinational context, collecting data from strategic business units of a large MNC in the health care industry located in the United States of America, Great Britain, Belgium, and France. Drawing on Guth and MacMillan (1986), they analyzed the relative importance of managers' perceived ability, perceived probability of success, and perceived consistency between personal goals and the strategic change goals in driving strategy implementation at the subsidiary level. Their findings suggest that not only the personal characteristics of middle managers influence their perceptions, but that the relationship between personal characteristics and managers' perceptions is significantly moderated by national culture. Similarly, Demers and Gond (2020) explored how managers' individual perceptions interacted with features of the institutional environment when implementing sustainability policies, leading to implementation as a form of 'compromise-making'.

Yet the issue of strategy implementation has rarely been discussed within the prominent standardization/adaptation debate. Exceptions are Pudelko and Harzing (2008), Samiee et al. (2003) as well as Katsikeas et al. (2006). Pudelko and Harzing (2008) originally attempted to study national differences in subsidiaries' tendency to standardize vs. localize human resource practices, but found that "… reality is even more challenging and complex than is usually argued, and (…) that the classical dichotomy

between standardization towards HQ practices and localization is an oversimplification …" (Pudelko and Harzing, 2008, p. 395). In their investigation of US, Japanese and German MNCs and their subsidiaries, they found that subsidiaries not only face pressures to standardize towards HQ practices, but also that many subsidiaries in fact standardize towards global best practices. They concluded that standardization can no longer be viewed as the simple, worldwide adoption of HQ practices. Samiee et al. (2003) note that "… standardization has typically been examined from the viewpoint of the MNC headquarters rather than exploring what is actually implemented at the subsidiary level … (and that) … studies focusing on the headquarters implicitly assume successful communication and implementation of strategic plans at the subsidiary level, in addition to complete executive knowledge of matters pertaining to dozens of subsidiaries subjected to different environmental conditions …" (Samiee et al. 2003, p. 614). They examined the relationship between patterns of advertising program standardization in the subsidiaries of multinational corporations (MNCs) in four countries and found that the degree of advertising standardization varies across MNCs and also across subsidiaries within MNCs (Samiee et al., 2003). Katsikeas et al. (2006) investigated the international marketing strategy for a specific product or line within subsidiaries of U.S., Japanese, and German MNCs operating in the U.K. Their results indicate that the degree of standardization is significantly related to similarity between markets with respect to regulatory environments, technological intensity and velocity, customs and traditions, customer characteristics, a product's stage in its life cycle, and competitive intensity.

Thus, existing studies support the notion that international strategy implementation in the MNC faces a host of challenges. But given that most studies only infer implementation from managers' perceptions, from strategy as it is formulated, or based on some ultimate performance outcome, we know little about the actual strategy implementation outcomes at the subsidiary level and how and why they might differ from the global standardization strategy formulated at headquarters.

Opening the Black Box of MNC 'Strategy Implementation Gaps'

Incorporating an understanding of strategy implementation outcomes at the subsidiary level is important because prevailing research tends to overemphasize the decisions and perspectives of headquarters. Katsikeas et al. (2006) criticize researchers' reliance on data gathered at MNC

headquarters and state that "… one cannot be certain of the extent to which a particular strategy is implemented at local levels as intended. Thus, the accuracy of data generated from a single respondent at headquarters with regard to international strategies in place, environmental contingencies, and performance outcomes in dozens of markets abroad is open to question …" (Katsikeas et al., 2006, p. 869). This criticism has been echoed by others who emphasize that actual implementation can only be explored at the subsidiary level, because actual implementation outcomes are the result of decisions and actions made by subsidiary management, taken in the context of their market environment and relationship with headquarters (Samiee et al., 2003, p. 614).

These subsidiary-level studies, however, tend to be perception-based and thus subjective. For instance, both Samiee et al. (2003) and Katsikeas et al. (2006) measure the degree of standardization across MNCs' foreign and domestic subsidiaries by means of a survey among subsidiary managers, who were asked to provide their perceptions of the degree of similarity between their host-country marketing programs and that of the MNC overall (Samiee et al., 2003) or the home country (Katsikeas et al., 2006). Thus, despite acknowledging that subsidiaries' implementation of strategy may deviate from corporate strategy and shedding light on factors that may explain such deviations, these studies do not consider actual subsidiary-level outcomes nor relate them explicitly to the MNC's formulated strategy (cf. also Ferner et al., 2012; Kostova & Roth, 2002). In this study, we propose incorporating 'implementation outcome' into our understanding of the strategy process as an element that will help us to better conceptualize and identify 'strategy implementation gaps'. Consequently, we pose the following research question:

RQ 1: Does a strategy of global standardization, as formulated by an MNC headquarters, lead to homogenous strategy implementation outcomes across subsidiaries, or do we see evidence of a strategy implementation gap?

Conceptualizing and identifying strategy implementation gaps is an important first step, but in order to understand such gaps – if they exist –, we must also shed light on their origins in relation to the strategy formulation and implementation process. From the perspective that the MNC is a differentiated network consisting of heterogeneous subsidiaries with different roles and relationships with headquarters and embedded in different contexts, global standardization strategies will always be subject to an array of divergent forces. For instance, subsidiaries with different geographic proximity to or psychic distance from headquarters may be involved in the

strategy formulation process to different degrees, which may lead to strategy implementation gaps because headquarters' views and expectations may be biased towards some subsidiaries over others. Similarly, the headquarters-subsidiary communication about strategy may differ across countries, leading managers of different subsidiaries to interpret headquarters' strategy in different ways. Moreover, the local context of subsidiaries may require strategy adaptations, or some managers might perceive the strategy formulation process to be unfair and thus not sufficiently support effective strategy execution in their subsidiary (cf. Noble, 1999). However, since we lack a clear understanding of actual strategy implementation, little is known about the nature and origins of strategy implementation gaps. This leads to the following research question:

RQ 2: If there is evidence of a strategy implementation gap, what dynamics in headquarters-subsidiary relationships affect the processes of strategy formulation and implementation in ways that can explain that gap?

RESEARCH DESIGN AND SETTING

We explore our research questions by means of a mixed-methods research approach (Miles & Huberman, 1994). We use a sequential explanatory research design, in which quantitative research is followed by qualitative research (Ivankova et al., 2006). Specifically, research question 1 focuses on identifying the presence of a strategy implementation gap, which we can best detect by means of an analysis of numerical data. Research question 2 concerns our understanding of the dynamics underlying strategy implementation gaps (if observable); i.e., how standardization strategies are formulated at headquarters, which roles different subsidiaries play during this formulation process, and how and why different subsidiaries might implement headquarters strategies in different ways. As such, our qualitative study is intended to offer explanations for our quantitative findings, should such findings emerge.

Research Setting

We conducted our study by collecting data within a major European automobile manufacturer, referred to as 'ALPHACAR' throughout this paper. ALPHACAR, with wholly-owned subsidiaries in more than 40 countries spanning all major continents and distribution to more than eighty countries, is a relevant setting

for our study. As automobile manufacturers more generally, ALPHACAR is exposed on the one hand to strong pressures for standardization (based on efficiency considerations related to costs and optimized production), while on the other hand being subject to localization pressures (based on, e.g., customization demands and context-specific driving conditions and behaviors) (Schlie & Yip, 2000). Automotive manufacturers such as ALPHACAR tend to be highly vertically integrated but are at the same time very much a customer-facing business, and thus negotiating these demands is central to ALPHACAR's strategy.

More specifically, we collected data on ALPHACAR's goodwill, which refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired (Diez, 2006; Eggert, 2002; Meffert, 1982; Rosada, 1990). While goodwill coverage can be very costly, it is deemed an effective tool to increase customer retention for both sales and services via increased customer satisfaction, positive word of mouth and enhanced brand image, or by decreasing customer dissatisfaction and preventing customers from leaving the brand (Eggert, 2002). In this vein, aftersales services such as goodwill are extremely important and consistency in goodwill policies is vital to global brand quality perceptions. Yet given the complexity of the MNC network, standardization of such policies may not be straightforward: there are many potential sources of different communication, interpretation, adoption and execution of headquarters directives/strategy. In sum, designing effective goodwill policies is both highly relevant to ALPHACAR (and manufacturers of other consumer durables) but also particularly challenging in light of the mix of standardization and localization pressures at play.

Goodwill Policies

The issue of goodwill poses an interesting setting to address our research questions. As is the case for other service contexts as well, strategy implementation with respect to goodwill is subject to the behavior of several organizational entities involved. Corporate goodwill policy needs to be effectively communicated to and implemented by heterogeneous subsidiaries. Implementation of standardized goodwill does not end at the level of subsidiaries, however. Customers who experience product failures do not turn to subsidiary offices but to independent dealerships when seeking product repair. Dealers can proactively offer to request goodwill coverage for the repair or do so as a response to a customer requesting goodwill.

Goodwill policies can be globally standardized, locally adapted or individually customized. In this paper, we focus on globally standardized goodwill policies (GSGPs). Manufacturers may define GSGPs for specific product defects that are caused by poor parts quality or poor engineering and appear to affect a certain percentage of vehicles across countries and across different local environments. Such product defects tend to be discussed in social media and customers may expect to receive equal goodwill coverage, even across borders. Therefore, a key consideration in the standardization of goodwill and other marketing-related activities is that of achieving uniformity of the MNC's global image and message (e.g., Harris, 1994). Effective strategy implementation in the case of GSGPs thus requires consistent communication, interpretation, adoption and enactment of strategic objectives not only across subsidiaries but also at the level of dealerships.

To address research question 1, we performed a quantitative analysis of goodwill case data from the domestic subsidiary and a foreign subsidiary of ALPHACAR, spanning the introduction of two GSGPs from January 2013 to February 2015 ("Study 1"). To address research question 2, we conducted a qualitative analysis of interview data collected among seven senior managers at headquarters, the home subsidiary as well as the same foreign subsidiary ("Study 2"). Hence, we utilize a sequential explanatory research approach (Ivankova et al., 2006) with a complementary research purpose; i.e., with the intention to examine different overlapping aspects of strategy implementation gaps in global standardization (Greene et al., 1989; Onwuegbuzie & Collins, 2007). The quantitative analysis ("Study 1") focuses on whether implementation outcomes (i.e., goodwill behavior/number of goodwill cases or approvals) in the two subsidiaries resemble the formulated policy of standardization. The qualitative research ("Study 2") aims to unravel potential explanations for possible implementation gaps by analyzing the strategy formulation and implementation processes at both the headquarters and subsidiary levels.

Goodwill at ALPHACAR

Generally, subsidiaries of ALPHACAR can use their own budget to offer goodwill coverage for repairs to customers. In such cases dealers can request that the subsidiary cover the goodwill costs via ALPHACAR's warranty and goodwill IT system that is used by dealers to document and charge warranty expenses. Dealers are urged to provide arguments why a goodwill gesture should be offered to the customer. Subsidiary staff then decide on a case-by-

case basis whether the goodwill request will be approved. Some subsidiaries also authorize dealers to make goodwill decisions on their behalf within certain vehicle age, mileage and repair costs limits. Local goodwill gestures financed by subsidiaries are supposed to tackle product failures that occur in a local or national context (as a function of, for instance, local road or climate conditions), as well as individual cases in which random defects or individual customers' experiences call for goodwill offerings.

In cases where technical defects occur in larger numbers and irrespective of national or regional context, ALPHACAR headquarters formulates GSGPs for global implementation. These policies specify that ALPHACAR will provide goodwill coverage for the repair of these technical defects – identified by specific defect codes – within specified product age and mileage limits. Such central policies are then embedded in the relevant IT systems. According to the standard process, dealers can enter a defect code in that IT system and will immediately be informed whether a standardized goodwill policy is in place for that defect and the respective vehicle does not exceed the specified age and mileage limits, in which case the goodwill costs will be absorbed by ALPHACAR headquarters. The aim of globally standardizing some goodwill policies is thus to ensure consistent and equal treatment of customers who experience the same product failures, minimizing customer dissatisfaction and loss while maintaining a consistent brand image across countries. GSGPs at ALPHACAR should therefore result in similar patterns of goodwill approvals across countries for the respective defect.

STUDY 1

Data

The main dataset for the quantitative analysis addressing the first research question consists of historical data on the number of goodwill cases for one selected product defect at two European subsidiaries of ALPHACAR over the course of 26 months from January 1st, 2013 to February 28th, 2015. Due to the confidentiality of the data the characteristics of the defect cannot be further specified. We selected ALPHACAR's domestic subsidiary as well as a foreign subsidiary that was most similar to the domestic subsidiary in terms of dealer network characteristics, market maturity, sales numbers, diversification of ALPHACAR products, and climate conditions. However, the institutional context, the frequency and intensity of interaction and

communication between the warranty departments of headquarters and subsidiaries, and the nature of the headquarters-subsidiary relationship are described by managers at headquarters as being very different across the two subsidiaries. For instance, managers at headquarters reported having a closer relationship with the domestic subsidiary management and involving and informing them about strategic decision making to a larger extent. Hence, we assume that the two subsidiaries differ in their involvement in strategy formulation and implementation processes, both in terms of headquarters' communication as well as the subsidiaries' interpretation, adoption and execution of goodwill policies (cf. Kim & Mauborgne, 1993a; Noble, 1999).

ALPHACAR introduced globally standardized goodwill coverage for the selected product defect starting in 2013. In July 2013, goodwill coverage was implemented for vehicles up to 5 years (59 months) of age. In April 2014, goodwill coverage was extended to include vehicles up to 7 years (83 months) of age. Outside of these standardized goodwill policies, subsidiaries could decide to offer 'local' goodwill to customers financed with their own subsidiary budgets. In order to exclude vehicles that were still under warranty during the observation period, the dataset was limited to include vehicles aged three to seven years.

Data was retrieved from ALPHACARs warranty and goodwill IT tool, which is used by dealers to charge warranty and goodwill costs against ALPHACARs subsidiaries or headquarters. Thus all goodwill cases are documented in the tool together with information on age and mileage of the vehicle as well as the defect (identified by a defect code) for which goodwill or warranty is granted. In addition to goodwill cases for the selected defect code, data on all locally funded goodwill cases in the two subsidiaries were retrieved from ALPHACARs warranty and goodwill IT tool for the observation period. Furthermore, detailed statistics on the ALPHACAR vehicle population in the two subsidiary countries were added to the dataset. Thus, for each month of the observation period there is data on the number of goodwill cases (for the selected defect code as well as locally funded goodwill) as well as the total ALPHACAR vehicle population (that could potentially have received a goodwill gesture) in the subsidiaries for each vehicle age. In months: covering vehicles aged 36 months to 83 months, where the months 72-74, 75-77, 78-80, 81-83 are grouped, leads to 40 reported values for vehicle age. This leads to 26 (months of observation) * 40 (vehicle age categories) * 2 (subsidiaries) = 2080 observations for goodwill cases, locally funded goodwill cases and vehicle volume.

Monthly sales figures (number of vehicles sold) for the two subsidiaries as reported by ALPHACAR were included in the dataset. Passenger car registration figures as well as several indicators from EU Business and Consumer Surveys were retrieved from Eurostat. Finally, an analysis of Google searches for the vehicle part affected by the standardized goodwill policy was run using Google Trends and included in the dataset.

Variables

The number of goodwill cases serves as the dependent variable in the regression models. *Goodwill count* was gathered for one specific technical defect that can occur irrespective of environmental market specifics (such as climate or maintenance) and was equally likely to occur in both subsidiaries.

Globally standardized goodwill policy (*GSGP*) serves as the first explanatory variable. A GSGP for the selected technical defect was implemented in July 2013 (GSGP1) and revised in April 2014 (GSGP2). GSGP1 was implemented for vehicles up to and including 59 months of age. GSGP2 was implemented at a later stage to extend the policy to also include vehicles up to and including 83 months of age. The categorical variable GSGP determines the absence (GSGP=0) or presence (GSGP=1 if the first GSGP applies, GSGP=2 if the second GSGP applies) of a standardized goodwill policy for each observation. To address our research question, we need to consider the effects of GSGP1 and GSGP2, respectively, in comparison to the baseline of GSGP0; i.e., the situation where no standardized goodwill policy was in place. We therefore represent the different policies as a categorical variable, rather than relying on two dummy variables for the two policies.

Foreign subsidiary serves as the second explanatory variable. Two European subsidiaries are included in the dataset, namely ALPHACAR's domestic subsidiary as well as one foreign European subsidiary. We differentiate between the two by means of a dummy variable, which equals one in the case of the foreign subsidiary and zero in the case of the domestic subsidiary.

We also use a range of control variables. The total *local goodwill count* in the two subsidiaries refers to all goodwill cases for vehicles ages 36 to 83 months that were paid for by the subsidiaries. Patterns of market-specific goodwill behavior are represented in this data. Factors influencing a subsidiary's goodwill behavior might be, e.g., local budget, top management team and their preferences, the competitive environment (especially regarding

aftersales), press and social media coverage of ALPHACARs product quality and quality issues, or customer expectations towards goodwill coverage. Since national developments affecting goodwill behavior should be reflected in these data, we aim at controlling for differences in the local environments between home and host subsidiaries by incorporating this control variable.

Even though the two selected subsidiaries are close in terms of ALPHACAR's market share they still differ to some degree with regards to market size. Hence, counts of goodwill cases cannot be compared without controlling for the number of vehicles (*vehicle population*) that could potentially be affected by a defect and receive a goodwill gesture. The latter are those vehicles that were sold through the two subsidiaries between January 2005 and February 2012 and thus are aged between 36 and 83 months during the observation period of January 2013 till February 2015. For each observation of GSGP, the vehicle population is identified by means of monthly reports on the number of vehicles sold through the subsidiaries (from January 2005 to February 2012). This variable does not account for the number of vehicles that disappeared from the national marketplace, e.g. through accidents or international sales, but still offers a reasonable representation of the overall potential base to which the goodwill policies could be applied.

The frequency of goodwill gestures may be affected by vehicle *age* for two reasons. First, due to wear and tear, defects are more likely with increasing vehicle age. Second, customer expectations towards goodwill coverage may decrease with increasing vehicle age, making customers less likely to ask for goodwill. Furthermore, many customers visit ALPHACAR dealerships for service and repair in the first years of ownership but turn to less expensive workshops later in their vehicle's lifecycle. Note that from a technical point of view goodwill count should increase with vehicle age, whereas goodwill count might decrease from a marketing perspective.

The monthly number of vehicles sold through the two ALPHACAR subsidiaries throughout the observation period is included as a control variable. *Sales volume* is an important aspect of firm and subsidiary performance. Furthermore, sales volume is often reported in the media and may shape brand image. Hence, sales volume might affect subsidiaries' and dealers' readiness to proactively offer goodwill coverage and/or to engage in an administrative effort to request and grant goodwill. Additionally, reports of firm performance might affect customers' expectations towards a firm's goodwill policies.

New *passenger car registrations* throughout the observation period were retrieved from the European Automobile Manufacturers Association. New passenger car registration numbers offer insights into a population's willingness to invest in cars / their attitude towards the automobile industry as well as automobile firms' performance.

Consumer Confidence Indicator (*CCI*) is based on monthly consumer surveys amongst the population of EU countries (n = 2000 in both subsidiaries) published by The Joint Harmonised EU Programme of Business and Consumer Surveys. The purpose of the consumer survey is twofold: first, to collect information on household spending and savings intentions, and second, to assess their perception of the factors influencing these decisions. Answers obtained from the surveys are aggregated in the form of 'balances'. Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. The consumer confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to questions on the financial situation of households, the general economic situation, unemployment expectations and savings, all over the next 12 months. Customers' perceived economic situation may affect both their willingness to spend money on repair costs and their expectations towards a manufacturer's or dealer's goodwill behavior and thus their likelihood of actively asking for goodwill coverage.

Purchase intention is based on quarterly consumer surveys amongst the population of EU countries (n = 2000 in both subsidiaries) published by The Joint Harmonised EU Programme of Business and Consumer Surveys. Consumers are asked about the likelihood of buying a new car within the next twelve months. Answers obtained from the surveys are aggregated in the form of 'balances' (see above). This survey sheds light on customers' willingness to invest in cars.

Retail Trade Confidence Indicator (*RTCI*) is based on monthly retail trade surveys amongst firms operating in EU countries (n = 1000 in the domestic subsidiary, n= 500 in the foreign subsidiary) published by The Joint Harmonised EU Programme of Business and Consumer Surveys. Managers are asked about their assessment of recent developments in their business situation, of the current level of stocks, and their expectations about a number of economic variables. Answers obtained from the surveys are aggregated in the form of 'balances' (see above). The retail trade confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on the present and future business situation,

and on stocks. Balances are seasonally adjusted. Developments in managers' confidence regarding retail and trade may affect manufacturer's and dealer's willingness to offer goodwill to customers.

Google Trends is a service offered by Google Inc. that allows for analysis of the development of Google searches over time. The output of Google trend analyses is provided in ratios. The time period with the highest number of Google searches during the observation period is set to 100 and all other observations are calculated accordingly. Google trend analyses were conducted for both subsidiaries using ALPHACAR plus the defective part as the search term in the national languages of the subsidiaries. Ratios were derived for each month of the observation period. Discussions of the defect in press and social media may affect customers' knowledge of goodwill policies and their expectation regarding goodwill gestures as well as the subsidiaries' and dealers' perceptions of the need to offer goodwill gestures.

Results

Table 3.1 shows the descriptive statistics and the bivariate correlation matrix. Unsurprisingly, there is a high correlation ($r = 0.89$) between *sales volume* and *passenger car registrations*. Since ALPHACAR *sales volume* is theoretically assumed to have a higher effect on ALPHACAR dealers' readiness to check for and offer goodwill than the overall national automotive industry's sales performance, *passenger car registrations* is omitted from the data set. Another high correlation coefficient ($r = 0.64$) is observed between *RTCI* and *purchase intention*. While data for *RTCI* is collected monthly, interview data for *purchase intention* is only gathered quarterly. However, *purchase intention* appears more relevant from a theoretical point of view because goodwill gestures serve as a retention instrument and may help in convincing a customer who plans on buying another product in the near future to stick with the brand or dealership for future purchases. Thus, *RTCI* is omitted from the dataset. Furthermore, despite an acceptably low correlation of 0.44 between *purchase intention* and *CCI*, both variables represent national consumers' evaluation of their purchasing power and intentions for the next twelve months. As *purchase intention* deals specifically with the intention to purchase a new car and is therefore more relevant in the context of goodwill in the automotive industry, *CCI* is omitted from the data set as well. To assess the severity of multicollinearity, we computed variance inflation factors (VIFs) in a next step. With an average value of 2.41 and a maximum value of 3.76, the VIF values are well below the recommended cut-off point of ten (Neter et al., 1985).

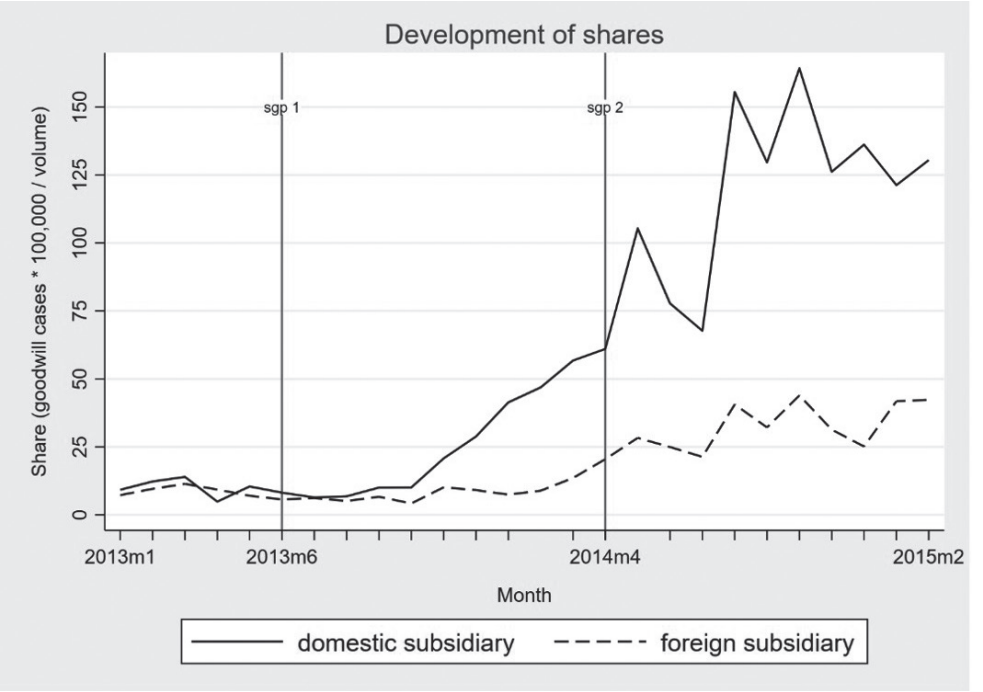
Table 3.1: Descriptive statistics and bivariate correlation matrix

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1	Goodwill count	9.82	16.11	1.00											
2	Local goodwill count	117.69	101.36	0.26***	1.00										
3	Vehicle population	21742.42	15127.99	0.36***	-0.07**	1.00									
4	Age	55.8	12.08	0.02	-0.59***	0.45***	1.00								
5	Sales volume	15214.69	6290.35	0.27***	0.07**	0.25***	0.00	1.00							
6	Passenger car registrations	219,361.20	84078.06	0.13***	0.04	0.14***	0.00	0.89***	1.00						
7	CCI	-1.89	6.57	0.21***	-0.20***	0.03	0.00	0.09***	0.06**	1.00					
8	Purchase intention	-65.10	4.96	-0.22***	-0.24***	-0.31***	0.00	-0.50***	-0.32***	0.44***	1.00				
9	RTCI	0.50	12.90	-0.28***	-0.13***	-0.34***	0.00	-0.51***	-0.31***	0.25***	0.64***	1.00			
10	Google trends	49.62	16.47	0.51***	0.12***	0.20***	0.00	0.31***	0.18***	0.26***	-0.21***	-0.31***	1.00		
11	Foreign subsidiary	0.50	0.50	-0.44***	-0.14***	-0.42***	0.00	-0.60***	-0.33***	-0.07***	0.73***	0.81***	-0.49***	1.00	
12	GSGP	0.8	0.71	0.45***	-0.10***	-0.01	0.04*	0.00	-0.01*	0.63***	0.37***	0.19***	0.32***	0.00	1.00

* $p<0.05$, ** $p<0.01$, *** $p<0.001$

Figure 3.1 displays the development of goodwill shares in the domestic subsidiary as well as the foreign subsidiary throughout the observation period. Goodwill shares represent the number of vehicles that have received goodwill coverage for the selected defect out of the subsidiary's vehicle population and are calculated as *goodwill count**100,000/*vehicle population*. This allows us to compare the developments of goodwill behavior in the two subsidiaries, which differ in size in terms of *vehicle population*. Vertical lines mark the implementation dates of the two standardized goodwill policies. There is no obvious difference in shares before the introduction of *GSGP1* as well as in the four months after. Five months after the implementation of *GSGP1*, however, shares in both subsidiaries start to increase. Shares in the domestic subsidiary increase more strongly than in the foreign subsidiary. This difference appears to be further enlarged about four months after the implementation of *GSGP2*. Figure 3.1 therefore strongly suggests that there are differences in goodwill coverage in the two subsidiaries after the introduction of standardized goodwill policies.

Figure 3.1: Development of goodwill shares in the domestic and foreign subsidiary of ALPHACAR, before and after implementation of globally standardized goodwill policies



Next, we turn to the results of our regression analysis. If the standardized goodwill policies led to standardized practice there should be no significant difference between the domestic and foreign subsidiary in the development of expected goodwill counts after the implementation of the standardized goodwill policies. In light of the first research question, the presence of significant differences, however, would imply a strategy implementation gap. A hierarchical regression model setup is applied (see Table 3.2). The first model only includes the control variables. The explanatory variable *foreign subsidiary* is introduced in the second step. The third model also includes the other explanatory variable, *GSGP* (which consists of three levels, GSGP0, GSGP1 and GSGP2, indicating the initial situation, the first policy implementation in 2013, and the second policy implementation in 2014, respectively), and represents the full main-effects model. In the last model we add the interaction effects between the *GSGP* and *foreign subsidiary*. The regression coefficients are estimated using the maximum likelihood method.

Table 3.2: Negative binomial regression (hierarchical setup, regression coefficients)

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
Local goodwill count	0.003	0.003	0.003	0.003
	(0.000)	(0.000)	(0.000)	(0.000)
Vehicle population	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Age	-0.012	-0.001	-0.018	-0.021
	(0.001)	(0.716)	(0.000)	(0.000)
Sales volume	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.002)	(0.001)
Purchase intention	0.038	0.114	0.022	0.044
	(0.000)	(0.000)	(0.003)	(0.000)
Google trends	0.053	0.035	0.014	0.009
	(0.000)	(0.000)	(0.000)	(0.000)
Foreign subsidiary		-1.424	-1.161	-0.764
		(0.000)	(0.000)	(0.000)
GSGP1			1.494	1.751
			(0.000)	(0.000)
GSGP2			2.447	2.830
			(0.000)	(0.000)

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
Foreign subsidiary x GSGP1				-0.791
				(0.000)
Foreign subsidiary x GSGP2				-1.014
				(0.000)
cons	0.803	7.097	1.889	3.653
	(0.055)	(0.000)	(0.001)	(0.000)
/				
lnalpha	0.196	0.081	-0.538	-0.568
	(0.000)	(0.055)	(0.000)	(0.000)
N	2080	2080	2080	2080
pseudo R^2	0.090	0.101	0.162	0.167
alpha	1.217	1.084	0.584	0.567
Log-likelihood	-5928.336	-5857.158	-5461.124	-5432.062
Chi2	1179.711	1322.068	2114.135	2172.259

p-values in parentheses

Our dependent variable *goodwill count* has an arithmetic mean of 9.8, which is just below the minimum critical threshold required to use OLS regression models reliably in the context of count data (Gardener et al., 1995). Hence, a count model such as Poisson or negative binomial is more appropriate. A boundary likelihood ratio test of the log-likelihood of the full negative binomial model (model 3 in Table 3.2) against the log-likelihood of the Poisson model (α=0) on the same data yields a chi2 statistic of 4003.32 with one degree of freedom and a corresponding *p*-value of 0.000. This indicates that the negative binomial model with an α of 0.58 is significantly different from the Poisson model (Hilbe, 2011). The negative binomial model produces AIC and BIC statistics of 5.26 and -13,376.17 respectively. These values compare favorably with the Poisson model statistics of 7.19 and -6,665.19, again indicating that the data are better modeled as negative binomial rather than Poisson (Hilbe, 2011). Table 3.2 provides the results of the hierarchical negative binomial regression analysis. All four models are statistically significant. Likelihood-ratio tests for nested models confirm that each model provides an improvement over the latter.

In the following, we discuss the results of the full model (model 4) including the interaction effects, as presented Table 3.2. To facilitate the interpretation of our findings, we will discuss them in terms of incidence rate ratios instead of regression coefficients. The term *incidence rate ratio* originates

from epidemiology, where risk is typically a measure of the probability of the incidence of a particular disease (e.g. diabetes type 2). The condition upon which the risk is measured is termed a risk factor, or exposure (e.g. obesity). Likewise, relative risk is the ratio of the probability of disease for a given risk factor (probability of developing diabetes type 2 for obese people) compared with the probability of disease in the absence of that risk factor (probability of developing type 2 diabetes for non-obese people). Consequentially, it is a ratio of two ratios, often simply referred to as risk ratio, or, when referring to counts, incidence rate ratio (cf. Hilbe, 2011). In our case then, we look at cars instead of people, risk is a measure of the probability of a goodwill case, and the risk factor in this context is the subsidiary in which the goodwill is being exercised.

To directly compare the effects that the *GSGPs* have on *goodwill count* in the domestic subsidiary versus the foreign subsidiary, we compute the incidence rate ratios for linear combinations of *foreign subsidiary* and the interaction of *foreign subsidiary* and *GSGP* (see Table 3.3). Incidence rate ratios can be calculated from regression coefficients as follows: Regression coefficients are interpreted as the difference between the logs of expected counts. Formally, this can be written as $\beta_x = log(\mu_{x0+1}) - log(\mu_{x0})$. Since the difference between two logs is equal to the log of their quotient, $log(\mu_{x0+1}) - log(\mu_{x0}) = log(\mu_{x0+1}/\mu_{x0})$, the parameter estimate can also be interpreted as the log of the ratio of expected counts: This explains the ratio in incidence rate ratios (UCLA: Statistical Consulting Group, n.d.). When counts are collected over a specified time period or area, they are referred to as a rate. Our response variable is the number of goodwill cases per month, which is a rate by definition. Hence, the regression coefficients can also be interpreted as the log of the rate ratio: $exp(ß_x) = \mu_{x0+1}/\mu_{x0}$. This explains the rate in incidence rate ratio. Finally, the rate at which events enter a time period is called the incidence rate. Thus we are able to interpret a coefficient in terms of the incidence rate ratio, which is actually a type of risk ratio (Hilbe, 2011; UCLA: Statistical Consulting Group, n.d.).

The form of the equation for a negative binomial regression model is the same as that for Poisson regression. The log of the outcome is predicted with a linear combination of the predictors, in our case:

$$log(count) = Intercept + ß_1\, count\_local + ß_2 volume + ß_3 age + ß_4 sales + ß_5 buy + ß_6 google + ß_7 sub + ß_8(sgp=1) + ß_9(sgp=2) + ß_{10}(sub*(sgp=1)) + ß_{11}(sub*(sgp=2)).$$

This implies:

$$count = exp(Intercept + ß_1\, count\_local + ß_2 volume + ß_3 age + ß_4 sales + ß_5 buy + ß_6 google + ß_7 sub + ß_8(sgp=1) + ß_9(sgp=2) + ß_{10}(sub*(sgp=1)) + ß_{11}(sub*(sgp=2))).$$

This, in turn, implies:

$$count = exp(Intercept) * exp\,(ß_1\, count\_local) * exp(ß_2 volume) * exp(ß_3 age) * exp(ß_4 sales) * exp(ß_5 buy) * exp(ß_6 google) * exp(ß_7 sub) * exp(ß_8(sgp=1)) * exp(ß_9(sgp=2)) * exp(ß_{10}(sub*(sgp=1))) * exp(ß_{11}(sub*(sgp=2))).$$

Hence, whereas the coefficients have an additive effect in the *log*(μ) scale, the incidence rate ratios have a multiplicative effect in the μ scale (UCLA: Statistical Consulting Group, n.d.). The incidence rate ratio for a binary predictor variable is simply the ratio of the number of events of one category to the number of events in the other category. For a categorical variable with more than two categories (such as *GSGP*), the incidence rate ratio is the ratio of the expressed category to the base category (Hilbe, 2011). We report the incidence rate ratios derived from model 4 in Table 3.2 in Table 3.3 below.

Table 3.3: Incidence-rate ratios (calculated from Table 3.2 Model 4)

Goodwill count		IRR	Std. Err.	z-statistic	p-value
Local goodwill count		1.003	0.000	8.020	0.000
Vehicle population		1.000	0.000	6.710	0.000
Age		0.979	0.004	-5.680	0.000
Sales volume		1.000	0.000	3.280	0.001
Purchase intention		1.045	0.008	5.570	0.000
Google trends		1.009	0.002	5.100	0.000
Foreign subsidiary		0.466	0.049	-7.280	0.000
GSGP					
	1	5.760	0.441	22.880	0.000
	2	16.943	1.647	29.110	0.000

Goodwill count		IRR	Std. Err.	z-statistic	p-value
Foreign subsidiary x GSGP					
	1	0.453	0.055	-6.460	0.000
	2	0.363	0.050	-7.370	0.000
_cons		38.595	22.710	6.210	0.000
/lnalpha		-0.568	0.051	-0.668	-0.468
alpha		0.567	0.029	0.513	0.626
Number of observations		2080			
Log-likelihood		-5432.060			
Chi2		2172.260			
psuedo-R2		0.167			

We first examine the changes in goodwill counts after the implementation of *GSGP1* and *GSGP2* in the two subsidiaries. To do so, we must consider the domestic subsidiary and the foreign subsidiary separately. For the domestic subsidiary (i.e., when *foreign subsidiary* = 0), the incidence rate ratio associated with *GSGP1* is 5.76. Hence, *goodwill count* increases by a factor of 5.76 in the domestic subsidiary after the implementation of *GSGP1*. Likewise, the incidence rate ratio for *GSGP2* indicates that the implementation of the second standardized goodwill policy is associated with an increase of *goodwill count* by a factor of 16.49 in the domestic subsidiary compared to the absence of a standardized goodwill policy (*GSGP0*).

Due to the multiplicative effect of incidence rate ratios, we need to take into account the interaction effects in addition to the main effects in order to determine the effects of the *GSGPs* within the foreign subsidiary. As shown in Table 4, the incidence rate ratio associated with GSGP1 in the foreign subsidiary is 0.453 times its effect in the domestic subsidiary, and the incidence rate ratio associated with *GSGP2* in the foreign subsidiary is 0.363 times its effect in the domestic subsidiary. Hence, the incidence rate ratio associated with the implementation of *GSGP1* in the foreign subsidiary compared to *GSGP0* is 5.760*0.453=2.61, which indicates an increase in goodwill cases by

a factor of 2.61 in the foreign subsidiary after the implementation of *GSGP1*. Likewise, goodwill cases increase by a factor of 6.14 for the foreign subsidiary after the implementation of *GSGP2* compared to *GSGP0*.

Comparing the two subsidiaries more directly, the incidence rate ratio of 0.465 for *foreign subsidiary* reflects the effect associated with being a foreign subsidiary on the number of goodwill cases for *GSGP0*, i.e., in the absence of a standardized goodwill policy. Thus, 53.4% (i.e., 1.00 - 0.466) fewer goodwill cases are estimated for the foreign subsidiary compared to the domestic subsidiary before the implementation of *GSGP1*. The incidence rate ratio of *GSGP1* in the foreign subsidiary to *GSGP1* in the domestic subsidiary is then 0.466*0.453 = 0.211, which means that after the implementation of *GSGP1*, 78.9% fewer goodwill cases are estimated for the foreign subsidiary compared to the domestic subsidiary. After the implementation of *GSGP2*, 83% fewer goodwill cases are estimated for the foreign subsidiary compared to the domestic subsidiary.

Figure 3.2 displays the predicted margins of these interactions with 95% confidence intervals and illustrates how goodwill cases in the domestic subsidiary increased much more strongly after the implementation of both *GSGP1* and *GSGP2* than in the foreign subsidiary.

The development of goodwill cases after the implementation of standardized goodwill policies thus significantly differs across the two subsidiaries. The results shed light on research question 1 by providing evidence of a strategy implementation gap. ALPHACAR headquarters' strategic objective of creating equal patterns of goodwill approval across subsidiaries by implementing standardized goodwill policies is not achieved.

STUDY 2

Data and Methodology

To address our second research question, we collected data for the qualitative analysis of subsidiary-level differences in the process of implementing standardized goodwill policies by means of seven semi-structured interviews with managers at ALPHACAR headquarters, as well as the domestic and foreign subsidiary. Table 3.4 provides an overview of interviewees' job titles, assigned business units as well as years of industry experience and experience in the warranty field.

Figure 3.2: Predictive margins of interactions

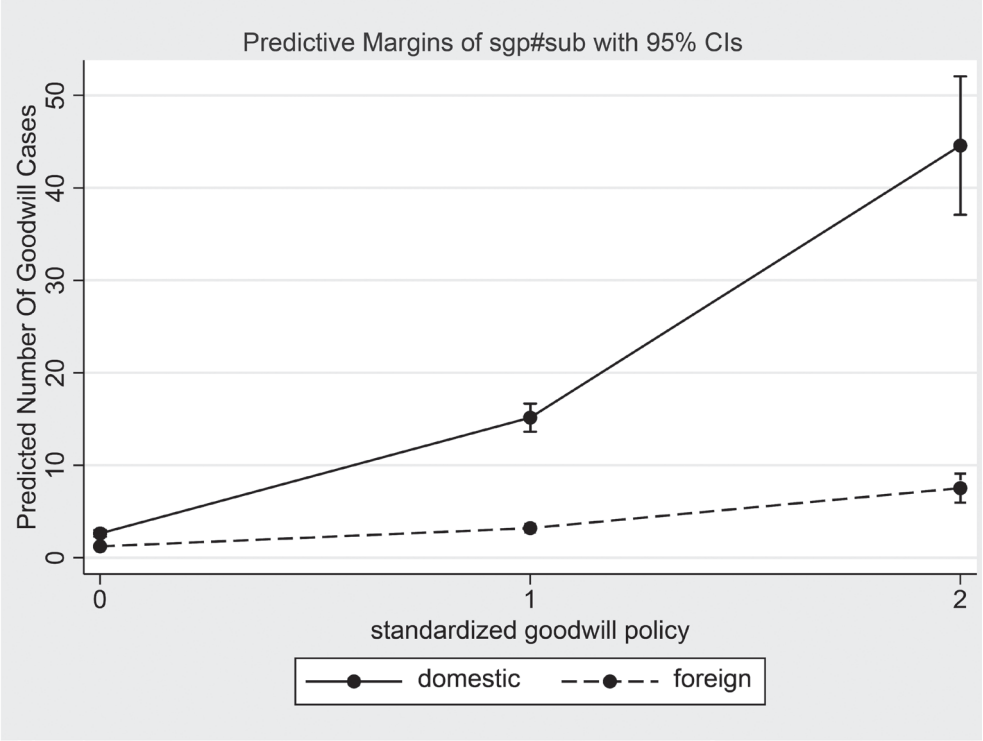


Table 3.4: Senior managers interviewed

Position	Business Unit	Years in industry	Years in warranty management	Interview duration (minutes)
Head of warranty and goodwill corporate process	Headquarters - Corporate Quality	27	14	41
Head of warranty and goodwill strategy	Headquarters - Corporate Quality	29	13	59
Head of global warranty and goodwill management	Headquarters – Sales	16	5	26
Manager market representation for globally standardized goodwill	Headquarters – Sales	26	7	38

Position	Business Unit	Years in industry	Years in warranty management	Interview duration (minutes)
Head of warranty and goodwill domestic subsidiary	Domestic subsidiary - Aftersales	29	9	64
Head of technical service & warranty	Foreign subsidiary - Aftersales	20	10	36
Head of warranty management	Foreign subsidiary - Aftersales	16	13	27

Interviews lasted on average 42 minutes, with the shortest taking 26 and the longest 64 minutes. Transcripts of these interviews count a total of 122 pages or 40,033 words. Participant selection was informed by ALPHACAR's organization chart: managers of warranty and goodwill functions within both the headquarters' quality and sales units, the domestic subsidiary, and the foreign subsidiary were approached and all agreed to participate in interviews. All interviewees were experienced department- or team leads with the authority to direct or influence corporate or subsidiaries' goodwill policies. Within headquarters, two managers worked at the warranty department that was part of ALPHACAR's quality business unit and responsible for the corporate warranty and goodwill processes and strategy. Two other headquarters managers worked at the sales unit with a focus on subsidiary representation and warranty and goodwill claims management. The heads of both departments were jointly responsible for decisions on globally standardized goodwill policies, however the final decision had to be confirmed by their respective superiors. With regards to the subsidiaries, the heads of warranty and technical service who report directly to the vice presidents for aftersales were interviewed. In addition, at the foreign subsidiary, the head of warranty and goodwill management, a direct subordinate to the warranty and technical service manager, participated in an interview.

In each interview, we followed an interview guideline containing open-ended questions on a number of key issues: the strategic intention of standardized goodwill policies, the process of deciding on the implementation of the standardized goodwill policy that was investigated in the quantitative analysis, managers' perception of standardized goodwill policies, and the process of goodwill requesting and approval in dealerships. Finally, we also discussed the performance implications expected from standardized

goodwill policies as well as managers' perceptions on what makes goodwill decisions effective and successful. As such, given their different roles within the strategy process, the interview guideline for interviews with headquarters managers differed in some respects from the guideline utilized in interviews with subsidiary managers, especially with regards to the operational implementation of goodwill policies and interaction with dealerships. All interviews were recorded and transcribed prior to analysis.

Interview transcripts were analyzed using the Atlas.ti qualitative research software. Atlas.ti offers tools that help users locate, code, and annotate findings in primary data material, weigh and evaluate their importance as well as visualize complex relations between them (Lewins & Silver, 2007). Based on existing literature, we developed a list of codes including possible explanations for strategy implementation gaps. This code list comprised both structural as well as interpersonal issues that were previously shown to affect strategy implementation processes (e.g., Kim & Mauborgne, 1993b; Li et al., 2008; Noble, 1999). All transcripts were first coded using the predefined code list derived from the literature review, where some codes yielded large numbers of quotations while other codes did not match the interview data. Some statements by interviewees provided valuable explanations for the strategy implementation gap, yet did not relate to any of the predefined codes. Thus, after adjusting the code list by omitting unrelated codes as well as adding codes that emerged from interview data, we recoded all transcripts using the adjusted code list. By means of several within-case displays (Miles & Huberman, 1994) the codes and assigned quotations were then grouped in a smaller number of superordinate concepts and differences in the statements made by managers from headquarters and the two subsidiaries were organized using role-ordered as well as conceptually ordered displays (cf. Miles & Huberman, 1994). These first-order concepts were then analyzed with regards to their implications for the strategy formulation and strategy implementation processes and summarized as second-order themes. Three aggregate dimensions outline how and why the GSGP led to non-standardized implementation outcomes. We present a visualization of these first- and second-order categories and final aggregate dimensions in Figure 3.3.

RESULTS

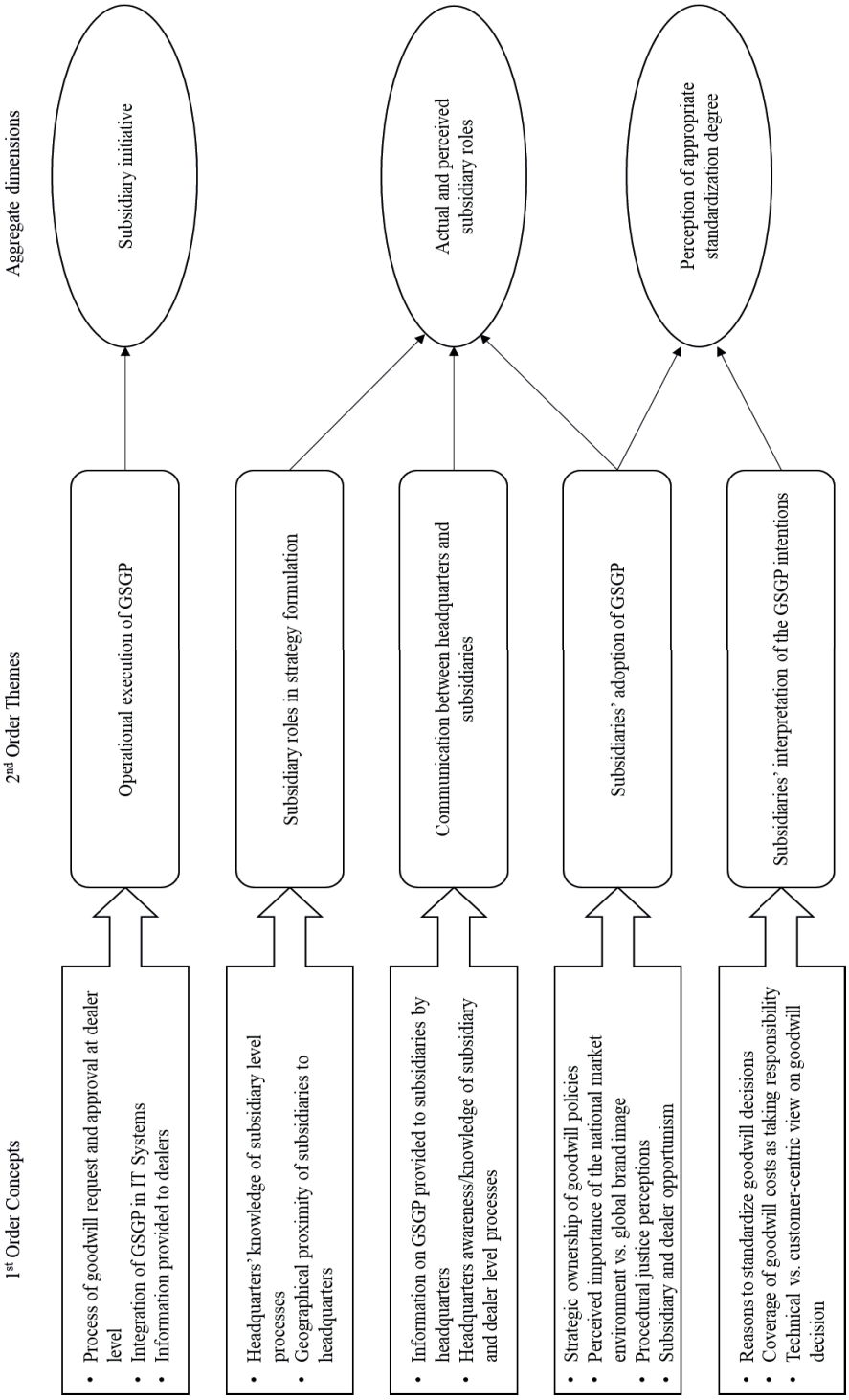
The quantitative findings from Study 1 reveal that goodwill behavior is significantly different in the two subsidiaries after implementation of the

standardized goodwill policies, despite the aim of producing similar patterns of goodwill approval across markets. These findings call for potential explanations of subsidiary-level differences in implementation outcomes and a further investigation of our second research question. The qualitative analysis of interview data presented here provides such explanations for the observed strategy implementation gap on different levels that are rooted in the subsidiaries' different institutional contexts (see the aggregate dimensions in Figure 3). First, interviewees' descriptions of the goodwill requesting and approval process indicate that the foreign subsidiary undertook an initiative leading to a process deviation affecting the number of goodwill approvals. Second, the foreign subsidiary's initiative with regards to the GSGP appears to be rooted in, on the one hand, the subsidiary's different roles in the strategy formulation process and, on the other hand, different perceptions of the subsidiary's roles within the strategy implementation process. Third, foreign subsidiary management expressed different strategic intentions regarding the design of goodwill decision making that vary from headquarters' strategic intentions of a standardized goodwill policy.

Subsidiary initiative As discussed above, standardized goodwill policies are embedded in ALPHACAR's warranty IT system. In the standard process, as described by interviewees at ALPHACAR headquarters as well as the domestic subsidiary, dealers can enter details of the vehicle as well as the defect code into the IT system and are immediately informed when a standardized goodwill policy applies. As explained by the domestic subsidiary's head of warranty and goodwill, "… *a standardized goodwill policy means we save on administration, as the dealer will instantly know that the issue will be covered by ALPHACAR and they can communicate that towards the customer on the spot, which actually is the biggest benefit of those policies*…".

In the foreign subsidiary, however, the IT system settings were adjusted so that dealers have to request goodwill approval from their subsidiary office even when standardized goodwill policies apply. This was a conscious decision by subsidiary management to avoid dealers' opportunistic behavior on the one hand, and, on the other hand, to make sure that goodwill offers are always based on individual customers' situations and expectations. The presence of many technical defects can easily be documented, for instance through software-based vehicle diagnosis or photos. Some defects, however, rely on more subjective judgement, such as those that are only detected through certain noises or driving dynamics. When standardized goodwill policies are in place for such defects, dealers that seek to profit from

Figure 3.3: Data structure in the qualitative analysis



conducting goodwill repairs and are aware of the goodwill policy might proactively offer goodwill repairs even in the absence of any customer complaint or actual defect. The latter problem is known at ALPHACAR headquarters, as outlined by the manager responsible of market representation and standardized goodwill policies: "… *we do tell the subsidiaries to oversee their dealers, because there is a Gaussian distribution, there are good dealers and there are bad dealers who may try to overexploit goodwill regulations*…".

Apart from restricting such abuse of standardized goodwill policies, interviewees at the foreign subsidiary stressed that they want to assure that all goodwill gestures are based on an assessment of individual customers' experiences and expectations, as explained by the foreign subsidiary's head of warranty and goodwill: "… *the automatic rule was taken away from offices in our country, so it's now purely based on the dealer's interpretation of the customer's needs and of their background*…". When requesting goodwill coverage from the subsidiary, dealers have to provide arguments stating why goodwill coverage would be adequate in the specific case and indicate whether full or only partial coverage of costs is required to ensure customer retention. When standardized goodwill policies are in place, dealer requests for goodwill are then generally approved by the subsidiary office.

The effect of this process adjustment on dealer awareness of standardized goodwill policies could offer an explanation for the observed strategy implementation gap because:

- In comparison to dealers at the domestic subsidiary, dealers at the foreign subsidiary face a higher effort requesting goodwill coverage and are therefore less likely to request goodwill when they believe that there are no convincing arguments for goodwill coverage and
- In contrast to dealers in the domestic subsidiary, dealers at the foreign subsidiary will not learn that goodwill is generally approved for the particular defect code and are therefore more likely to only request goodwill when they perceive it as a necessary or effective customer retention instrument.

The foreign subsidiary thus differed from the domestic subsidiary in terms of its operational execution of the GSGP (cf. Noble, 1999). According to interview data collected at the foreign subsidiary, this difference in execution was a conscious choice made by subsidiary management motivated by their intention to prevent dealers' misuse of standardized goodwill regulations as well as their view that the dealers' knowledge of customers' expectations

and background should guide the decision on goodwill coverage and not a lack of capabilities or resources. The process adjustment can thus be defined as an operational improvement initiative by the subsidiary confined to the local level (cf. Schmid et al., 2014). The reasons for the foreign subsidiary's initiative-taking appear to be rooted in differences between the two subsidiaries in terms of their roles in the strategy formulation process as well as gaps in perceived strategic roles and appropriate standardization degree.

Actual and perceived subsidiary roles According to our interview data, the subsidiaries' strategic roles may offer an explanation for the process deviation in two ways. First, the domestic subsidiary is involved to a higher extent in the headquarters' strategy formulation process. Second, headquarters' perceptions of the subsidiaries' roles within the strategy implementation phase differs from that of the subsidiary managers.

As to the first point, interviewees from ALPHACAR headquarters report that the domestic subsidiary is their 'go-to option' when seeking a better understanding of how their policies and process changes translate into marketplace reality. Headquarters and domestic subsidiary offices are located in the same city, which offers the possibility to easily set up personal meetings. The domestic subsidiary's management team has not experienced much turnover in recent years, and headquarters and domestic subsidiary managers have built intensive and stable professional relationships. This, according to both interviewees at headquarters and the domestic subsidiary, has fostered frequent and direct communication about organizational and procedural changes.

Given the geographical proximity, when headquarters warranty managers seek insights on how corporate decisions will affect processes and standards at ALPHACAR dealerships, they typically turn to the domestic subsidiary to arrange a meeting with a nearby dealership. The domestic subsidiary's head of warranty and technical service gave specific examples of how headquarters managers are regularly invited for on-the-job training sessions to experience how customer complaints are dealt with at dealerships and within the warranty department. As stated: "… *we have managers joining us every week by now, so they can experience first-hand how we communicate with customers, which problems we are confronted with every day, and how the customers react. And according to their feedback in evaluation forms many of them describe this experience as an eye-opener affecting their perceptions of their own jobs* …".

Consequently, domestic subsidiary management is highly involved in headquarters' corporate strategy processes. Due to the fact that the domestic subsidiary's local environment is identical to the headquarters' local environment, corporate strategy is highly influenced by the latter. In terms of Gupta's and Govindarajan's (1991) typology of subsidiary roles that is based on knowledge flows within the MNC, the domestic subsidiary could thus be classified as an integrated player, with high levels of knowledge inflow as well as high levels of knowledge outflow. The strong involvement of domestic subsidiary management manifests itself in headquarters' underlying assumptions that what they observe in the domestic subsidiary provides a decent representation of managerial practice in other subsidiaries.

As to the second point, however, interviewees at the foreign subsidiary stressed the high importance of their own local environment to the strategic orientation of their business practices. They view it as their responsibility to shape the strategic orientation of warranty and goodwill policies to fit their institutional context and competitive situation. Thus, they do not adopt headquarters directives and policies without making sure that they fit the host-country context and align with their own strategic orientation, and, if required, adjust them. In contrast, due to the domestic subsidiary's higher level of involvement in strategy formulation, headquarter decisions tend to be aligned with the domestic subsidiary's internal and external context. Hence the domestic subsidiary's adoption of policies and processes typically both resembles and shapes headquarters' perceptions of implementation at the local level. With regards to the processes associated with standardized goodwill coverage, it appears that ALPHACAR headquarters management expects that all subsidiaries would execute the policy as observed in the domestic subsidiary, thus expecting the foreign subsidiary to act as an 'implementer' (Gupta & Govindarajan, 1991), with high inflow and low outflow of information. Foreign subsidiary management, however, perceives their own strategic role to be different. Their perception, that focuses more on the importance of the local environment and subsidiary competence than on information flows, resembles what Bartlett and Ghoshal have referred to as a 'strategic leader' (1987, 1989). This subsidiary's role perception manifests itself in the subsidiary making its own assessment of how best to implement the strategy formulated by headquarters and what would be most appropriate in its particular context.

Perception of the appropriate standardization degree The primary reason for ALPHACAR headquarters to develop globally standardized goodwill

policies is to ensure globally consistent customer treatment in the event that product quality does not meet the corporation's standards. Standardized goodwill policies released by headquarters entail financing of product repair by headquarters, ensuring that all subsidiaries can service customers experiencing a particular defect, irrespective of the subsidiary's own budget and financial situation. ALPHACAR headquarters' head of warranty and goodwill corporate process explains that standardized goodwill policies create "… *universal minimum standards and clear responsibility for technical issues caused by us, where we know that there are problems after warranty. In such cases we cannot leave it up to the dealer but we have to provide help that actually reaches the end customer. I cannot provide the dealer with freedom of choice when we have a real quality problem. … It needs to be solved even when a customer shows up with an old car, and in such cases we need a central regulation. But only in these cases.*" The head of global warranty and goodwill management at headquarters takes a similar position, stating that "… *it is important that product problems are treated consistently. That we deal with them in the right way as soon as they're discovered, that we define whether they are focus topics. That should not be something that everyone invents for themselves and discusses over and over again, but ALPHACAR has to make a statement: We take responsibility, it is an important topic. And that, that can only happen somewhere centrally*."

When discussing their reasons for the process adjustment, the foreign subsidiary's head of warranty and technical service pointed out that it was their strategic intention to design their goodwill offers to meet individual customers' needs. More specifically, "… *the goodwill contribution is for the customer, it is not for the fault…. So, the decision should be made for the customer and in our opinion that should be a local decision. Where the money comes from, is almost immaterial, but we don't really see how a decision can be made centrally in [headquarters] on that* ...". As this statement shows, the foreign subsidiary follows a strategy of individually customizing goodwill decisions that is based on individual customers' needs and backgrounds and taking into account the national and individual environment, whereas headquarters' aim is to globally standardize goodwill coverage for all customers that are confronted with a certain technical defect. However, foreign subsidiary management interpreted GSGPs mainly as a decision on who will pay for goodwill repairs but not as a strategic decision on how the goodwill offer towards customers should be designed.

Insufficient communication between headquarters and the foreign subsidiary fostered both their different perceptions and interpretations

of the subsidiary's role as well as the lack of strategic consensus: When headquarters published the GSGP, they did not explicitly outline how that decision should be made available to dealers nor did they effectively communicate their strategic intentions of consistent goodwill offers across markets. The information provided to subsidiaries merely outlined that future goodwill repair costs associated with the specific defect code would be fully absorbed by headquarters and that this regulation has been implemented in the warranty IT system. Unaware of headquarters' intention to standardize customer treatment across markets, the foreign subsidiary then integrated the GSGP with their own goodwill decision-making processes. Additionally, interviewees at ALPHACAR headquarters were not aware of the process adjustment performed by the foreign subsidiary. Even though the manager in charge of preparing the standardized goodwill decisions stated, "… *I inform the subsidiaries about standardized policies and the communication thereof towards the dealerships. That is an issue in fact: How can we inform the dealers about the existence of such policies and make sure that those actually reach our customers? …* ". The manner in which the different subsidiaries passed the GSGP on to the dealers was not monitored by headquarters and the foreign subsidiary did not perceive a need to inform headquarters about their operational execution of the GSGP. Enhanced bidirectional communication between headquarters and the foreign subsidiary might have resolved the perception gap regarding the foreign subsidiary's role, enhanced strategic consensus (cf. Rapert, 2000) and been an effective remedy to the strategy implementation gap. Either the foreign subsidiary might have implemented the GSGP in the IT system in the same way as the domestic subsidiary to support the standardization aim (or headquarters could have forced them to), or headquarters might have acknowledged the reasoning behind the foreign subsidiary's process adjustment and transferred the latter to all other subsidiaries.

While the foreign subsidiary's strategic customization of goodwill decisions does interfere with headquarters' motives of a globally consistent goodwill behavior, the foreign subsidiary's initiative does not necessarily imply a negative outcome, especially in terms of maximizing the return in customer retention as a response to goodwill spending. Ultimately, the process adjustment led to a lower number of goodwill requests compared to the domestic subsidiary, which in turn resulted in lower costs for ALPHACAR headquarters. Thus, in this case it cannot be assumed that managers at the foreign subsidiary willfully did not cooperate or intended to inhibit corporate strategy. Unaware of their interference with headquarters' standardization aims, subsidiary managers adopted the GSGP in ways that they deemed

beneficial to the MNC. In this regard, the subsidiary's interference with corporate strategy differs from those portrayed in other research, where such decisions have been said to originate from a lack of subsidiary's capabilities or resources (Lin & Hsieh, 2010; Roth et al., 1991) or unfair procedure or opportunistic behavior (Guth & Macmillan, 1986; Kim & Mauborgne, 1991, 1993b). In this case opportunistic behavior on the side of the subsidiary would look different, because repair costs for standardized goodwill are covered by headquarters. Thus, if the subsidiary would have been inclined to revolt against headquarters management or maximize their own profits, they would rather have (over)exploited the standardized policy, proactively offer goodwill coverage to all affected customers and have headquarters pay for as many goodwill repairs as possible.

In conclusion, qualitative analysis of interview data shed light on research question 2 by identifying the origins of the observed strategy implementation gap within the strategy formulation as well as strategy implementation processes. The foreign subsidiary's lesser involvement in headquarters' strategy formulation, their claim to take strategic ownership of goodwill strategy within their market, along with their views on the superiority of customized goodwill decision making shaped their interpretation, adoption and operational execution of GSGPs in ways that manifested themselves in subsidiary initiative and led to the observed strategy implementation gap.

DISCUSSION

The results of our sequential mixed method analysis suggest the presence of a strategy implementation gap within ALPHACAR's globally standardized goodwill policies and shed light on how structural differences between a domestic and a foreign subsidiary can shape their respective roles in the strategy formulation and strategy implementation processes. While the strategic decision to globally standardize goodwill policies for certain technical defects aims at creating equal patterns of goodwill approval across countries, our quantitative analysis shows that after implementing standardized goodwill policies, the number of goodwill cases increased much more dramatically in the domestic subsidiary compared to the foreign subsidiary. Global standardization strategies, thus, do not necessarily result in standardized practice. With regards to the origins of strategy implementation gaps, we find that the foreign and domestic subsidiaries'

different proximities to headquarters and their specific institutional contexts shaped headquarters-subsidiary communication as well as the subsidiaries' interpretation, adoption and operational execution of headquarters' formulated strategy. Our findings lead to three contributions to international business and strategic management research.

First, in this paper we unpack the concept of strategy implementation gaps, which we define as subsidiary-level deviation of strategy implementation outcomes from the MNC's formulated strategy. By focusing on actual strategy implementation outcomes, we go beyond the focus in extant literature on: other aspects of the strategy process (Kim & Mauborgne, 1991, 1993b; Lin & Hsieh, 2010; Roth et al., 1991), the tendency to infer implementation indirectly (e.g., Lin & Hsieh, 2010; S. Xu et al., 2006; Yaprak et al., 2011), or the reliance on subjective perceptions of implementation outcomes (Katsikeas et al., 2006; Samiee et al., 2003). This is important particularly in the context of MNC standardization strategies, which require consistent implementation despite the fact that subsidiaries operate in different institutional contexts (Kostova & Zaheer, 1999; Xu & Shenkar, 2002), because it is not necessarily the case that strategy formulation can be expected to translate directly to actual implementation and managerial perceptions may not be sufficient to reveal actual outcomes. Our quantitative study of actual implementation outcomes that follow the formulation of ALPHACAR's global standardized goodwill policies therefore sheds light on this understudied element of the strategy process (de Oliveira et al., 2019; Hambrick, 2004; Li et al., 2008; Noble, 1999).

Specifically, despite the consensus view that strategy implementation is crucial to the strategy process, relatively few studies have paid attention to empirically investigating actual standardization outcomes at the subsidiary level. The few studies that do (Katsikeas et al., 2006; Samiee et al., 2003) rely on managers' subjective perceptions of the degree of standardization, and do not link those subsidiary-level perceptions explicitly to headquarters' intended or formulated strategy. By virtue of the empirical context of goodwill case data, we are able to extend beyond those studies to capture deviations from the formulated standardization strategy more directly while also controlling for a number of factors unrelated to the implementation process that could explain the strategy implementation gap. In so doing, we contribute to a better understanding of strategy implementation as a key element of the strategy process and draw attention to the importance of looking beyond performance outcomes as an indicator of the 'correctness' of a formulated

strategy. Our research thus has broader implications for a range of domains both within and beyond service-related contexts such as ours.

Second, we create a more nuanced understanding of the how and why behind strategy implantation gaps. While extant research has shed considerable light on factors both internal and external to the MNC that affect subsidiary-level adoption of headquarters-mandated strategies (Birkinshaw, 1998; Demers & Gond, 2020; Ferner et al., 2005; Judge & Stahl, 1995; Kostova & Roth, 2002; Li et al., 2008), our qualitative study reveals a number of key factors related not only to the strategy implementation process, but also to the strategy formulation process, that help us to better understand how strategy implementation gaps occur. Specifically, while extant research identifies the direct effect that subsidiary context and subsidiary management characteristics can exert on their willingness and/or capabilities to execute MNC strategy, our research exposes the role of subsidiary initiative-taking rooted in the subsidiary's views on their own strategic responsibility, which originate from their particular institutional context paired with a lack of strategic consensus between headquarters and the subsidiary (cf. Rapert et al., 2000). Moreover, we show how the relationship between headquarters and the domestic subsidiary, extending back to the process of strategy formulation, biases headquarters' perspective away from awareness of heterogeneity within the MNC, leading to unrealistic assumptions about the homogenous implementation of standardization policies across subsidiaries.

This is an important contribution because the strategy implementation and subsidiary initiative literatures focus on issues such as procedural injustice, opportunism, or lack of (or misfit of) operational capabilities, and how subsidiaries develop their own strategies in defiance of headquarters, in particular when they are located overseas or in other ways distal from headquarters (Asmussen et al., 2019; Kim & Mauborgne, 1993b; Lin & Hsieh, 2010). Our study, however, suggests that foreign subsidiaries do not just implement or not. Rather, they may take on elements of the global standardization strategy but reconfigure and amend them in accordance with their own perspective on effective strategy. We thus identify a perception gap between headquarters and the foreign subsidiary regarding the subsidiary's strategic role. This has consequences for the headquarters' communication of the standardized strategy, the subsidiaries interpretation of headquarters' reasons to standardize, and their way of adapting the policy to match their own perspective of appropriate standardization degree (cf. Nobel, 1999). In so doing, we go beyond prior research on subsidiary roles, which has thus

far paid relatively little attention to whether headquarters and subsidiary managers' perceptions of the subsidiary's role are similar or not.

Third, our findings provide important implications for research on the performance outcomes of global standardization strategies. The assumption is that standardization strategies help to reduce costs and that failure to implement is driven by self-serving opportunistic motives or inability (e.g., Connors & Romberg, 1991; Guth & Macmillan, 1986; Smith, 2009). In this regard, the subsidiary's interference with corporate strategy is expected to generate negative performance outcomes. Paradoxically, our study suggests that strategy implementation gaps may in fact enhance the MNC's overall financial performance, without generating specific benefits for the subsidiary itself. The process adjustment conducted by the foreign subsidiary led to higher goodwill coverage for customers compared to the absence of a standardized policy, but in contrast to the standardized policy as applied by the domestic subsidiary, the foreign subsidiary's approach helps to reduce misuse and costs for the MNC. Under the absence of misperceptions regarding the foreign subsidiary's strategic role and autonomous status as described above, the subsidiary's failure to implement corporate strategy as desired by headquarters could instead be regarded as a valuable subsidiary initiative with the potential to be extended to other subsidiaries of the MNC. Hence, strategy implementation gaps in global standardization not only point towards differences in strategy execution across subsidiaries, but may also reflect non-sanctioned subsidiary initiatives that the MNC could leverage throughout the corporate network.

Limitations and Recommendations for Future Research

Our study is also subject to a number of limitations. As suggested above, the likelihood of strategy implementation gaps may vary depending on the characteristics of the strategic element. That is, the results of this study need to be understood in the context of goodwill behavior in the automobile industry. Our findings suggest the relevance for other instances of global standardization in service firms and for services offered by manufacturing firms, because of the high complexity of implementing servicing processes and the related difficulty of observing and monitoring the degree of actual standardization. Future research may explore the generalizability of our findings in other contexts.

Furthermore, the fact that we only collected data at two subsidiaries might pose problems regarding the generalizability of our findings, in particular concerning the effects of subsidiary role perceptions gaps and lack of strategic consensus on strategy implementation gaps. In our case, however, focusing on only two subsidiaries allowed us to collect rich data and gain in-depth insights into managers' perceptions of strategy and strategic roles in the MNC and how those translate into differences in operational strategy execution. Based on our exploratory research, future studies could develop hypotheses on the exact nature of the relationship between aspects of the subsidiary's institutional context, subsidiary entrepreneurship, and implementation outcomes and test those hypotheses using data from a larger number of subsidiaries.

Our study also does not include an explicit analysis of the role of dealers within the implementation of standardized goodwill policies. Most of the dealers involved in the goodwill process are independent and external partners of the subsidiaries, who can profit from performing goodwill repairs. Each subsidiary partners with several dealers and differences in individual dealers' utilization of goodwill could provide additional explanations for the observed strategy implementation gap. While the presence of such effects would not compromise our findings, important implications for our understanding of strategy implementation in MNC networks could be derived. Future research could shed light on the role of external partners in cross-subsidiary research of strategy implementation. In sum, our investigation of strategy implementation gaps offers many potential avenues for scholars to further enrich our understanding of these important aspects of the strategy process in MNCs.

CHAPTER 4

MNC Channel Partners' Ability and Willingness: Heterogeneous Decision Making at the Boundary of the MNC[3]

While multinational corporations (MNCs) operate in host countries through their subsidiaries, subsidiary operations are conducted in part through their local channel partners. Channel partners provide various critical functions for an MNC and are essential for MNC strategy execution in host markets. The "quasi-internalized" nature of these relationships – i.e., that they are non-equity based but also not fully independent – means that channel partners are not subject to direct control but rather to normative pressures from the MNC. We develop a framework based on ability and willingness that explains when channel partners will conform to the normative pressures posed by the MNC's newly implemented strategy of decentralized decision making. With respect to ability, we focus on the effects of the channel partner's *operational capabilities* and *inertia*. With respect to willingness, we focus on the effects of *goal congruence* between the channel partner and the MNC as well as the channel partner's *embeddedness*. Our analysis of goodwill decision making by 2,265 local independent dealers of a European automobile MNC in 15 countries provides support for three of our four hypotheses. This study contributes to the literature on MNCs, channel relations, and decision making.

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INTRODUCTION

While multinational corporations (MNCs) operate in host countries through their subsidiaries, subsidiary operations are conducted in part through their local channel partners (Hada et al., 2013). These connections, often conceptualized in terms of subsidiary local embeddedness (Nell et al., 2011), are essential to MNC strategy execution. Channel partners, such as suppliers and distributors, provide various critical functions for an MNC, including carrying inventory, demand generation, sales, physical distribution, after-sales service, and extending credit to customers (Hada et al., 2013). They are considered especially important for MNC success in foreign markets, and should therefore be understood as extensions of the MNC's subsidiary network (Holm et al., 2005). How the subsidiary works with its channel partners is therefore important to the MNC's success because channel partners allow the subsidiary to gain a better understanding of, and respond better to, customers' requirements and competitors' actions.

While extant research has focused on a single or a "typical" channel partner in a "typical" host country (Hada et al., 2013), channel partners – even within the same host country – might adopt heterogeneous approaches to strategy implementation. This is because relationships between channel partners and the MNC are non-equity based, and thus that the control boundaries of the MNC need not be the same as the ownership boundaries of the MNC (Narula et al., 2019). This notion of (limited) control without equity has been termed "quasi-internalization" (Narula et al., 2019), because these externalized relationships rely neither on spot market transactions nor equity ownership, but rather on contractual arrangements and relational mechanisms. In this sense, the boundaries between MNCs and their external channel partners can be conceptualized as semipermeable, characterized by hybrid governance forms (Zobel & Hagedoorn, 2020). This is a major departure from the traditional conceptualization of the MNC in the international business (IB) literature, in which ownership and control were synonymous, to focus more on how MNCs manage their offshore activities in the absence of ownership (Strange & Humphrey, 2019). As such, the lack of direct control and reliance on informal mechanisms introduces the risk of channel partners' heterogeneous responses to MNC strategic directives.

In this context of quasi-internalization, the constant push-pull between the opposing forces promoting centralization and decentralization within the MNC's (extended) network is especially salient (Narula et al., 2019; Young

& Tavares, 2004), in particular as regards decision making (Ambos et al., 2020). Decision making is central to the domain of IB (cf. Buckley & Casson, 2019), but in the IB context is particularly subject to risk and uncertainty, for instance due to lack of information (Casson et al., 2014). Given that channel partners are independent parties with greater knowledge of the markets they operate in, MNCs search for the optimal mix of centralized and decentralized decision making. That is, tension exists between the establishment of policies and strategies at the central level that are then disseminated to the network elements at the local level, and a certain degree of autonomy in decision making at the local level. Thus, this quasi-internalized setting can be seen as a context in which channel partners are subject to normative pressures to adopt certain practices, such as exercising the decision-making autonomy that the MNC affords them (De Marchi et al., 2014; Gibbon et al., 2008).

Normative pressures are a form of institutional pressures that arise from expectations, values, and norms within an organization's culture and which push companies to adopt new actions and behaviors in order to gain, maintain, and defend their legitimacy (Abdulaziz et al., 2017; Durand et al., 2019; Latif et al., 2020; Teo et al., 2003). Such normative pressures arise for instance when the MNC implements changes in strategy that require new investments and adjustments by its channel partners (Weiss & Kurland, 1997), such as redesigning long-established practices (Durand & Jourdan, 2012) or streamlining inefficient distribution processes (Waldron et al., 2013). However, research taking an "embedded agency" perspective on organizations' strategic responses to external pressures (cf. Seo & Creed, 2002) suggests that channel partners' responses to normative pressures, such as those generated by the MNC to act in accordance with certain guidelines or policies, are governed to a large extent by channel partners' *ability and willingness* (Durand et al., 2019; Oliver, 1991). Specifically, ability relies on expertise, knowledge, routines and practices that facilitate the accommodation of such pressures (Helfat & Winter, 2011), whereas willingness harbors cognitive and motivational elements that affect the ranking of options and choices (Bundy et al., 2013). Ability and willingness are important in particular for decision making that requires up-front investments in adaptation and change, as the outcomes to any decision are unknowable ex ante (Alvarez & Porac, 2020; Buckley & Casson, 2019).

In line with this perspective, we explore two important elements of both ability and willingness at the level of the MNC-channel partner dyad that govern channel partners' propensity to conform to the MNC's new

strategy of decentralizing decision-making autonomy, based on how they affect channel partners' perceptions of the potential costs and benefits associated with taking such decisions themselves. With respect to ability, we focus first on the enabling effects of the channel partner's *operational capabilities*, in the form of its specialization in performing the task that is targeted by the decision-making authority, and second, on the constraining effects of channel partner *inertia*, in the form of the duration of the channel partner's reliance on previously established norms of conducting business with the MNC. With respect to willingness, we focus first on the enabling effects of *goal congruence* between the channel partner and the MNC, in the form of how well the channel partner typically aids the MNC in achieving its objectives, and second, on the constraining effects of the channel partner's *embeddedness*, in the form of ownership ties to other host-country actors.

We study these relationships in the context of goodwill decision making by local independent dealers of a large European automotive MNC, "ALPHACAR." Goodwill refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired (Diez, 2006; Eggert, 2002; Meffert, 1982; Rosada, 1990). Automotive MNCs such as ALPHACAR typically have standardized goodwill policies in which MNC headquarters issue goodwill policies for certain defect or vehicle types or where local dealers pass goodwill decisions up to the local subsidiary, which then decides on the case and covers the costs. However, recognition that dealers are closest to the customer and thus likely better positioned than the subsidiary to value potential goodwill decisions led ALPHACAR in 2014 to begin implementing a new decentralization strategy under which local dealers, within specific parameters, were afforded the additional option to make autonomous goodwill decisions themselves. This strategy reflects a "quasi-integrated," balanced approach to the centralization-decentralization dilemma that has emerged among automotive networks (Dietl et al., 2009, p. 25). The rate at which dealers make such decisions themselves (as a proportion of the total of all goodwill decisions) is referred to as the dealer take rate throughout this paper. Analysis of more than 40,000 monthly dealer take rates from 2,265 dealers across 15 host countries (from September 2017 through July 2019) offers support for our hypothesized relationships on operational capability, inertia, and goal congruence, but not embeddedness.

This study contributes to the literature on MNCs, channel relations, and decision making at the organizational boundary, in two ways. First, we extend our understanding of the MNCs' channel relations in the host country,

in which channel relations can be understood as an extension of the MNC (Hada et al., 2013; Holm et al., 2005). Specifically, we develop a framework highlighting the role of two dimensions of channel partner ability and willingness in the exercise of decision making at the boundary of the MNC, in order to shed more light on the dynamics of strategy implementation under quasi-internalization (Narula et al., 2019). Second, by exploring heterogeneity at the level of the channel partner, we add richness and nuance to the prevailing country-level perspective in the IB literature and its static view on issues such as centralization versus decentralization (Meyer et al., 2011; Vigneau, 2020). That is, we extend beyond studies considering a single or a "typical" channel partner in a "typical" host country (Hada et al., 2013) to enhance our understanding of variance in responses to MNC strategy implementation *across* channel partners within a given host country. In so doing, our study heeds recent calls to take a more fine-grained perspective on MNC strategy (Meyer & Estrin, 2014; Swoboda et al., 2018).

THEORY DEVELOPMENT AND HYPOTHESES

Formally speaking, channel partners exist outside the boundary of the MNC. Yet channel partners are essential for the MNC's success and can be considered extensions of the subsidiary in host markets (Holm et al., 2005). As such, the organizational boundary between the MNC and its channel partners is nebulous: it is neither spot-market nor equity-based, and thus cannot be fully governed by either contracts or direct formal control (Benito et al., 2019; Strange & Humphrey, 2019). In this context of quasi-internalization (Narula, 2019), the institutional mechanisms binding the partners' interactions are informal and therefore normative, relational aspects become particularly salient for the role of channel partners in the execution of MNC strategy. That is, through its host country subsidiaries, the MNC aims to disseminate strategic goals to its channel partners, and in so doing has to rely on those channel partners to make autonomous decisions that help to achieve those goals. Research has thus far left underexplored under which conditions channel partners embrace the autonomy they are afforded to make decisions on the MNC's behalf, versus when they defer to the MNC to make those decisions.

To address this gap, we draw on research that integrates resource-based arguments into the institutional perspective to argue that channel partners' ability and willingness to assume decision-making autonomy are essential

for their propensity to conform to the normative pressures that stem from the MNC's implementation of a decentralized strategy (Durand et al., 2019). Conceptually speaking, normative pressures refer to "the evaluative and obligatory dimensions of an institutional order that weigh on an organization to gain, maintain, and defend its legitimacy" (Durand et al., 2019, p. 301). The embedded agency view incorporates resource-based arguments in order to understand the differentiated behaviors of organizations in response to such pressures (Oliver, 1991). Whereas institutional perspectives may overemphasize conformity and homogeneity, and resource-based perspectives may overemphasize firms' strategic latitude, an embedded agency lens allows for an understanding of how organizations leverage their resources and capabilities within the structures of a given institutional setting, in this case, channel partners' degree of conformity to the normative pressures established by the MNC's strategy implementation.

Recent research has explicated the roles of ability and willingness in actors' conformity to normative pressures, where conformity characterizes voluntary actions as responses to social and normative expectations (Durand et al., 2019). Ability relates to actors' cost-benefit perceptions of conformity whereas willingness reflects relational and motivational elements. Durand et al.'s (2019) understanding of an organization's willingness to respond to normative pressures is rooted in Bundy et al.'s (2013) view of issue salience, described as "the degree to which a stakeholder issue resonates with and is prioritized by management", as a key antecedent of firm responsiveness (Bundy et al., 2013, p.353). However, in contrast to Bundy and colleagues (2013) and drawing on the resource-based view of the firm (Barney, 1991; Penrose, 1959), Durand et al. (2019) argue for a more general model that goes beyond issue salience to also account for an organization's ability. In particular, they suggest that decision makers explicitly consider available resources and capabilities by conducting a localized, subjective cost-benefit analysis of taking or not taking action on a focal issue. Thus, ability is more directly about cost-benefit perceptions, whereas willingness is driven by other factors, such as identification, that do not necessarily translate to cost-benefit considerations. In this sense, ability and willingness complement each other: no strategic response can be fully accounted for by either cost-benefit analysis or relational components, in the same way that contracts are incomplete and require some level of trust as a complement. By simultaneously considering channel partners' willingness and ability to respond to normative pressures stemming from the MNC, we shed light on antecedents of heterogeneous responses to institutional pressures (Durand et al., 2019).

In the context of our theorizing, we explicate two dimensions of ability and of willingness that we argue are important for the exercise of decision-making autonomy by channel partners. With respect to ability, we consider both the facilitating role of operational capabilities required to perform the activities that are subject to the decision, as well as the inhibiting role of inertia formed by the channel partner's reliance on the status quo. With respect to willingness, we consider the facilitating role of goal congruence between the MNC and the channel partner, as well as the inhibiting role of the channel partner's embeddedness—i.e., its ties to other (host-country) entities. Collectively, these mechanisms help explain heterogeneity at the level of the channel partner, even though the MNC's strategy of decentralized decision making applies equally to all channel partners.

Decision Making at the Boundary of the MNC

Research into the nature of the boundary of the firm has a rich theoretical tradition. The organizational boundary has been conceptualized in terms of the demarcation of social structures, resource possession, and organizational influence and control (Santos & Eisenhardt, 2005). While recent perspectives have aimed at incorporating these conceptualizations in a multidimensional framework (see, e.g., Zobel & Hagedoorn, 2020), the dominant perspective in IB focuses on the role of transaction costs and highlights the MNC as a nexus of contracts (Aoki et al., 1990; Williamson, 1975; Williamson & Winter, 1993). From this perspective, the boundary of the MNC becomes nebulous, because channel partner relationships are governed by contracts and may be dedicated, but lack equity control. This state of quasi-internalization (Narula et al., 2019) may in particular be subject to factors that can undermine cooperation and inhibit coordination, such as interest misalignment, information asymmetries, conflicting allegiances or a lack of trust (Gulati et al., 2005; Samaha et al., 2011; Wathne et al., 2018).

With respect to decision making in interorganizational collaborations such as the MNC-channel relationship, it is essential to recognize that decisions are "peer to peer decisions" (Buckley & Casson, 2019, p. 1434). That is, both actors have decision-making authority and the decisions of each decision-maker impact the outcome achieved by the other. In this sense, each party's resource commitments towards a specific decision affect those of the other party, while the potential returns to those decisions—and how they should be attributed to either partner—may be unknowable, even ex post. This makes decision making inherently uncertain, in terms of "the extent to

which a partner (1) has enough information to make key decisions, (2) can predict the consequences of those decisions, and (3) has confidence in those decisions" (Morgan & Hunt, 1994, p. 26). Channel relationships therefore present somewhat of a collective action problem whereby economic agents form coalitions in which they simultaneously cooperate to create value and compete to appropriate it (Dietl et al., 2009; Morgan & Hunt, 1994; Nadin, 2009; Stoelhorst, 2021).

When it comes to customer-related decisions in particular, the channel partner typically possesses superior information, and therefore from the MNC's standpoint, decisions should be taken by the channel partner. But given the inherent fundamental uncertainty associated with decision making in a complex environment (Nell & Andersson, 2012), the channel partner may resist taking such decisions in order to avoid both the effort required to make the decision as well as the responsibility for its outcome. Therefore, while decision rights are typically associated with power, control, and influence, and seen as something to "retain" or "relinquish" (Gambardella & Panico, 2014) it is unclear to what extent parties in an interorganizational network desire such rights. Similarly, while research on MNCs assumes that subsidiaries actively seek out decision making autonomy (Nell & Andersson, 2012; O'Brien et al., 2019; Puck et al., 2016), it is unclear whether the *right* to make decisions necessarily always translates into the *exercise* of that right. Moreover, no known research has explored this issue in the context of independent channel partners, and how they respond to the implementation of a decentralized decision-making strategy by the MNC. In the following sections, we consider four factors that form sources of important but underexplored heterogeneity in the exercise of decision-making autonomy at the organizational boundary between the MNC (subsidiary) and its channel partners. Specifically, we study the effects of channel partner ability in terms of channel partners' operational capability and inertia and channel partner willingness in terms of goal congruence between channel partner and MNC as well as channel partners' embeddedness.

Channel Partner Ability

From a resource-based perspective, ability reflects whether the channel partner possesses the resources and capabilities needed to engage in the requisite activity (Helfat & Winter, 2011). In the dynamic sense, under conditions of environmental change, such as the MNC's new strategy implementation, ability pertains not only to leveraging existing capabilities,

but also to developing new capabilities, or novel combinations of existing capabilities (Santos & Eisenhardt, 2005). From a resource-based view, therefore, ability must be understood in relation to the cost-benefit analysis associated with performing an activity (Durand et al., 2019).

Operational Capability Channel partner operational capability refers to a partner organization's "capacity to perform a particular activity in a reliable and at least minimally satisfactory manner" (Helfat & Winter, 2011, p. 1244). Capability relies on resources and their deployment, and the routines and practices associated with the activity. Capability is acquired through experience and specialized learning, and is thus a function of throughput (Mauri et al., 2013). As firms accumulate experience with a given activity, they establish routines and practices to support it, acquire knowledge about the activity itself as well as its outcomes, and tend to increasingly employ more specialized personnel dedicated to the activity (Petruzzelli et al., 2018). Specialization increases responsiveness to environmental change, such as a new strategy by the MNC, because the focus on narrowly defined task domains allows for the accumulation of more in-depth knowledge and expertise, which in turn leads to better-informed decision making about those domains (Walker Jr, 1996).

With higher levels of throughput, channel partners may feel more competent (Santos & Eisenhardt, 2005), and thus be more confident in their ability to conform to the MNC's newly implemented strategy of decentralized decision making, for two reasons. First, more capable channel partners will have greater prior experience in the area in which decisions are made, and thus will likely be better able to anticipate the outcome of such decisions. Second, channel partners with well-established routines and specialized process knowledge have a better foundation on which to base their decision making, and thus be more confident in the appropriateness of their decisions. This is especially important given the uncertainty surrounding decision making in general, and the difficulties associated with knowing ex ante how the costs and benefits associated with decisions will accrue to the MNC versus the channel partner. Channel partners with more developed relevant operational capability will be better positioned to make the cost-benefit analysis associated with the MNC's new strategy of decentralized decision making. Hence:

Hypothesis 1: There is a positive relationship between the level of the channel partner's operational capability and the extent of the channel partner's conformity to a new MNC strategy of decentralized decision making.

Inertia Channel partner inertia refers to the disincentives the channel partner face in accommodating fundamental reorientations in the MNC's strategy and activities (Dow et al., 2018). Inertia arises as a function of prior and ongoing personal commitments, financial investment, and institutional mechanisms supporting established ways of doing things (Huff et al., 1992). Research shows that the older an organization, for example, the more time it will have spent on formalizing relationships and standardizing routines, leading not only to higher structural stability but also increased rigidity (Hannan & Freeman, 1984; Kelly & Amburgey, 1991; Sørensen & Stuart, 2000; Stinchcombe, 1965). Hence, over time, organizational routines develop that are persistent and thus a source of inertia in the face of changes in the institutional environment (Walker Jr, 1996). We extend this reasoning to the context of the MNC-channel partner relationship (cf. Jap, 1999), which is typically said to benefit from mutually oriented outlays over time that lead to the establishment of collaborative practices and behaviors (Hada et al., 2013). These relationship-specific investments lead to increased interdependency, clearer and more efficient communication, and increased commitment to the relationship (Weiss & Kurland, 1997). However, these investments also make the relationship more costly to terminate and therefore reduce flexibility (Holm et al., 1996).

As such, investments in the status quo over time can become a source of inertia that influences the cost-benefit analysis a channel partner makes with respect to changes in strategy. A new strategy by the MNC represents a change in the channel partner's environment that requires adaptive responses, while stability is the preferred relational mode (Nell & Andersson, 2012). The channel partner's ability to conform to the MNC's normative pressure to adapt depends on the possession, configuration, and deployment of strategically valuable resources that are relevant for the new strategy (Santos & Eisenhardt, 2005). Thus, when the MNC implements a new strategy, the underlying strategic logic shifts from leveraging existing capabilities to developing new capabilities, or to applying novel combinations of existing capabilities (Santos & Eisenhardt, 2005).

The rollout of a new strategy by the MNC therefore creates a complex and ambiguous situation for the channel partner that is characteristic of "peer to peer decisions" (Buckley & Casson, 2019); i.e., where decisions taken by the one party affect the value of the other partner's prior investment in established ways of organizing (e.g., Durand & Jourdan, 2012). The channel partner's cost-benefit analysis shifts, because adaptation and change are

required without knowledge of the possible outcomes or benefits to either party. Therefore, from a cost-benefit perspective, the greater the channel partner's inertia, the higher the perceived costs associated with the change that is necessitated by an MNC's new strategy. In the context of this study analyzing an MNC's new strategy of decentralized decision making, we therefore hypothesize as follows:

Hypothesis 2: There is a negative relationship between the level of the channel partner's inertia and the extent of the channel partner's conformity to a new MNC strategy of decentralized decision making.

Channel Partner Willingness

Willingness refers to a channel partner's motivation to utilize decision-making autonomy granted by the MNC. As noted above, MNCs typically adopt policies of decentralized decision making, by which channel partners are authorized to make decisions because they hold a better understanding of, and respond better to, customers' requirements and competitors' actions. Willingness tends to be higher when the channel partner considers the achievement of the MNC's goals to be salient (Bundy et al., 2013), such that they have a common understanding of strategic objectives and share the same goals. Channel partners with high willingness have a positive attitude towards the MNC and therefore are positively predisposed to exercise the newly increased decision-making authority they have been afforded. Willingness is important because the costs and benefits of decisions cannot always be known ex ante. Thus, the motivation to take decisions on behalf of the MNC implies that the channel partner identifies with the MNC, perceives both parties' interests as being aligned, and conceptualizes risk in terms of risk sharing rather than risk taking (Santos & Eisenhardt, 2005; Zobel & Hagedoorn, 2020).

Goal congruence Goal congruence is "the extent to which firms perceive the possibility of common goal accomplishment" (Jap, 1999, p. 465). In the context of MNC-channel partner relationships, this means that channel partners perceive their own objectives to be satisfied by accomplishing the MNC's objectives (Cao et al., 2010). When goals are perceived as congruent, the goals of the MNC become salient to the channel partner, and their pursuit is seen as mutually beneficial. This perception of goal congruence thus underpins the motivation to act in ways that serve the other's interests (Bundy et al., 2013; Gottschalg & Zollo, 2007), and leads to idiosyncratic

investments in relationship-specific resources and capabilities (Jap, 1999). This motivation can arise due to extrinsic factors, such as the nature of the contractual arrangement between two parties, or intrinsic factors, such as the desire to conform to a given set of norms and values (Gottschalg & Zollo, 2007). In the case of the latter in particular, such desire tends to stem from identity-relevant elements, such as identification with the other party (Santos & Eisenhardt, 2005). Ultimately, goal congruence is an important contributor to organizational performance, because its motivational elements lead to more goal-relevant behavior and lower levels of friction, transaction costs, and monitoring costs (Gottschalg & Zollo, 2007).

Much scholarship has considered the achievement of shared goals in the MNC context by examining the relationship between the MNC headquarters and its subsidiaries (Kostova et al., 2018; Puck et al., 2016). Typically research addresses ways in which such goals can diverge, and the strategies HQ can pursue to better align them (Costello & Costello, 2009). Research has also explored goal congruence between focal firms and independent suppliers in outsourcing relationships (Schuerch et al., 2021). In the case of such arm's-length relationships, goals can be even more divergent and task performance outcomes may be difficult to measure, increasing the risk of opportunistic behavior (Aron & Singh, 2005). Thus, even within a single MNC, where channel partners are subject to the same contracts and control mechanisms (particularly within a given country), there is likely to be heterogeneity in terms of the motivation to act in line with the MNC's interests. Some channel partners will identify more with the MNC, have a more positive attitude towards the MNC, and therefore be more motivated to exercise the increased decision-making authority they have been afforded, because doing so helps the MNC to realize its strategic goals. Thus, we hypothesize that:

Hypothesis 3: There is a positive relationship between the level of goal congruence of MNC and channel partner objectives and the extent of the channel partner's conformity to a new MNC strategy of decentralized decision making.

Embeddedness Channel partner embeddedness emphasizes the broader set of connections channel partners have to other actors in their network, and as such extends beyond the dyadic understanding to a triadic or more complex structure comprising multiple dyadic relationships (Holm et al., 2005; Kim, 2014). The notion of embeddedness as it is used in the tradition of social network research (e.g., Burt, 1992) focuses on actual linking within the wider network in which the focal actor's direct relationships are embedded. In contrast, in international management the concept is typically used more

loosely to refer to the extent to which other actors outside the direct business relationship between the MNC subsidiary and its channel partner exercise influence on the direct business relationship (Nell & Andersson, 2012). This is in line with the more general perspective of embeddedness adopted in research on vertical supply chain relationships, which focuses on the way dyadic relationships are affected by other dyadic relationships (Choi & Kim, 2008). Specifically, dyadic relationships are affected by the "secondary effects flowing from each party's relationship with others in their networks" which can inhibit the partner's motivation to "fully embrace or live up to such relational norms" (Walker Jr, 1996, p. 80). As such, embeddedness in this context relates to the degree to which decisions in the focal MNC-channel relationship are affected by the interests, behavior, and strategies of other actors in the channel partner's network.

Given the interdependencies of decision making in the interorganizational context (Buckley & Casson, 2019), the influence of embeddedness can be understood in terms of power. The analysis of power in vertical interorganizational relationships, in which interdependencies, control, and decision making play a central role, has a long history in the global value chain literature (Strange & Humphrey, 2019) and is typical of research on manufacturer-retailer interaction (Ailawadi et al., 2010). Through a resource-based lens, power emphasizes control of external strategic relationships to reduce dependence and gain dominance. In this view, the boundary of the MNC is not its legal manifestation but rather its sphere of influence (Santos & Eisenhardt, 2005). Linking to the institutional perspective, Zobel & Hagedoorn use the term "induced isomorphism" (2020, p. 408) to capture the focal firm's use of normative influence or leverage to get other actors in the interorganizational collaboration to conform.

Channel partners are typically conceptualized as the weaker party in relationships with manufacturers. While there has been a general shift towards greater value-added by channel partners, and thus more influence in the relationship (Buzzavo, 2013), manufacturers typically still control the product, the intellectual property, and the brand, and are much larger than their average channel partner, and thus power remains asymmetrical (Arruñada et al., 2001; Nadin, 2009). However, whereas many channel partners are independent, others are associated with larger groups that collectively form a counterweight to the power of the manufacturer. For example, in the automotive industry, "dealer groups" have become a more prominent factor, accounting in some cases for a majority share of auto sales in

a given country (Buzzavo, 2013). These dealer groups perceive less pressure to conform to the manufacturer's normative expectation of accommodating the new strategy, due to the greater sense of power they derive from that larger network (Nadin, 2009). Research thus suggests that the degree to which channel partners are embedded in their own host-country networks affects their willingness to conform to the MNC's normative pressures to implement a new strategy. Specifically, we hypothesize:

Hypothesis 4: There is a negative relationship between the level of the channel partner's host-country embeddedness and the extent of the channel-partner's conformity to a new MNC strategy of decentralized decision making.

DATA AND METHODOLOGY

Data for this study was collected at ALPHACAR, a multinational automobile manufacturer headquartered in Europe. Automotive MNCs such as ALPHACAR typically pursue vertical integration strategies based on efficiencies and centralized decision making, but are at the same time subject to localization pressures, in particular for customer-facing activities such as sales and after-sales (Buzzavo, 2008; Dietl et al., 2009; Nadin, 2009). Goodwill, which refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired (Diez, 2006; Eggert, 2002; Meffert, 1982; Rosada, 1990), is one such activity. While goodwill can be very costly, it may also increase customer retention for both sales and services via increased customer satisfaction, positive word of mouth and enhanced brand image, or by decreasing customer dissatisfaction (Eggert, 2002). Accordingly, consistency in goodwill policies is vital to global brand quality perceptions, and MNCs such as ALPHACAR have traditionally maintained goodwill policies in which standardized goodwill decisions made at headquarters apply globally or where local dealers pass requests for goodwill coverage up to the national subsidiary, which then decides whether (and to what extent) to cover the repair costs.

However, recognition that dealers are closest to the customer and thus likely better positioned than the subsidiary to value potential goodwill decisions led ALPHACAR in 2014 to begin implementing a new, more decentralized parallel strategy under which local dealers, within specific parameters, were afforded the additional option to make autonomous goodwill decisions themselves. Each national subsidiary specified the exact

parameters within which this option would be available, in accordance with their respective country's warranty conditions, vehicle mileage pattern, and channel partner characteristics. In addition, country subsidiaries further specified which fraction of the repair costs they would cover as a goodwill gesture within which parameters. More specifically, the majority of subsidiaries offer full cost coverage under goodwill shortly after a vehicle warranty expires but only cover parts cost or a certain percentage of the total repair costs for older vehicles and vehicles with higher mileage. In such cases, subsidiaries may require dealers to contribute to the remaining repair costs or let them defer the remaining costs to the customer.

Therefore, the subsidiary, in concordance with ALPHACAR's overall policy, establishes country-level parameters within which the channel partner can make goodwill decisions. In parallel, however, the option remains for the channel partner to refer the goodwill case back to the subsidiary. This strategy reflects a "quasi-integrated," balanced approach (Dietl et al., 2009) that has emerged in response to the centralization-decentralization dilemma in the automotive industry (Schlie & Yip, 2000). At ALPHACAR, the rate at which dealers make goodwill decisions themselves (versus deferring to the subsidiary) is called the "dealer self-authorization" (DSA) take rate, or dealer take rate.

We included countries in the dataset where national subsidiaries offered DSA as an option to their dealers, had implemented it at least two years ago, and used a warranty IT system version that allowed for data collection at the required level of detail. This way we were able to include data from 2,265 dealerships under fifteen national subsidiaries located on four continents, including a large variety of different cultures and institutional settings over a time span of 23 months (September 2017-July 2019). The host countries contained in the dataset are: Austria, Belgium, Canada, France, Germany, Italy, Japan, Mexico, Netherlands, Singapore, South Africa, Spain, Switzerland, UK and the US. The number of dealer-month observations across the 23-month period varies from a maximum of 13,232 in Germany to 41 in Singapore. The average is 2,924 dealer-months per country. After eliminating observations with missing values, the final sample consists of 43,866 dealer-month observations.

Variables

Dependent variable The rate at which ALPHACAR dealers make goodwill decisions themselves is used as a measure for channel partners' conformity to a new MNC strategy of decentralized decision making. We calculated dealer take rate as the monthly proportion of dealer-authorized goodwill decisions divided by the sum of dealer- and subsidiary-authorized goodwill decisions within the DSA limits. That is, subsidiary-authorized goodwill decisions only include those decisions that could have potentially been made by the dealer. The measure has a mean value of 0.68 (i.e., 68% of goodwill decisions in the total sample are made by dealers), with a standard deviation of 0.31. The data was extracted from ALPHACAR's warranty IT system.

Independent variables *Operational capability* refers to a firm's relative efficacy in transforming various heterogeneous operational resources into useful organizational outputs (Peng et al., 2008). Operational capability is therefore a "high-level routine (or collection of routines)" that relies on learning, experiences, and resources to generate a product or perform a service (Felin et al., 2012, p. 1355). To measure *operational capability*, we used the total volume of monthly warranty throughput throughout the observation period; i.e., the total number of warranty and goodwill cases processed by the respective dealer per month. Larger throughput volumes stimulate a virtuous cycle of resource utilization and efficiency and a more specialized allocation of roles and relationships within the organization. With larger numbers of warranty and goodwill cases, dealers gain more substantial experience and process knowledge and may have more specialized staff (Petruzzelli et al., 2018). The sample took a mean of 363 cases per dealer per month. Due to skewness, we log-transformed the measure. The data was extracted from ALPHACAR's warranty IT system.

In organization theory, *inertia* refers to the taken-for-granted nature of established practices and its effects on organizations' ability to adopt new or contested practices (Kim et al., 2006; Schilke & Cook, 2013). If practices reflect "patterns of repeated activities that are infused with shared meanings" (Furnari, 2014, p. 442) which are "maintained over long periods of time without further justification or elaboration" (Zucker, 1987, p. 446), then an organization's exposure to a shared history of a common way of doing things is a central feature of its inertia in the face of the introduction of a new practice. Just as inertia increases monotonically with organization age (Hannan & Freeman, 1984; Kelly & Amburgey, 1991; Stinchcombe, 1965), this can be extended to the context of the relationship between two network

partners (Jap, 1999). Therefore, to measure *inertia*, we took the duration of the relationship between the dealer and ALPHACAR, measured in years since the beginning of the first/original contract until the observation year, as time is a reflection of the cumulative investments in established ways of doing business. The measure ranged from a minimum of 0 to a maximum of 96 years, with a mean of 21.54 and a standard deviation of 15.04. The data was extracted from ALPHACAR's registry of general dealer data.

Goal congruence refers to the extent to which actors pursue a common objective based on the perception of shared interests (Mountford & Geiger, 2020). The existence of goal congruence is inherently perceptual, meaning it is the result of interpretation by one or more of the involved parties (Den Hond et al., 2014). Accordingly, to measure (perceptions of) *goal congruence*, we collected data on each dealer's assessed performance within ALPHACAR's warranty and goodwill key performance index (KPI) system and calculated an aggregate KPI measure that captures how much a dealer deviates from the country average in terms of labor time per case and costs per case. After performing a warranty or goodwill repair, dealers will issue an invoice to ALPHACAR to be reimbursed for the required parts and labor costs. ALPHACAR prescribes that repairs shall be executed in the most efficient way possible, but since the exact effort needed to perform individual repairs cannot be perfectly monitored, ALPHACAR has to rely on dealers' motivation to carry out repairs as efficiently as possible. Hence, for each dealer, monthly KPI performance indicates how closely dealers follow ALPHACAR's guidance with respect to the performance of warranty and goodwill work, and thus are perceived to act in ways serving the goals of ALPHACAR (Bundy et al., 2013; Gottschalg & Zollo, 2007). Accordingly, a higher score implies that the dealer considers the pursuit of ALPHACAR's goals to be salient and in its own interests to pursue those same objectives. Due to skewness we log-transformed the measure and winsorized at the 1% level to deal with outliers. The measure has an average of 1.98 and a standard deviation of 0.612.

Embeddedness reflects the degree to which decisions in the focal MNC-channel relationship are affected by the interests, behavior, and strategies of other actors in the channel partner's network (Choi & Kim, 2008; Holm et al., 2005; Kim, 2014; Nell & Andersson, 2012). To measure *embeddedness*, we took the specific context of dealers in the automotive industry to identify which dealers are members of a dealer group, and calculated the total size of the dealer group measured as the number of dealers in the group. As such, the

number of dealers in the group is a proxy for the dealer's connections to other entities and the relative influence of other actors on the dealer's relationship to ALPHACAR, and thus a weaker influence of ALPHACAR on the dealer. The variable ranges from a value of "1" for independent dealers (54.7% of cases) to an average of 4.09 (standard deviation 3.66) group members for dealers that are affiliated with a dealer group (45.3% of cases). The data was extracted from ALPHACAR's registry of general dealer data.

Control variables We controlled for a number of factors that can influence dealers' decision making. With respect to goodwill in particular, dealers will consider the age of the car. Thus, we controlled for *car age*, defined as the average age, in months, of vehicles that received goodwill at the dealership during the respective month. Relatedly, we controlled for car *mileage*, defined as the average mileage of vehicles that received goodwill at the dealership during the respective month, which we log transformed. Both measures were drawn from ALPHACAR's warranty IT system. The ability to make assumptions about any benefits that may stem from goodwill decisions may be affected by whether cars fall outside of certain parameters in terms of mileage or age, and thus may lead the dealer to defer to the subsidiary.

Additionally, some ALPHACAR subsidiaries implement cost-sharing arrangements into their contracts with dealers (each host country is managed by a single subsidiary). For instance, the dealer may be obligated to absorb a certain portion of the labor or parts costs or, respectively, forward these costs to the customer. As this is a subsidiary-level decision, we calculated a dummy variable (*cost sharing*) that takes a value of "1" if dealers in a given host country are subject to cost sharing, and a value of "0" if they are not.

Next, we controlled for *governance quality*, measured as the average of the six dimensions of governance collected by the World Bank: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption (Beugelsdijk et al., 2020). This is because the formal institutional environment affects, e.g., contracts and their enforcement, and thus transaction costs and agency costs associated with contractual relationships.

Moreover, we controlled for the effects of host-country culture. Culture is a collective and stable property of societies consisting of several dimensions and typically conceptualized at the country level (Kirkman et al., 2006), and can have important consequences for motivation, for example (Gottschalg & Zollo, 2007). While multiple frameworks have been developed, we focused

on Hofstede's dimensions of culture because it is considered the most reliable (Beugelsdijk et al., 2017, 2020; Kirkman et al., 2006). Specifically, we control for uncertainty avoidance, given that decision making is inherently uncertain and thus culturally-determined tolerances for uncertainty are likely to affect dealer take rates. *Uncertainty avoidance* is defined as "the level of stress in a society in the face of an unknown future" (Hofstede, 2011, p. 8). Uncertainty avoidance is not the same as risk avoidance; it deals with a society's tolerance for ambiguity. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. As goodwill decision making is inherently uncertain in terms of 1) channel partners' access to relevant information (e.g., has the customer operated the vehicle appropriately?); 2) their inability to predict the outcome of their decision (will a goodwill gesture increase a customer's loyalty towards the dealership and/or the brand?); as well as 3) channel partners' confidence in their decision (is the goodwill decision in line with MNC strategic targets? How generous are other dealers with regards to goodwill gestures?), uncertainty avoidance could affect dealers' autonomous decision making (cf. Morgan & Hunt, 1994).

In sum, dealer decision making may vary systematically across countries, depending on the quality of governance in the host country as well as its cultural dimensions (Kostova et al., 2018). Descriptive values for key variables in this study, by country, are presented in Table 4.1.

Estimation Technique

Our dependent variable, dealer take rate, is a proportion. Proportional data, in which variables are expressed as percentages or fractions of a whole, are by definition bounded by 0 and 1, and their variance may not be constant across the range of the predictor. For proportions based on counts, such as dealer take rate, logistic models are most appropriate (Douma & Weedon, 2019). More specifically, in line with Papke and Wooldridge (1996) and Baum (2008), we used General Linear Modeling (GLM) of the binomial family with a logit link to model the relationships hypothesized above. GLM is based on maximum likelihood estimations and is thus distinct from the least-squares approaches usually taken for continuous dependent variables. To account for time effects, we include dummies for each month. Additionally, to account for dealer-level heterogeneity, we cluster errors at the dealer level.

Table 4.1: Descriptive values for key variables

Country	Dealer-months	Dealer takerate (mean)	Dealer takerate (std. dev.)	Capability	Inertia	Goal Congruence	Embedded-ness	UAI	GovQual
Austria	1,323	0.76	0.25	4.86	37.95	2.00	1.35	70	1.40
Belgium	1,650	0.50	0.29	4.73	20.44	1.30	1.28	94	1.25
Canada	813	0.65	0.34	6.87	13.66	2.41	1.29	48	1.66
France	3,425	0.67	0.34	4.75	17.84	2.01	1.82	86	1.04
Germany	13,232	0.60	0.26	4.61	25.36	1.62	4.00	65	1.51
Great Britain	3,231	0.79	0.25	6.43	16.67	2.14	1.01	35	1.42
Italy	2,536	0.91	0.19	5.24	13.20	2.33	2.68	75	0.49
Japan	2,797	0.77	0.37	5.10	17.16	2.36	3.45	92	1.36
Mexico	348	0.42	0.45	5.18	10.48	2.20	1.09	82	-0.28
Netherlands	962	0.45	0.40	4.79	34.26	1.97	1.02	53	1.67
Singapore	41	0.21	0.38	6.95	28.59	1.94	1.00	8	1.59
South Africa	1,198	0.87	0.22	5.72	14.07	2.38	1.37	49	0.19
Spain	531	0.79	0.30	5.45	23.55	2.20	1.00	86	0.86
Switzerland	1,650	0.47	0.36	5.46	34.46	2.25	1.54	58	1.78
United States	10,129	0.73	0.29	6.36	19.17	2.13	1.43	46	1.24
Overall	43,866	0.68	0.31	5.36	21.55	1.97	2.40	63.18	1.27

RESULTS

After elimination of observations with missing values, the final data set comprises 2,265 dealers and 43,866 dealer-month observations. We report relevant descriptive statistics and bivariate correlations in Table 4.2 below. Table 4.2 reveals some initial insights. For instance, nearly all the control variables (except cost sharing) demonstrate significant correlations with take rate, the dependent variable. With respect to country-level variables, Table 4.2 shows that dealer take rate is lower in countries with high regulatory quality and in high uncertainty avoidance contexts. With respect to variables such as car age and car mileage, Table 4.2 shows that take rate increases with car age but decreases with car mileage. Most importantly, Table 4.2 offers initial evidence that *operational capability* and *goal congruence* are positively related to take rate, and *inertia* and *embeddedness* negatively related to take rate.

In Table 4.3 we present the GLM regression results, starting with a controls-only model (Model 1) and then stepwise inclusion of each predictor (Models 2-5) before presenting the full model (Model 6). Model 1 shows that with the exception of *cost sharing*, each of the control variables is a significant predictor of take rate and thus important to account for. Model 2 shows the effects of *operational capability* on take rate, which is positive and significant ($\beta = 0.106$, $p \approx 0.000$), in support of Hypothesis 1. Model 3 presents the effect of inertia on take rate, which is negative and significant ($\beta = -0.002$, $p = 0.014$), offering support for Hypothesis 2. Model 4 reports the effect of *goal congruence* on take rate, which is positive and significant ($\beta = 0.194$, $p \approx 0.000$), in accordance with Hypothesis 3. Model 5 shows that the effects of embeddedness on take rate are statistically non-significant ($\beta = -0.002$, $p = 0.693$), and thus Hypothesis 4 is unsupported. Model 6 reports the combined effects of all four predictors, which are consistent with those identified in Models 2-5 and thus offer support for Hypotheses 1 through 3, but not 4.

To visualize these results, we plot the marginal effects of each of the first three variables on (predicted) dealer take rate, including their confidence intervals, across the full range of each variable's values, in Figure 4.1. These figures show that in terms of the range of values for the predicted outcome (dealer take rate), the effects of capability are the strongest, followed by goal congruence. Inertia has the least explanatory power and also the weakest significance levels, as indicated by the wider confidence interval (although this is particularly the case at very high values, e.g., over 60 years, which only accounts for 808 observations in the dataset, or less than 2% of the total).

Table 4.2: Descriptive statistics and bivariate correlations

		Mean	St. Dev.	1	2	4	7	8	9	10	11	12
1	Takerate	0.681	0.315	1								
2	Governance quality	1.270	0.375	**-0.2089**	1							
4	Uncertainty avoidance	63.189	16.888	**-0.0401**	**-0.2054**	1						
7	Cost sharing	0.287	0.452	0.0071	**-0.1489**	**0.4112**	1					
8	Car age	48.276	10.184	**0.0313**	**-0.0239**	**-0.0140**	**0.2570**	1				
9	Mileage (ln)	11.003	0.365	0.0027	**-0.0915**	**-0.2572**	-0.0009	**0.2639**	1			
10	Capability	5.215	1.225	**0.1161**	**-0.0507**	**-0.5099**	**-0.0444**	**0.1825**	**0.2229**	1		
11	Inertia	21.541	15.043	**-0.0903**	**0.2549**	0.0064	**0.0411**	**-0.0445**	0.0082	**-0.0186**	1	
12	Goal Congruence	1.977	0.612	**0.1409**	**-0.2157**	**-0.0992**	**0.1696**	**0.1630**	**0.0185**	**0.1835**	**-0.1225**	1
13	Embeddedness	2.400	2.908	**-0.0483**	**0.1224**	**0.1601**	**-0.0646**	**-0.0761**	**-0.1451**	**-0.1800**	**-0.0775**	**-0.1673**

Coefficients with p-values below 0.05 in bold for ease of reading

Table 4.3: Effects of dealer ability and willingness on dealer take rate

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Constant	**5.808**	**5.037**	**5.748**	**4.838**	**5.817**	**4.052**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Governance quality	**-1.107**	**-1.026**	**-1.075**	**-1.016**	**-1.105**	**-0.914**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Uncertainty avoidance	**-0.011**	**-0.007**	**-0.011**	**-0.009**	**-0.011**	**-0.005**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Cost sharing	0.033	0.014	0.040	-0.024	0.031	-0.032
	(0.466)	(0.754)	(0.380)	(0.604)	(0.493)	(0.486)
Car age	**0.006**	**0.004**	**0.005**	**0.004**	**0.006**	**0.002**
	(0.001)	(0.014)	(0.001)	(0.013)	(0.001)	(0.161)
Car mileage	**-0.284**	**-0.290**	**-0.277**	**-0.242**	**-0.285**	**-0.243**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Operational capability (H1)		**0.106**				**0.105**
		(0.000)				(0.000)
Inertia (H2)			**-0.002**			**-0.002**
			(0.014)			(0.027)
Goal Congruence (H3)				**0.194**		**0.187**
				(0.000)		(0.000)
Embeddedness (H4)					-0.002	0.002
					(0.693)	(0.590)
Time Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	43866	43866	43866	43866	43866	43866
Log pseudolikelihood	-21705.9	-21669.2	-21699.8	-21649.3	-21705.8	-21609.6
AIC	43467.9	43396.5	43457.6	43356.7	43469.7	43283.3
BIC	43711.1	43648.5	43709.6	43608.6	43721.6	43561.4

p-values in parentheses
Coefficients with p-values below 0.05 in bold for ease of reading
Standard errors adjusted for 2,265 dealer clusters

Figure 4.1: Effects of operational capability, inertia, and goal congruence on take rate

Figure 1a: Operational capability

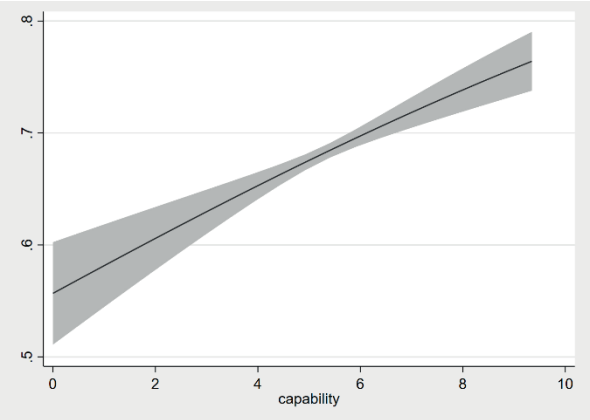


Figure 1b: Inertia

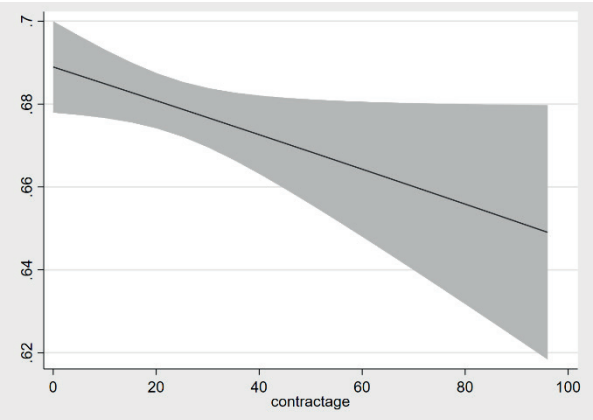
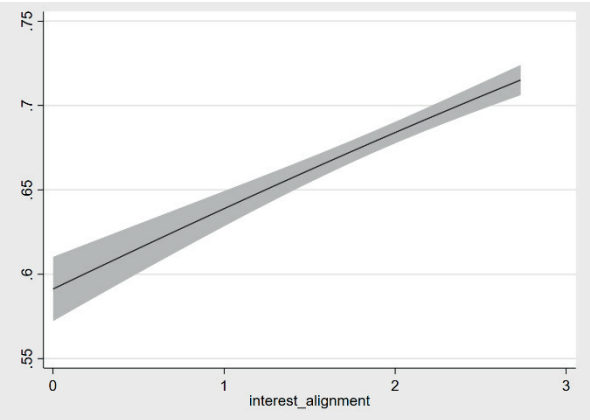


Figure 1c: Goal congruence



Robustness Checks

While the GLM specifications account for dealer-level heterogeneity and time effects, we also clustered errors by dealer to account for unobserved sources of heterogeneity. Additionally, we specified an OLS panel model ("xtreg" in Stata) with random effects to account better for within- versus between-dealer effects in the data (Hausman test results were significant, X^2 statistic = 175.42, $p \approx 0.000$, but fixed effects would eliminate time-invariant predictors *governance quality*, *uncertainty avoidance*, and *inertia*). The findings for the four predictors are fully consistent with those reported above, although the results do add incremental information that the majority of the variance in the dataset is between dealers, and not within.

Next, although our theorizing is aimed at unpacking heterogeneity across dealers within a given country, the multi-country setting means that dealers are nested in countries, and thus a multi-level model may be appropriate. Thus, we first specified models ("mixed" in Stata) that allow the model intercepts to vary per country. The results indicate that random country-level intercepts are significant, without changing the results for the dealer-level predictors. We then specified a mixed model that allows for both random country-level intercepts as well as random slopes for the country-level random variables. In this model, the main results remain consistent, but Stata computes no parameters for the country-level variables, indicating that these random effects add no additional explanatory power beyond those captured in the original model

Additionally, although our GLM specification is well-suited to a proportional dependent variable such as take rate, take rate has a relatively high incidence of 1s and 0s (dealer months in which all decisions are taken by the dealer, or by the subsidiary). For this reason, we also ran specifications excluding all dealer-months in which only one decision was taken (which will be a 0 or 1 take rate, by definition). This left 38,576 observations. The results are fully consistent with those reported above. Then, we modeled all the binary take rate outcomes (0/1) separately using a logit specification (16,207 observations). In this specification, only capability and goal congruence are significant, indicating that while inertia may be of consequence when probabilities are incremental (e.g., takerate of 0.5 versus 0.7), it does not discriminate well between potential outcomes of an individual (0/1) decision.

Finally, we modeled all the non-binary outcomes (i.e., take rates < 1 and > 0, accounting for 27,686 observations) using the GLM specification employed for the full sample. In those specifications, inertia is non-significant (p = 0.183). These robustness checks confirm the earlier observation that inertia is a weaker predictor than capability and goal congruence. However, inertia, like embeddedness, exhibits limited dealer-level variance over time, which may in part explain the weaker results for these two measures.

DISCUSSION AND CONCLUSIONS

This study contributes to the literature on MNCs, channel relations, and decision making at the organizational boundary, in two ways. First, we extend our understanding of heterogeneity in strategy implementation across MNCs' host-country channel relations. While channel relations can be understood as an extension of the MNC in the host country (Hada et al., 2013; Holm et al., 2005), technically they exist outside the boundary of the MNC. In this context of quasi-internalization (Narula et al., 2019), where institutions are informal and relationships are neither spot-market nor subject to direct control by the MNC, normative pressures to conform to MNC strategic directives prevail (Durand et al., 2019). By highlighting the role of two dimensions of channel partner ability and willingness, respectively, in the implementation of MNC strategy by channel partners, our study helps to explain the heterogeneity in channel partners' conformity to such normative pressures to assume decision-making autonomy on behalf of the MNC.

Specifically, we demonstrate that operational capability and goal congruence increase the likelihood of conformity to the MNC's strategy of decentralized decision making by the channel partner, whereas inertia reduces it. These results extend our understanding of "embedded agency" (Seo & Creed, 2002) by unpacking the roles of ability and willingness in shaping channel partners' conformity to normative pressures coming from the MNC. In so doing, these findings shed new light on the assumption that decision-making autonomy is something that is universally coveted and thus only either "retained" or "relinquished" (Gambardella & Panico, 2014).

Instead, channel partners may have valid reasons to resist assuming responsibility for decisions, given the uncertainties surrounding potential outcomes and the ability to attribute portions of any outcome to either the channel partner or the MNC. Thus, by incorporating multiple

conceptualizations of interorganizational relationships, such as capability-based and power-based understandings, our study responds to calls for a more integrated understanding of decision making at the organizational boundary (cf. Santos & Eisenhardt, 2005; Zobel & Hagedoorn, 2020). Future research could endeavor to unpack a richer, more qualitative set of considerations affecting channel partner attitudes towards decision-making autonomy and other implementations of MNC strategy beyond the "conformity/non-conformity" dichotomy.

Second, by exploring heterogeneity at the level of the channel partner, this study adds richness and nuance to the prevailing country-level and MNC-level perspectives in the IB literature. In particular, most studies on MNC strategy focus on the MNC as a whole and take a relatively static view on issues such as standardization versus localization, and centralization versus decentralization (Meyer et al., 2011; Vigneau, 2020). Moreover, they take an inherently outside-in perspective on MNC strategy (Peng, 2001) that pays relatively little attention to agency and the strategic latitude that organizations in the MNC network may have to respond to normative pressures in different ways (Oliver, 1991). Accordingly, our study responds to calls for more attention to potential sources of heterogeneity across the MNC's host-country network (Meyer & Estrin, 2014; Swoboda et al., 2018).

This is particularly the case when pressures to localize and decentralize are strong, because host-country activities need to be both tailored to the local context as well as that of the MNC network overall (Meyer et al., 2011). Therefore, in the context of customer-facing host-country channel partners, where such decentralizing tendencies are salient (Buzzaro, 2013; Dietl et al., 2009; Nadin, 2009), it becomes important to understand potential sources of heterogeneity in MNC strategy implementation. In this context, our findings related to channel partner operational capability as well as goal congruence are particularly insightful (whereas channel partner inertia can be a source of heterogeneity also in other types of new MNC strategies). In so doing, our study extends beyond prior research that considers a "typical" channel partner in a "typical" host country (Hada et al., 2013; Holm et al., 2005) to enhance our understanding of variance in responses to MNC strategy implementation *across* channel partners within a given host country.

This richer understanding reveals that the standardization-localization (and thus centralization-decentralization) dilemma exists not only at the level of the MNC as a whole or at the level of the individual host country, but at the level of the individual channel partner. As such our study contributes

to a more nuanced and differentiated perspective on MNC strategy. Future research may extend beyond the four factors studied here, or take a more systematic approach to understanding how these factors may be contingent upon institutional dimensions of the host country.

Limitations

This study is also subject to a number of limitations. First, we do not discuss the antecedents of the ability- and willingness-based mechanisms we study here. Future research could consider why some dealers have better operational capabilities, or greater goal congruence. Being subject to the same contract, why do some perform better than others? Do dealers in groups differ in systematic ways from independent dealers?

Second, due to data protection legislation, we have no opportunity to measure the outcomes and consequences of the goodwill decisions made by dealers or subsidiaries; i.e., whether decisions to cover repairs under goodwill had beneficial effects in terms of customer retention, and therefore we cannot draw conclusions on whether assigning decision-making autonomy to dealers, whether pushing decision making to the boundary of the MNC is a performance-enhancing strategy or not. Accordingly, future research could shed light on the strategic value of channel-partner autonomy in a different research context, where MNC performance consequences of decisions made by channel partners can be monitored more easily.

Third, it is difficult to identify antecedents of dealer take rate in relation to ALPHACAR's new decision-making strategy, because there is no dependent variable to identify prior to implementation—all decisions were made by the subsidiary at that time, by definition. Comparing pre- to post-implementation goodwill cases and costs is also difficult because countries implemented at different speeds, using different types of piloting methods, and kept changing DSA parameters. Therefore, we picked an observation period where all 15 countries had settled on parameters and rolled out to all dealers. Future research could consider dealer-level features prior to the new strategy implementation that might predict subsequent take rate ex ante.

Fourth, while we control for country-level effects in the form of the social and institutional context, we do not fully explore the potential interplay between channel partner characteristics and the country context in which they are embedded. Future research may explore these relationships more systematically and shed light on how heterogeneity at the level of the

channel partner and heterogeneity at the country level interact and affect MNC strategy implementation.

Fifth, we do not fully account for relational elements that govern the connection between the host-country subsidiary and the channel partners. Although the channel partners are governed by standardized contracts in each country, different channel partners are likely to have relationships of a different quality. Future research could extend studies on HQ-subsidiary relationships to the context of subsidiary-channel partner relationships and in this way explore additional sources of heterogeneity.

CHAPTER 5

Discussion and Conclusions

INTRODUCTION

This dissertation was motivated by the observation that our understanding of actual MNC strategy is limited, primarily because the literature tends to focus on formulated strategies and ideal-type strategies at the level of the MNC as a whole (cf. de Oliveira et al., 2019; Ferner et al., 2005; Ghoshal & Nohria, 1993; Jarillo & Martínez, 1990; Katsikeas et al., 2006; Kostova & Roth, 2002; Nobel & Birkinshaw, 1998; Noble, 1999; Rugman & Verbeke, 2001; Samiee et al., 2003) and in so doing pays insufficient attention to the differentiation and heterogeneity that exists in actual strategy *implementation*. A variety of perspectives have been brought to bear in the international strategy, international marketing strategy, and organization studies literatures in order to shed light on the optimal degree of centralization of MNC strategy. Most of this literature emphasizes the role of environmental and situational contingencies faced by MNC parent companies and their subsidiaries (e.g., Bartlett & Ghoshal, 1989; Harzing, 2000; Nohria & Ghoshal, 1997; Rugman & Verbeke, 2008; Verbeke & Asmussen, 2016). However, the reality of the MNC's highly differentiated network of subsidiaries and third-party partners is such that what strategy is formulated is not necessarily what is implemented, and that decisions taken, no matter what the intention or motivation, are not always in line with the formulated strategy nor taken by the unit or actor that the formulated strategy intends.

Specifically, whereas the literature on MNC strategy reveals a great deal about strategy as a function of industry-level pressures or the MNC's overall strategic orientation, this leads to a relatively static and monolithic view of pressures that may not do justice to the real-world complexity that exists at the level of specific types of strategic decisions and across actors. Similarly, the research on strategy at the subsidiary level tends to view subsidiaries in isolation or apply ideal-type understandings based on broad categorizations (e.g., Birkinshaw & Morrison, 1995; Lin & Hsieh, 2010; Nohria & Ghoshal, 1994; Pinkse et al., 2010). Finally, studies on the role of channel partners in implementing MNC strategy tend to consider a "typical" channel partner and do not sufficiently acknowledge heterogeneity within subsidiaries' external network and its consequences for overall MNC strategy implementation (Hada et al., 2013; Holm et al., 2005). Although these studies generate important insights, they tend to infer effective strategy implementation from enhanced overall firm or subsidiary performance, or leave effective implementation unspecified altogether (cf. Katsikeas et al., 2006; Samiee et al., 2003). This is a crucial omission because MNC strategy may not be

consistently communicated, interpreted, adopted, or executed by all actors in the MNC network in the same way (Gupta & Govindarajan, 1984; Judge & Stahl, 1995; Lin & Hsieh, 2010), leading to "gaps" in implementation.

What is needed, therefore, is a more fine-grained and nuanced perspective at the level of a specific business activity, where pressures for standardization, adaptation and even individual customization can vary across contexts, and where information asymmetries, relationships between actors, and actors' resources and capabilities specific to the business activity can affect individual actors' strategic decision making. Addressing this need was the aim of this dissertation, expressed in the following overarching research question:

How do various sources of heterogeneity affect the translation of MNC formulated strategy to actual implementation by actors in the MNC's extended network?

To answer this question, we focused on one specific business activity in the extended network of one MNC: goodwill decision making at a large European automotive MNC "ALPHACAR." Goodwill refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired (Diez, 2006; Eggert, 2002; Meffert, 1982; Rosada, 1990). ALPHACAR, as is typical of automotive MNCs, has standardized goodwill policies in which headquarters issues goodwill policies for certain defect or vehicle types. Where no standardized goodwill policies are in place, goodwill decisions can be made at the national level. At ALPHACAR, for instance, dealers pass goodwill decisions up to the national subsidiary, which then decides on the case and covers the costs. However, recognition that dealers are better positioned than the subsidiary to value individual goodwill decisions led ALPHACAR to implement a new, more decentralized goodwill decision-making strategy. This context of strategy formulation and subsequent implementation thus provides a rich and unique setting in which to map out the different sources of heterogeneity affecting MNC strategy implementation, including not only the standardization-localization dilemma, but also the role of fragmented information, subsidiaries' varying interpretation and implementation of this strategy, and independent channel partners' actual exercise of decentralized decision-making authority.

Each of three empirical studies in this dissertation thus provides unique insights into this research question by shedding light on various sources of heterogeneity in goodwill strategy implementation in the MNC context. In the following section, we summarize the main findings of these

studies. Subsequently, we explicate the theoretical contributions generated across the three studies with respect to the literature on MNC strategy. Next, we explore the practical managerial implications of this dissertation. Finally, we highlight some limitations of this work, which also provide directions for future research.

SUMMARY OF MAIN FINDINGS

Study 1 – Goodwill Decision Making in MNCs

In the first study we focused on the presence of multiple pressures on goodwill decision making and the locus of information required for making such decisions. Goodwill is a strategic business activity that is subject to pressures for standardization, adaptation and customization that can vary across different "goodwill situations" across countries but also within countries. There are pressures for standardization because consistent customer treatment and quality signals across countries are important for the brand. Pressures for localization stem on the one hand from external factors such as the host-country environment, market, customer and competition, and on the other hand from internal factors related to the MNC's products and industry, organizational structures, and subsidiary management. Pressures for customization originate from different customers having different financial backgrounds, buying in different product segments, having different relationships with the brand, and therefore having different expectations towards recovery when experiencing problems with their product after the warranty has expired. The relative importance of these pressures varies depending on the characteristics of the service situation, more specifically, in the case of goodwill those are comprised of the type of product failure, the purpose of goodwill and the respective market- and case- characteristics. As such, even within the same local context, in one goodwill case it may be most important to respond to pressures for standardization while in other cases the goodwill decision needs to be based on the local or individual context.

Interview data revealed that responding to these volatile pressures can best be done by assigning goodwill decision making to the actor in the MNC network that has the best access to information relevant to the goodwill situation. Which actor that is varies depending on the respective market structure. Typically, when pressures for standardization are high, headquarters are best equipped for decision making, as they have best idea

of product quality and common quality issues that occur irrespective of local environment or culturally-determined customer expectations. When pressures for local adaptation are high, subsidiaries can make goodwill decisions taking into account local conditions, competitive situation and customer preferences. When pressures for customization are high, dealers usually have closest proximity to customers and can best evaluate on a goodwill offer with the most expected return (in terms of customer retention and the like) on investment.

In other cases, however, for instance, in countries with a small number of ALPHACAR dealers (and customers) and frequent communication between subsidiary and dealers, or in countries with very new, rather unexperienced dealerships with limited operational capability, subsidiaries can rely on a richer experience of which goodwill offers are well received by customers, and are therefore better able to make customized goodwill decisions. In very large markets, however, subsidiary management only has a thorough understanding of customer expectations and environmental conditions in their part of the country and pressures for local adaptation may be at work not for the entire country, but differ across different parts of the country (e.g., because climate and road conditions differ, or local customer preferences do (think New York vs. Florida vs. California)). In yet other countries, where ALPHACAR does not own subsidiaries but partners with external businesses for sales and services, a more centralized approach to goodwill decision making may lead to the most effective goodwill decisions, since such business partners own interests and potentially opportunistic behavior when deciding on goodwill may lead to goodwill offers that are not effective in the sense of aligning with the MNC's interest of retaining customers but not spending goodwill budget without the desired effect.

We integrated the main findings outlined above into a two-layered model of differentiated fit which proposes that in order to enhance the effectiveness of (goodwill) decisions, MNCs should align the locus of decision making (the level of centralization) with the locus of relevant information. The locus of relevant information is a function of which pieces of information are relevant on the one hand and the distribution of information across the MNC network on the other: while the former can vary across different goodwill situations within countries, the latter may vary across countries depending on the market structure.

Study 2 – Strategy Implementation Gaps in Global Standardization: Evidence from an Automobile MNC

In the second study we focused on the potential "gap" in strategy implementation that can arise between headquarters and subsidiaries, because there may be differences in how formulated strategy is interpreted or received. Since most research on strategy implementation only infers or deduces strategy implementation indirectly, based on overall performance outcomes or by relying on formulated strategy, we lack insight into the actual implementation of formulated strategy at the subsidiary level. Through analysis of data on actual goodwill cases in ALPHACAR over time, we can see how patterns of goodwill decision making at the subsidiary level changed in response to the two-stage implementation of standardized goodwill policies across the MNC.

Analyzing goodwill behavior in two subsidiaries (domestic and one foreign) after implementation of standardized goodwill policies revealed that subsidiaries' actual goodwill behavior was far from a reflection of the standardized policies' intention of consistent goodwill behavior towards all customers. Instead, goodwill cases in the domestic subsidiary showed a large increase after implementation, while only a slight and significantly lower increase was evident in the foreign subsidiary. The strategic intention of the formulated strategy of standardization was to ensure the same goodwill behavior towards customers facing the same product failure. Data show, however, that significantly more customers were offered goodwill repairs in the domestic market compared to the foreign market, indicating that the strategic intention was not met and that implemented strategy deviates from the formulated strategy. We refer to this deviation from formulated strategy as a strategy implementation gap.

Qualitative analysis of interview data collected at ALPHACAR headquarters, the domestic subsidiary as well as the foreign subsidiary revealed explanations for the observed strategy implementation gap on different levels that are rooted in the subsidiaries' different institutional contexts: First, interviewees' descriptions of the goodwill requesting and approval process indicate that the foreign subsidiary undertook an initiative leading to a process deviation affecting the number of goodwill approvals. Second, the foreign subsidiary's initiative with regards to the standardized goodwill policy appeared to be rooted in the subsidiary's different roles in the strategy formulation process on the one hand, as well as different perceptions of the subsidiary's roles within the strategy implementation

process on the other hand. Third, foreign subsidiary management expressed different strategic intentions regarding the design of goodwill decision making that differed from headquarters' strategic intentions of a standardized goodwill policy.

Study 3 – MNC Channel Partners' Ability and Willingness: Heterogeneous Decision Making at the Boundary of the MNC

In the third study we explored the role of channel partners in MNC strategy implementation. Channel partners are essential for MNC success in foreign markets, but do not fall under the MNC's equity control. Instead, they subject to informal mechanisms that aim to align them with MNC strategy, a context that has been labeled quasi-internalization. By integrating arguments from institutional theory with the resource-based view, we theorized a framework to explain how channel partners' ability and willingness affect the likelihood of conforming to the MNC's expectations with regards to strategy implementation. More specifically, we theorized two dimensions of both ability and willingness in the context of channel partner relationships: operational capability and inertia, and goal congruence and embeddedness on the other.

A quantitative study of ALPHACAR channel partners' goodwill decision making across 15 countries revealed substantial heterogeneity across channel partners in terms of their utilization of the decision-making authority that they were afforded by the MNC. With respect to our hypotheses, the study revealed that channel partners with higher operational capabilities and goals congruent with those of the MNC were more likely to make goodwill decisions on behalf of the MNC whereas channel partners with greater inertia in their relationship with the MNC were less likely to do so. As such, the study reveals that heterogeneity at the channel partner level is an important source of heterogeneity in MNC strategy implementation.

Additionally, the study suggests that decision-making autonomy may not be universally desired. Decision making in a complex environment is inherently uncertain. The channel partner may resist taking decisions in order to avoid both the effort required to make the decision as well as the responsibility for its outcome. Therefore, while decision rights are typically associated with power, control, and influence, and seen as something to "retain" or "relinquish", it is unclear to what extent parties in an interorganizational network desire such rights, nor whether acquisition of

the right to make decisions necessarily translates into the *exercise* of that right. As such, this study suggests that the desire for decision-making autonomy as it is positioned in the prevailing literature may require additional nuance.

IMPLICATIONS AND CONTRIBUTIONS

This dissertation makes three main overarching contributions to research on MNC strategy, which we outline here.

Contribution 1: A Nuanced and Differentiated Perspective of MNC Strategy

This dissertation adds richness and nuance to the prevailing country-level perspective in MNC strategy literature and its static view on issues such as centralization versus decentralization (Meyer et al., 2011; Vigneau, 2020). It highlights the simultaneous existence of pressures for standardization, localization, and customization, such that one cannot speak of a "single strategy for the MNC". For one, this is because MNC strategy is rarely monolithic but often multi-tiered: that is, as this dissertation shows, MNCs may establish globally standardized frameworks that still allow for some localization at the national level, and that even within that localized, national approach, there may be room for customized approaches. As such, this dissertation exposes the richness that exists in the nature of strategy within the context of the differentiated MNC network.

For one, it suggests that the best way to accommodate pressures for standardization, localization, or customization is not necessarily to translate those pressures to specific business decisions, but rather to assign those decisions to the member of the MNC network with the best access to information relevant to that specific decision (Study 1). Additionally, even within a multi-tiered approach, the actual implementation of strategy may vary. This dissertation shows that such "strategy implementation gaps" need not be opportunistic behavior, but can in fact be motivated by the desire to act in the MNC's best interests, turning out to be more appropriate in that context or even to lead to superior results (Study 2). Taken all together, therefore, this dissertation shows that the actual implementation of strategy can be highly differentiated across the MNC's extended network, as a result of information asymmetries (Study 1), communication issues and misaligned

subsidiary role perceptions (Study 2), as well as differences in ability and willingness to execute (Study 3).

Contribution 2: Understanding Heterogeneity in Strategy Implementation

Second, this dissertation explores the theoretical underpinnings of these various sources of heterogeneity. Some of this heterogeneity is driven by factors at the country level, such as how relevant information is distributed throughout the national network (Study 1) or whether the subsidiary is foreign or domestic (Study 2). Other sources of heterogeneity exist at the unit level, such as the subsidiary's perception of its relationship with headquarters (Study 2) or the channel partner's willingness and ability (Study 3). Linking heterogeneity to sources of pressures to comply with the MNC's formulated strategy, we note that different types of pressures manifest at different levels: formal pressures that exist at the country level and within the "internalized" network of the MNC; and informal pressures within countries and in the context of quasi-internalization (Narula, 2019).

In so doing, this dissertation suggests that subsidiaries interpret strategy in relation to their context and their position in the network and relational elements, as well as agency-type considerations such as information asymmetries, whereas channel partners respond to a complementary mix of cost-benefit and relational aspects in their decision to accommodate the informal, normative pressures that exist in the context of quasi-internalization. Therefore, this dissertation integrates ideas from multiple lenses (e.g., agency theory, institutional theory, the resource-based view, and conceptualizations of the organizational boundary) in ways that extend beyond earlier integrative perspectives (Peng, 2001; Zobel & Hagedoorn, 2020). By implication, the explanatory power of agency-theoretic arguments such as information asymmetry, power, and opportunism in the context of MNC strategy may be more limited than previously thought (Kostova et al., 2018; Puck et al., 2016).

Contribution 3: Decision Making Across the MNC Network

Third, this dissertation enhances our understanding of decision making across the MNC network. Decision making is central to the domain of IB (cf. Buckley & Casson, 2019), but in the IB context is particularly subject to risk and uncertainty, for instance due to lack of information (Casson et al., 2014).

While this dissertation sheds light on the importance of information—and where it is located—beyond simply the accommodation of standardization, localization, or customization pressures (Study 1), it also explicitly takes issue with the prevailing notion that actors in the network desire decision-making autonomy, which is typically conceptualized as a right to be "retained or relinquished" (Gambardella & Panico, 2014), as well as the notion that having the *right* to make decisions necessarily translates to the *exercise* of that right (Study 3). Although the literature tends to equate decision-making autonomy with power and control, decision making also requires information, and involves financial decisions for which responsibility must be assumed. When actors in "peer to peer" decision-making contexts (Buckley & Casson, 2019) are unable to effectively assess the distribution of costs and benefits across the "peers", they may be reluctant do assume responsibility for the related decision.

As such, the assumption of decision-making autonomy depends on "the extent to which a partner (1) has enough information to make key decisions, (2) can predict the consequences of those decisions, and (3) has confidence in those decisions" (Morgan & Hunt, 1994, p. 26). In sum, this dissertation exposes the importance not only of rational elements in decision making, such as the locus of information (Study 1) and resources and capabilities (Study 3), but also of relational elements such as subsidiary management's perceptions of the relationship with headquarters (Study 2) and channel partner willingness (Study 3). In so doing, this dissertation responds to calls for a more integrated understanding of decision making in IB more generally (Buckley & Casson, 2019; Schwenk, 1995); within the MNC (Chung, 2010; Kim & Mauborgne, 1993b; Schweiger et al., 1989); and at the organizational boundary (cf. Santos & Eisenhardt, 2005; Zobel & Hagedoorn, 2020).

Managerial Implications

This dissertation also harbors a number of important implications for management. First and foremost, the findings presented here suggest that it may be best to embrace the nuance and multiplicity associated with varying pressures for standardization, localization, and customization, instead of aspiring to a single static ideal type. Relatedly, this dissertation suggests that that heterogeneity has legitimate reasons and need not be negative, in part because the best decisions are taken where the relevant information is present (Study 1). Therefore, with respect to information asymmetries, for example, it is valuable to recognize that such asymmetries can vary across

subsidiaries. Managers can then either adjust the degree of centralization of decision making accordingly, or to seek out ways to reduce information asymmetries, for instance through the use of innovative communication technology.

Second, embracing heterogeneity means that headquarters should pay greater attention to the abilities and motives of different actors in the MNC network. For instance, it is important to understand each subsidiary's actual and perceived strategic role with regards to specific business activities. In this way managers can help to minimize perception gaps and be better aware of subsidiaries' ideas with respect to their own strategic goals and whether those align with the headquarters' intentions (Study 2). This would also open up opportunities for knowledge transfers from the subsidiary to headquarters, or to other subsidiaries, thereby potentially enhancing performance. Additionally, heterogeneous strategy implementation across subsidiaries does not necessarily only originate from the subsidiary itself but may emerge from their external channel partner network (Study 3). Management should seek out to better understand each subsidiary's channel partner network both in terms of the channel partner characteristics and also in terms of features of the subsidiary-channel partner relationship (Study 1).

Third, instead of perceiving subsidiaries or channel partners as potential opportunists or sources of risk or non-compliance, it would behoove management to focus on building trusting relationships. Because the actors in the MNC network are situated in different institutional settings and/or only "quasi-internalized", monitoring and direct control is difficult. As such, strategies need to be designed in ways to increase (for instance) channel partners' ability and willingness to cater to the MNCs interests and respond positively to normative pressures (Study 3), as opposed to more formalized control mechanisms. Doing so will serve to enhance trust and goal enhancement, boost mutual understanding, and reduce information asymmetries.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The insights generated through this dissertation are also subject to a number of limitations that open up promising avenues for future research. First, with respect to information asymmetries, this dissertation does not include an analysis of communication patterns between the different parties of the

MNC network that may blur the locus of information (Study 1). Similarly, interviewing managers after the fact can lead to hindsight bias, and focusing on exploring richness in only two subsidiaries may come at the expense of generalizability (Study 2). Relatedly, although this dissertation taps into a rich dataset of actual goodwill decision making that allows us to make inferences about channel partners' perceptions and motivations (Study 3), this dissertation does not include analysis of actual managerial perceptions at the channel partner level. With respect to our quantitative analyses, limited insight into the role of managerial perceptions means that our results may be biased by sampling on the dependent variable (actual goodwill decisions). Future research could, for example, find ways to collect data on dealers' and subsidiaries' denials of goodwill requests or interview actors to establish boundary conditions or main criteria applied to the decision to grant or deny goodwill. This dissertation therefore leaves fruitful avenues for future research to flesh out the role of communication and perceptions in information asymmetries, perception and implementation gaps, and the decision to accept or reject goodwill requests.

Second, this dissertation suggests that heterogeneity is an important facet of strategy implementation that need not be harmful to the MNC's interests. However, it remains unclear what the actual performance outcomes to (heterogeneous) strategy implementation are. While heterogeneity can be associated with implementation gaps that are in fact beneficial to the MNC (Study 2), this finding is not linked to important business-level outcomes such as customer repurchase or loyalty. Similarly, it is unknown whether, and under what conditions, channel partners' exercise of decision-making autonomy is more or less beneficial to the MNC and/or the channel partner (Study 3). It need not be the case that decision-making authority leads to the best outcomes, and the most effective decision in terms of outcomes could even interfere with the decision-maker's own interests (cf. Zhang et al.'s [2015] discussion of goal ambiguity in services). However, it is difficult to measure the effectiveness of goodwill decisions for a number of reasons: First, there is no (quantitative) data on goodwill denials, only information on cases where customers where actually granted goodwill. Second, there is no data on customer repurchase. Due to privacy constraints, linking of customer data with vehicle data can, if at all, only be done at subsidiary or even dealer level. Using alternative methods, future research could seek out ways to explore the performance implications of heterogeneity. For instance, one could conduct an in-depth analysis of a selection of dealers to explore linkages between the goodwill decisions made at all three levels of the MNC

network and customer satisfaction levels or actual repurchase behaviors, and thus identify the pillars underlying assessments of "effectiveness". Similarly, one could investigate whether the boundary conditions or decision-making criteria that are applied to grant goodwill or not by actors at different levels lead to heterogeneous outcomes at the customer level.

Third, this dissertation adds nuance to our understanding of MNC strategy by examining a specific business activity, namely goodwill. As a key customer-facing service activity that is coordinated across the whole MNC network (i.e., many players are involved, from dealer to subsidiary to headquarters), goodwill lends itself to the collection of extraordinarily rich data, both qualitative and quantitative. As such, the focus on goodwill allows for a keener understanding of the nature of actual standardization, localization, and customization pressures and how these translate to strategy formulation as well as to strategy implementation and decision making. An important takeaway from this dissertation is that nuance is already quite high in the context of a single strategic activity, suggesting that extending this perspective across the MNC as a whole, with its much broader range of differentiated business activities, would lead to an even more nuanced view of heterogeneity in strategy implementation across the MNC. That is, while goodwill strategy and decision making may be similar to other strategic domains with relatively high levels of discretion at multiple levels in the MNC network, such as CSR or staffing or even pricing and discounting decisions, it may not be representative of all business activities. Therefore, future research could investigate the generalizability and boundary conditions to the findings here, with respect to other important business activities.

CONCLUSION

In this dissertation we shed light on different sources of heterogeneity throughout the MNC internal and external network that impact the implementation of MNC strategies. The findings of three empirical studies disentangle the complexity inherent in decision making at different levels within as well as at the boundary of the organization. Overall, this dissertation enhances our understanding of the forces driving strategy in the MNC as well as sources of heterogeneity in its implementation, both across countries and within countries, generating important insights as well as offering fruitful opportunities for future research.

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SUMMARY

This dissertation was prompted by the observation that multinational corporations (MNCs) face numerous sources of heterogeneity that affect the implementation of strategy. This heterogeneity exists at the level of individual subsidiaries, as well as among channel partners which are external to the MNC and its subsidiaries, but which play a crucial role in actual strategy implementation at the local level. While existing research on global strategy in MNCs generates important insights, most studies either deduce effective strategy implementation from enhanced overall firm or subsidiary performance, or they leave effective implementation unspecified altogether. Moreover, the emphasis tends to be on individual subsidiaries or channel partners in isolation. This thesis therefore addresses the overall research question:

How do various sources of heterogeneity affect the translation of MNC formulated strategy to actual implementation by actors in the MNC's extended network?

To answer this question, we conducted the three empirical studies contained in this dissertation. Across the three studies, we utilized both quantitative and qualitative methods to understand antecedents and outcomes of heterogeneity in strategy implementation, but also to examine the dynamics between different actors in the MNC network, specifically headquarters, subsidiaries, and channel partners. The three studies address the following research subquestions:

1. *How can MNCs design their decision making to effectively respond to pressures for global standardization, local adaptation, and individual customization?*

2. *To what extent do strategy implementation gaps exist in the context of MNCs' global standardization strategies, and what factors might explain such gaps?*

3. *What factors drive channel partners' conformity with a new MNC strategy of decentralized decision making at the boundary of the MNC?*

To be able to delve more deeply into the complex mechanisms driving heterogeneity at these various levels, all three studies are focused on strategy related to one specific business activity in the extended network of one MNC. Specifically, we study these dynamics in the context of goodwill decision making at a large European automotive MNC, known hereafter as

'ALPHACAR.' Goodwill refers to the voluntary coverage of repair costs for product failures after a product's warranty has expired. Automotive MNCs such as ALPHACAR typically have standardized goodwill policies in which the MNC headquarters issues goodwill policies for certain defect or vehicle types. Where no standardized goodwill policies are in place, goodwill decisions may be made at the local level. However, the recognition that dealers are closest to the customer, and thus likely better positioned than the subsidiary to value potential goodwill decisions, led ALPHACAR to implement a new decentralization strategy. This strategy formulation and subsequent implementation process thus provides a rich and unique setting in which to map out the different sources of heterogeneity affecting MNC strategy implementation.

In the first study, we used qualitative data to develop a model explaining how information asymmetries between actors in the MNC network affect the optimal level at which decisions should be made. We focused on the presence of multiple pressures on goodwill decision making and the locus of information required for making such decisions. Goodwill is a strategic business activity that is subject to pressures for standardization, adaptation and customization that can vary across different "goodwill situations" across countries but also within countries. The relative importance of these pressures varies depending on the characteristics of the service situation, more specifically: the type of product failure, the purpose of goodwill and the respective market and case characteristics. Thus, even within the same local context, in one goodwill case it may be most important to respond to pressures for standardization while in other cases the goodwill decision needs to be based on the local or individual context. Data from interviews with 24 senior-level warranty and goodwill managers revealed that responding to these volatile pressures can best be done by assigning goodwill decision making to the actor in the MNC network that has the best access to information relevant to the goodwill situation. Which actor that is varies depending on the respective market structure. We integrated our findings into a two-layered model of differentiated fit which proposes that in order to enhance the effectiveness of (goodwill) decisions, MNCs should align the locus of decision making (the level of centralization) with the locus of relevant information.

In the second study, we took a mixed-method approach to identify the source of 'strategy implementation gaps', defined as the subsidiary-level deviation in implemented strategy relative to the MNC's overall formulated

strategy. Through quantitative analysis of data on actual goodwill cases in ALPHACAR over time, we showed how patterns of goodwill decision making at the subsidiary level changed in response to the two-stage implementation of standardized goodwill policies across the MNC. Goodwill cases in the domestic subsidiary (in the country of the MNC's headquarters) showed a large increase after implementation, while only a slight and significantly lower increase was evident in the foreign subsidiary. The subsequent qualitative analysis of interview data revealed explanations for the observed strategy implementation gap on different levels that are rooted in the subsidiaries' different institutional contexts, namely the foreign subsidiary's initiative to deviate from the standard process, perception gaps between headquarters and the foreign subsidiary with regard to the subsidiary's strategic role, and differences in the strategic intentions of headquarters and the subsidiary with regard to goodwill policies and offerings.

In the third study, we took a quantitative approach to understanding heterogeneity in decision making by channel partners external to the MNC. By integrating arguments from institutional theory with the resource-based view, we developed a framework to explain how channel partners' ability and willingness affect the likelihood of conforming to the MNC's expectations with regard to strategy implementation. More specifically, we theorized two dimensions of both ability and willingness in the context of channel partner relationships: operational capability and inertia as dimensions of ability, and goal congruence and embeddedness as dimensions of willingness. A quantitative study of ALPHACAR channel partners' goodwill decision making across 15 countries revealed that channel partners with higher operational capabilities and goals congruent with those of the MNC were more likely to make goodwill decisions on behalf of the MNC whereas channel partners with greater inertia in their relationship with the MNC were less likely to do so. As such, this study suggests that the desire for decision-making autonomy as it is posited in the prevailing literature may require additional nuance.

Together, these three empirical studies shed light on the sources of heterogeneity in strategy implementation across the MNC network. Our findings disentangle the complexity inherent to decision making at different levels within, as well as at the boundary of, the organization. The first study contributes to existing literature by providing a conceptual model of a two-layered differentiated fit that outlines the role of information asymmetries in goodwill decision making at different levels of the MNC network. The second

study contributes to the literature on international strategy and international management by introducing the notion of strategy implementation gaps and exploring their antecedents and outcomes. The third study contributes to our understanding of the MNC's channel relations in the host country by highlighting the role of channel partners' ability and willingness in the exercise of goodwill decision making. Overall, this dissertation enhances our understanding of the forces driving strategy in the MNC as well as of sources of heterogeneity in its implementation, both across countries and within countries, generating important insights as well as offering fruitful opportunities for future research.

SAMENVATTING: STRATEGIE IMPLEMENTATIE EN BESLUITVORMING IN HET BREDERE NETWERK VAN DE MNO

Deze dissertatie werd ingegeven door de vaststelling dat multinationale ondernemingen (MNO) te maken hebben met talrijke bronnen van heterogeniteit die van invloed zijn op de uitvoering van hun strategieën. Deze heterogeniteit bestaat zowel op het niveau van individuele dochterondernemingen als bij de channel partners, die geen eigendom van de multinationals en hun dochterondernemingen zijn, maar wel op lokaal niveau een cruciale rol spelen bij de daadwerkelijke implementatie van een strategie. Hoewel bestaand onderzoek naar de wereldwijde strategieën van multinationals belangrijke inzichten heeft opgeleverd, leiden de meeste studies een geslaagde omzetting van een strategie af van een verbeterde prestatie van de gehele onderneming of de dochteronderneming, of wordt er de doeltreffendheid van de omzetting niet nader gespecificeerd. Bovendien ligt de nadruk doorgaans op afzonderlijke dochterondernemingen of channel partners. Dit proefschrift beantwoordt dan ook de volgende overkoepelende onderzoeksvraag:

Hoe beïnvloeden verschillende bronnen van heterogeniteit de vertaling van een door multinationals geformuleerde strategie naar de daadwerkelijke implementatie door actoren in het uitgebreide netwerk van multinationals?

Om deze vraag te beantwoorden, hebben wij de drie in deze dissertatie opgenomen empirische studies uitgevoerd. In deze drie studies hebben wij zowel kwantitatieve als kwalitatieve methoden gebruikt om inzicht te krijgen in de oorzaken en gevolgen van heterogeniteit bij de uitvoering van strategie, maar ook om de dynamiek tussen de verschillende actoren in het netwerk van multinationals te onderzoeken, met name hoofdkantoren, dochterondernemingen en channel partners. De drie studies zijn gebaseerd op de volgende subvragen:

1. *Hoe kunnen multinationals hun besluitvorming zodanig vormgeven dat zij doeltreffend reageren op de druk voor wereldwijde standaardisatie, lokale aanpassing en individueel maatwerk?*

2. *In hoeverre bestaan er lacunes in de uitvoering van een strategie in de context van de wereldwijde standaardisatiestrategieën van multinationals, en welke factoren kunnen dergelijke lacunes verklaren?*

3. *Welke factoren bepalen de implementatie van een nieuwe strategie van een multinational betreffende gedecentraliseerde besluitvorming door channel partners aan de periferie van de multinational?*

Om dieper in te kunnen gaan op de complexe mechanismen die heterogeniteit op deze verschillende niveaus bevorderen, zijn alle drie de studies toegespitst op een strategie die verband houdt met één specifieke bedrijfsactiviteit in het uitgebreide netwerk van één bepaalde multinational, namelijk besluitvorming over goodwill bij een grote Europese multinational in de automobielsector, hierna „ALPHACAR" genoemd. Goodwill verwijst naar de vrijwillige dekking van reparatiekosten voor een gebrek nadat de garantie van een product is verstreken. Multinationals in de automobielsector zoals ALPHACAR beschikken doorgaans over een gestandaardiseerd goodwillbeleid waarbij het hoofdkantoor van de multinational het beleid voor bepaalde defecten of voertuigtypen definieert. Indien er geen gestandaardiseerd goodwillbeleid bestaat, kunnen goodwillbeslissingen op lokaal niveau worden genomen. Echter de erkenning dat dealers het dichtst bij de klant staan en dus beter dan de dochteronderneming in staat zijn om potentiële goodwillbeslissingen te evalueren, heeft ALPHACAR ertoe gebracht een nieuwe decentralisatiestrategie te implementeren. Deze strategie en het daaropvolgende uitvoeringsproces bieden een rijke en unieke casus om de verschillende bronnen van heterogeniteit die van invloed zijn op de uitvoering van de strategie van een multinational in kaart te brengen.

In de eerste studie hebben wij kwalitatieve gegevens gebruikt om een model te ontwikkelen waarin wordt uitgelegd hoe informatieasymmetrieën tussen actoren in het netwerk van multinationals bepalen op welk niveau goodwillbeslissingen optimaal genomen moeten worden. Wij richtten ons op de aanwezigheid van verscheidene bronnen van druk op de besluitvorming over goodwill en de locus van informatie die nodig is om dergelijke beslissingen te nemen. Goodwill is een strategische bedrijfsactiviteit die rekening moet houden met eisen en verwachtingen op het niveau van de multinational, het gastland, en de individuele klant. Dat wil zeggen, goodwill kan naar gelang van de goodwillsituatie zowel van land tot land variëren, maar ook binnen één land. Het relatieve belang van deze eisen en verwachtingen varieert afhankelijk van de kenmerken van de dienstverleningssituatie, in het bijzonder het type productgebrek, het doel van goodwill en de betreffende markt- en casuskenmerken. Daarom kan het, zelfs binnen dezelfde lokale context, in één goodwillgeval het belangrijkst zijn om een gestandaardiseerd beleid te hanteren, terwijl in andere gevallen de goodwillbeslissing beter

gebaseerd kan worden op de lokale of individuele context. Uit interviews met 24 hoogstaande garantie- en goodwillmanagers is gebleken dat onder deze omstandigheden goodwillbesluitvorming het best kan worden toegewezen aan de actor in het netwerk van de multinational die de beste toegang heeft tot informatie die relevant is voor de goodwillsituatie. Welke actor dat is, varieert afhankelijk van de respectieve marktstructuur. Wij hebben onze bevindingen geïntegreerd in een tweelaags model van gedifferentieerde geschiktheid, waarin wordt voorgesteld dat multinationals, om de effectiviteit van (goodwill-)besluiten te vergroten, (het niveau van centralisatie van) de besluitvorming moeten afstemmen op de locus van relevante informatie.

In de tweede studie hebben wij een mixed-method benadering gekozen om de bron van de zogenaamde "strategy implementation gaps" vast te stellen, gedefinieerd als de mate waarin dochterondernemingen afwijken van de door de multinational beoogde strategie. Aan de hand van een kwantitatieve analyse van ALPHACAR goodwill-gegevens over een periode van twee jaar hebben wij aangetoond hoe de patronen van goodwillbesluitvorming op het niveau van een dochteronderneming veranderden in reactie op ALPHACAR's recent ingevoerde strategie van gestandaardiseerd goodwillbeleid. Goodwillzaken in de binnenlandse dochteronderneming vertoonden na implementatie van de nieuwe strategie een sterke stijging, terwijl bij de buitenlandse dochteronderneming slechts een lichte en aanzienlijk lagere stijging zichtbaar was. De daaropvolgende kwalitatieve analyse van interviews met zeven managers liet zien dat de oorzaken van de kloof tussen de twee dochterondernemingen bij de implementatie van de nieuwe strategie liggen in de verschillende institutionele contexten van de dochterondernemingen. Namelijk, het initiatief van de buitenlandse dochteronderneming om af te wijken van het standaardproces, de perceptiekloof tussen het hoofdkantoor en de buitenlandse dochteronderneming met betrekking tot de strategische rol van de dochteronderneming, en verschillen in de strategische intenties van het hoofdkantoor en de dochteronderneming met betrekking tot goodwillbeleid en -aanbiedingen.

In het derde onderzoek hebben wij een kwantitatieve benadering gehanteerd om inzicht te krijgen in heterogeniteit in de besluitvorming door channel partners, d.w.z. partnerorganisaties die in opdracht van de multinational werken maar geen eigendom zijn. Door argumenten uit de institutionele theorie te integreren in de resource-based view hebben wij een kader ontwikkeld om uit te leggen hoe het vermogen en de bereidheid van de

partners bepalend is voor de mate waarin ze voldoen aan de verwachtingen van de multinational om zelf goodwillbeslissingen te nemen. In het bijzonder hebben wij twee dimensies van zowel vermogen als bereidheid in de context van relaties met channel partners getheoretiseerd: operationele capaciteit en inertie als dimensies van vermogen, en doelcongruentie en inbedding als dimensies van bereidheid. Uit een kwantitatieve studie naar de goodwill van channel partners van ALPHACAR in 15 landen is gebleken dat channel partners met hogere operationele capaciteiten en doelstellingen die verenigbaar zijn met die van de multinational eerder geneigd waren om zelf goodwillbeslissingen te nemen namens de multinational, terwijl channel partners met een grotere inertie in hun relatie met de multinational hier minder toe geneigd waren. Als zodanig suggereert deze studie dat het verlangen naar autonome besluitvorming, zoals dat in de heersende literatuur wordt gesuggereerd, extra nuance verdient.

Samen hebben deze drie empirische studies licht geworpen op de bronnen van heterogeniteit bij de uitvoering van strategieën in het hele netwerk van een multinational. In onze bevindingen wordt de complexiteit van de besluitvorming op verschillende niveaus zowel binnen en buiten de organisatie ontwaard. De eerste studie draagt bij tot de bestaande literatuur door een conceptueel model van tweelaags gedifferentieerde geschiktheid te ontwikkelen waarin de rol van informatieasymmetrieën in de goodwillbesluitvorming op verschillende niveaus van het netwerk van een multinational wordt geschetst. De tweede studie draagt bij aan de literatuur over internationale strategie en internationaal management door het begrip 'lacunes in de uitvoering van een strategie' ("strategy implementation gaps") te introduceren en de oorzaken en gevolgen daarvan te onderzoeken. De derde studie draagt bij tot ons inzicht in de relaties van multinationals en hun channel partners in een gastland door de rol van het vermogen en de bereidheid van de channel partners bij de uitvoering van goodwillbesluitvorming te benadrukken. Al met al vergroot deze dissertatie ons inzicht in de drijvende krachten achter de strategie in multinationals en in de bronnen van heterogeniteit bij de uitvoering ervan, zowel tussen landen alsook binnen landen, en biedt daardoor belangrijke nieuwe perspectieven en vruchtbare kansen voor toekomstig onderzoek.

IMPACT PARAGRAPH

The findings generated in this dissertation not only serve academic purposes but also have implications for societal understanding of managerial practices in the business world and can be found useful for many societal actors, including policymakers interested in the role and impact of MNCs, as well as decision makers in firms interested in strategy implementation and decision-making centralization/decentralization in the context of MNCs and MNC broader networks. Relying on unusually extensive and in-depth data gathered at the case firm ALPHACAR, the three studies contained in this thesis provide insights into the real-world complexity of the role of subsidiaries and channel partners in how domain-specific MNC strategies, formulated at MNC headquarters, translate to implementation outcomes in different national, institutional, and contractual contexts.

More specifically, our results highlight the value of information, knowledge, and expertise located at the boundaries of the MNC network and how better integrating those assets in decision-making structures can generate advantages to the MNC itself, but also to customers. These insights could motivate practitioners/policy makers to develop structures and processes allowing for high levels of flexibility with regards to how decision-making authority is distributed across the MNC network and beyond – even if seemingly coming at the expense of control and power. In fact, our findings show how such control and power of MNC headquarters may be less extensive than typically assumed: Depending on subsidiaries' and channel partners' own understandings of their strategic roles and their strive for autonomy, MNC headquarters thus should not expect (and maybe not even desire) to see their formulated strategies directly and fully implemented. Instead, practitioners are advised to accept (and even embrace) heterogeneity across their MNCs' internal as well as external network as having the potential to inform their own strategy making and better respond to diverse market and customer needs. With such low(er) levels of formal control, the importance of relational aspects increases and should be acknowledged if the aim is to foster decision making and strategy implementation by subsidiaries and channel partners that is congruent with MNC goals. In particular in contexts of quasi-internalization – as is the case for the MNC-channel partner relationship – MNCs have to rely on normative pressures to ensure their partners' ability and willingness to utilize their managerial/entrepreneurial freedom and autonomy in ways that benefit the overall MNC.

Relatedly, our findings have implications for policymakers interested in the role of MNCs in the host-country context. By adding nuance to policymakers' understanding of control and influence through foreign direct investment, the chapters in this dissertation may provide input for policy discussions on the MNC's involvement in their countries' cross-border economic activity. In particular, this dissertation emphasizes how relational factors, host-country institutional factors, and even customer-specific factors at play across the MNC's extended network are particularly salient within the context of MNC strategy formulation and its implementation. Last but not least, this dissertation may be informative to consumers by providing insights into the factors driving goodwill decision making and facilitating an understanding of which challenges MNCs face in designing their global (aftersales) servicing.

CURRICULUM VITAE

Sophie Gysan was born in Bietigheim-Bissingen, Germany, on April 11th, 1988. She obtained her Bachelor's degree in the Social Sciences from University College Maastricht (2007-2010) and her Master's degree in International Business from the School of Economics and Business, Maastricht University (2011-2012). During her secondary education she worked as a research assistant at the Institute of Industrial Engineering and Ergonomics at RWTH Aachen (Germany) and completed internships in the automotive industry and consulting. In 2012, she joined UNU-MERIT (United Nations University – Maastricht Economic and Social Research Institute on Innovation and Technology) as an external PhD candidate under the supervision of Prof. Dr. John Hagedoorn and became a participant of the PhD Program at the European automotive MNC referred to as ALPHACAR throughout this thesis. In 2015 she started her professional career at ALPHACAR where she continues to work today.

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