9. THE AUTONOMY OF MANAGERS BY BUSINESS FUNCTIONS IN THE FOREIGN SUBSIDIARIES FROM TRANSITION COUNTRIES[1]

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Abstract

The paper examines the autonomy of managers by business functions in foreign subsidiaries in Estonia compared with Hungary, Poland, Slovakia, and Slovenia. Using the method of factor analysis, the multidimensionality of autonomy was opened. Four factors of autonomy were obtained (technology, marketing, management, finance). Multivariate analysis indicated that the autonomy of managers in foreign subsidiaries is specific to the country, industry and business function. The level of economic development of the host country and the earlier beginning of the transition process affects the autonomy of managers positively. Estonian managers had significantly less autonomy in all their business func-

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tions than their Slovenian and Hungarian counterparts. Managers from the subsidiaries in high-technology intensive manufacturing sectors rely more on the corporate networks and were less autonomous than low-tech industries in all countries. The autonomy of managers was lower in performing the strategic business functions than in carrying out the operational functions such as personnel management and domestic marketing.

Introduction

In the last decade, foreign direct investments (FDI) have assumed an important role in the transition economies. This is particularly true about Hungary, but also in Estonia and other new EU member countries the relative share of foreign-owned firms has grown rapidly. Therefore in these countries a completely new group of managers has emerged in the entrepreneurial framework – the managers of foreign subsidiaries whose working environment is fairly different from that of the managers in the firms with domestic ownership. On the one hand, the managers of subsidiaries are entrepreneurs with their inherent abilities and motivation to succeed. On the other hand, the realization of their abilities depends heavily on the role assigned to their subsidiary in the internal network of a particular multinational company.

The aim of this paper is to analyze how autonomously the managers can carry out different business functions in the foreign subsidiaries in Estonia and four other new EU member countries. The research questions presented in the paper are based on the literature focusing on the development of subsidiaries and autonomy. The source of the empirical analysis of the paper is a survey done in 433 firms of five transition countries under the EU 5th Framework Project “EU Integration and the Prospects for Catch-Up Development in Central and Eastern European countries: The Determinants of the Productivity Gap”.

The current paper is structured as follows: the first section deals with the theoretical framework, including the development of the research hypothesis. Secondly, the research method and data are described. This is followed, in the third section, by the empirical analysis of the autonomy of managers in foreign subsidiaries by means of the principal component factor and multivariate data analysis. Finally; conclusions will be drawn about the heterogeneity of the autonomy of managers in subsidiaries.

Theoretical framework

The role of subsidiary management in the development of MNCs

There exists a substantial body of literature concerned with various aspects of multinational subsidiary management (for example, Birkinshaw and Morrison, 1995; Poynter and White, 1985; Roth and Morrison, 1992; Taggart, 1997). According to Paterson and Brock (2002), the research on subsidiaries has evolved over time. The focus in the beginning was on structure and strategy, whereas later the research became concerned with headquarter-subsidiary relationships and the role of subsidiaries. Recently researchers have been increasingly interested in the capacities of the managers in subsidiaries and their development. Following Birkinshaw (1997), a subsidiary is defined here as an operational unit controlled by a multinational company (MNC) and situated outside the home country. Two distinct views on subsidiaries could be discerned. According to the first one, a subsidiary is assigned a certain role by its parent MNC. The other approach is that the role may be assumed through the subsidiary's behavior (Birkinshaw, 2000). The latter approach particularly stresses the motivation and capacity building of managers of subsidiaries as an important factor affecting the subsidiary's role.

Referring to Taggart (1997), autonomy may be regarded as a decision-based process that evolves through bargaining between the centre and periphery in an organization. Thus, the autonomy of a subsidiary's manager is mirrored by its position in relation to the parent company in all business activities. Previous studies have attempted to explain the variations in subsidiary autonomy, which can be divided into MNC characteristics, subsidiary characteristics and environmental factors (see Björkman, 2003). The most recent literature overview and discussion about gaps in research in this area was given by Young and Tavares, 2004. Much less has been analyzed the impact of environmental factors on autonomy, especially the host country's role in providing opportunities for subsidiary managers to develop external networks and increase their autonomy through building their capabilities. In the following theoretical part a few most important factors influencing the autonomy of subsidiary managers will be discussed.

Corporate and external networks and the autonomy of subsidiary managers

According to literature, the degree of integration of a subsidiary in the MNC seems to be the most important factor affecting the autonomy of managers. The autonomy of subsidiaries depends critically on the existing capacities and their evolution. Andersson and Forsgren (1996) distinguished between external and corporate networks and relationships. They showed that the more embedded the subsidiary was within its external relationships via local demand, sourcing and links with the local innovation system; the less it was controlled by its MNC. On the other hand, stronger embeddedness within corporate relationships suggested a greater MNC control over the subsidiary (see e.g., the results of Hedlund, 1981; Garnier, 1982; Harzing, 1999).

Consequently, the more developed the country, where the subsidiary is located in terms of demand, existence of potential sourcing partners and the level of national innovation system, the higher

the likelihood that subsidiary managers can develop an extensive external network, improve different capacities and hence gain more autonomy. According to this approach, we can assume that those CEE countries that started the transition process earlier (Hungary, Slovenia) succeeded in providing more opportunities for subsidiaries to create external networks and are likely to have more autonomous subsidiaries than those countries that started their transition later (e.g., Estonia and Slovakia). In the framework of our analysis it is possible to put forward the following hypothesis about the effect of a country's level on autonomy:

Hypothesis 1. Managers of subsidiaries located in countries which started the transition process earlier have better capacities to develop extensive external networks and therefore have a higher level of autonomy than managers in those countries which started their transition later.

In the high-technology industries, corporate embeddedness in the form of intense and frequent relationships with suppliers, customers and R&D units plays a more important role than in low-technology industries. Consequently, it is logical to expect that in these industries the autonomy of subsidiaries is smaller. But on the basis of pertinent literature we can assume that the behavioral patterns of high tech subsidiaries in industrialized and transitional countries may differ. Birkinshaw and Hood (2000) found surprisingly that subsidiaries of leading-edge industries located in industrialized countries were more autonomous and more highly embedded in the local cluster than subsidiaries in other industry sectors. This could be explained by the strategy of MNCs to encourage their subsidiaries to use knowledge flows from the rich host country environment with developed national innovation systems. But we assume that in transition countries with relatively weak national innovation systems it is much more complicated for local subsidiaries to acquire knowledge from external networks. On the basis of the preceding discussion the following hypothesis was proposed:

Hypothesis 2: Subsidiaries from high-tech industries located in transition countries are more closely engaged in corporate networks and their managers have less autonomy than the managers of subsidiaries in low-tech industries.

Initiative and autonomy of subsidiary managers

A subsidiary takes initiative "'with a view to expanding the subsidiary's scope of responsibility" (Birkinshaw, 2000). In earlier works Birkinshaw (1996; 1997) identified several forms of subsidiary initiative – local, internal, global and hybrid market initiatives – and also indicated the conditions for these to be executed. According to Birkinshaw, high autonomy appeared important for local and global market initiatives, while low autonomy was associated with the internal market and hybrid initiatives. High parent-subsidiary communication was associated with the internal market and hybrid initiatives, while the reverse was true of local and global market initiatives.

A subsidiary managers' initiative is closely linked with power creation. Power can be gained by having an ability or a capability or by possessing something with which it is possible to control somebody else. Firms differ in their ability to accumulate competencies and capabilities, which are rare, valuable, non-substitutable and difficult to imitate. Abilities and capabilities can be acquired and lost over time (Björkman, 2003). A manager from a subsidiary which is important to the MNC as a whole will have the potential to negotiate more with the headquarters than with subsidiaries of lesser importance. Therefore, through its negotiation power, an important subsidiary will be more autonomous than its less important counterparts. Furthermore, continuing the argument, subsidiaries that are able to outperform their corporate counterparts may have a higher degree of negotiation power than their counterparts with less impressive performance. The better a subsidiary is performing in comparison to other corporate units, the more autonomy its managers could enjoy. In the framework of

our analyses, we could use the productivity level as the proxy for the capacity of a subsidiary and can present the following hypothesis:

Hypothesis 3: The better a subsidiary is performing in comparison to other corporate units, the higher the autonomy of its managers.

Autonomy of subsidiary managers across the business functions

The autonomy of subsidiaries by business functions is a rather complicated area of research, which has produced conflicting views (see for detailed discussion Björkman, 2003). Hedlund (1981) stressed the idea that headquarters centralize issues of strategic nature and leave operational issues in the hands of subsidiary managers. More specifically, Hedlund found that finance is the most strategic issue and the most operational issues are about the organization and personnel. A similar idea was already mentioned earlier by Garnier, Osborn, Galicia and Lecon (1979), but in addition they discovered that a subsidiary's autonomy tends to be highest in marketing issues. The results from the Young *et al*. (1985) study of 152 foreign subsidiaries in the UK indicated that the most centralized decision areas were primarily financial (target ROI, dividend and royalty policies), together with marketing decisions concerning the markets supplied and the decisions on entering new foreign markets, and R&D and technology choice.

Edwards, Ahmad and Moss (2002) explained this outcome rather convincingly, saying that integrated issues are highly centralized whereas locally responsive issues are more decentralized. Financial issues are highly integrated and relevant to the whole MNC. Marketing is often directed towards the local market and hence domestic marketing issues could be decentralized. Personnel management depends on local legislation and consequently also requires local operation, which gives greater autonomy to the subsidiary in these questions. Several other authors like Martinez and Jarillo (1991); Harzing (1999) discovered that in local market-

oriented subsidiaries the managers tend to have greater autonomy. In general, subsidiary managers have greater autonomy in such decisions where they have superior information.

Hypothesis 4. The functional autonomy of subsidiary managers is the lowest in strategic issues such as finance, and the highest in operational areas including personnel management and domestic marketing.

Research method

Description and representativeness of the sample

In 2001–2002, a special questionnaire was sent to the managers of the foreign subsidiaries in Estonia, Hungary, Poland, Slovakia and Slovenia as an integral part of the work in the EU 5th Framework Project: "EU Integration and the Prospects for Catch-Up Development in Central and Eastern European countries: The Determinants of the Productivity Gap". The return rate was 19.7%, or 433 questionnaires. The largest number of responses (35.5% of all) came from Poland, followed by Hungary (18%), Slovakia (16.6%), Slovenia (16.6%) and Estonia (11.5%). By industries, the biggest share of responses was in the electrical and optical equipment branch (16.4% of the total), followed by metals and metal products (14.1%), food, beverages and tobacco (10.2%), non-metal mineral products (9.0%), chemicals and man-made fibres (8.5%), rubber and plastic products (6.9%), and clothing and textiles (6.5%) (see detailed info about the sample in Männik *et al*., 2004). The representativeness of the sample was analyzed from the position of size, ownership and industry. The distribution of the firms was rather well balanced (see comparative tables and detailed explanations in Männik *et al*., 2004).

As the following analysis also requires some proxy about the levels of economic development of these five sample countries and differences between the types of the industry sectors (see expla-

nation in the next section), the value added (in % of the total value added in Table 1) and the productivity level are shown by the countries and industry groups (see Table 2).

Table 1. The role of industry sectors in the creation of the total manufacturing value added, in % of total value added.

Industry group	Slovenia (2001)	Hungary (2001)	Slovakia (1999)	Estonia (2001)	Poland (2000)	EU15 (2000)
High-tech	9.6	8.4	1.6	1.8	2.4	13.7
Medium – high-tech	29.5	29.7	27.1	13.1	24	30.9
Medium – low-tech	25.2	26.8	20.5	21.2	29	24.4
Low-tech	35.7	34	31.2	58.2	44.4	31.0
Not identified	0	1.1	19.6	5.7	0	0
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**

The authors' calculations based on the UNIDO Statistical database and Slovenian National Statistics; Eurostat 2003.

The structure of the manufacturing industries of the countries analyzed in the paper varies considerably. The role of high-tech industries in the production of manufacturing value added ranges from 9.6% in Slovenia down to 1.8% in Estonia and 1.6% in Slovakia. At the other end, the low-tech sectors were giving 58% of value-added in Estonia and 44% in Poland. Comparing those five CEE countries with EU15, it appears that the structure of value added in the manufacturing sector in Slovenia and Hungary are much more converged toward the EU.

The Table 2 presents a brief overview of the productivity of the manufacturing industries of the countries analyzed. Slovenia and Hungary are leading by value added per employee in all categories of industries. The table indicates that medium-high tech industries have much higher productivity than high-tech industries.

Table 2. Value added per employee in the manufacturing industries of five accession countries (in. thousand USD annually)

Industry group	Slovenia (2001)	Hungary (2001)	Slovakia (1999)	Estonia (2001)	Poland (2000)
High-tech	18,849	14,750	5,290	6,897	20,508
Medium – high-tech	23,485	30,446	8,395	10,198	13,360
Medium – low-tech	18,210	18,383	8,029	9,746	14,954
Low-tech	15,870	10,128	6,970	7,334	12,063
TOTAL	**18,993**	**18,753**	**7,687**	**8,263**	**13,451**

The authors' calculations based on the UNIDO Statistical database and Slovenian National Statistics.

In case of Hungary, the difference is 2.1 times and in Slovenia 1.2 times. A similar pattern was also found in Slovakia and Estonia. Poland was the only country where the high-tech sectors had the highest productivity.

Method of analysis and variables

In the current paper the autonomy of subsidiary managers is measured by their business functions. In the survey, the managers were asked about the decision-making process between the local affiliate and the parent company. The question asked was: Which business functions are undertaken: a) by you alone, (b) mainly by you, (c) mainly by your foreign owner, or (d) only by your foreign owner? From the survey, answers were received about 13 business functions[2]. The answers to the questions were later standard-

[2] Business functions: 1) product development, 2) process engineering, 3) determining the product price, 4) supply and logistics, 5) accounting and financial operations, 6) investment finance, 7) market research, 8) distribution, sales, 9) after-sale services, 10) advertising, 11) marketing, 12) operational management, 13) strategic management and planning.

ized so that 0 indicated full autonomy in decision-making (taken by you alone) and 1 complete lack of autonomy.

The analysis was carried out in three stages. The first stage involved principal component factor analysis of the group of 13 business functions resulting in the internal structure of the autonomy. After analyzing the factor scores (see also Männik *et al*., 2004), four new statistically independent factors were identified: FACTMARK – related to the following business functions: determining the product price, market research, distribution and sales, after-sale services, advertising, marketing; FACTTECH – including product development, process engineering, supply and logistics; FACTMAN – including operational management, strategic management or planning, and FACTFIN – including accounting and finance of operations, investment finance.

In the second phase, the analysis of variance (ANOVA), and on the third stage the multivariate analysis of variance (MANOVA) were used to identify significant differences among the four groups of the factors and to distinguish country- and industry-specific features in CEE manufacturing subsidiaries. In relation to factor groups, two dummies for a country (variable: DCOUNTRY) and industry type (DACTIVITY) were used as categorical dummies in the ANOVA and MANOVA tests. In the previous analysis also features of firms (size, ownership) were examined, but this is not relevant in the current paper (see *Ibid.*).

The industries were grouped into four types of sectors: high-tech, medium-high-tech, medium-low-tech and low-tech using 3-digit NACE level classification of manufacturing industries according to the OECD classification[3].

[3] High-tech sectors: 24.4, 30, 32, 33, 35.3; medium-high-tech: 24.0–24.3, 24.5–24.7, 29, 31, 34, 35.2, 35.4–35.5; medium-low-tech: 23, 25, 26, 27, 28, 35.0–35.1; low-tech: 15, 16, 17, 18, 19, 20, 21, 22, 36, 37 (NACE industry codes, 2003; European Innovation …).

Results and discussion

Country-specific aspects of the autonomy of subsidiary managers

Table 3 presents the means for categorical variables by four factor components of autonomy. The lower value in Table 3 reveals higher autonomy in this country or industry.

Table 3. Means for the categorical variables by four groups of functions (ANOVA)

Categorical variable	FACT-TECH	FACT-MARK	FACT-MAN	FACT-FIN
Country:				
Slovenia	0.31	0.34	0.25	0.18
Poland	0.40	0.26	0.45	0.29
Hungary	0.37	0.33	0.34	0.22
Slovakia	0.37	0.50	0.39	0.31
Estonia	0.35	0.32	0.37	0.37
Total average	**0.37**	**0.34**	**0.38**	**0.27**
Industry:				
High-tech	0.43	0.39	0.37	0.25
Med-high-tech	0.39	0.37	0.40	0.28
Med-low-tech	0.36	0.30	0.38	0.26
Low-tech	0.33	0.33	0.37	0.28
Total average	**0.38**	**0.35**	**0.38**	**0.27**

Note: a lower value shows higher autonomy of subsidiary managers.

The ANOVA test was performed in order to analyze the statistical significance of differences in mean ranks between countries and industries by four factor groups describing different aspects of autonomy of managers. The ANOVA test proved significant differences in mean ranks across countries by three factors of autonomy – in marketing (F-stat: 7.617, $p = 0.000$), management (10.234, 0.000) and financing (9.273, 0.000) (see detailed infor-

mation in Table 4). The highest level of autonomy in all the four aspects covered was had by Slovenia, followed by Hungary. This outcome is in line with the first hypothesis that subsidiaries located in the countries which started their transition process earlier have better opportunities for developing extensive external networks and therefore the managers there enjoy a higher level of autonomy.

Slovenia and Hungary lead among the transition economies by sophistication of their domestic demand, development of local suppliers, and also by their national innovation systems.

Another obtained result was surprising. Namely, it turned out that FACTFIN on average shows the highest autonomy (0.27 in Table 3) in all the five transition countries compared with other component factors. It partly contradicts to our Hypothesis 4 about the functional autonomy of managers being the lowest in strategic issues including finance and highest in the operational areas including domestic marketing and personal management. Clearly the most autonomous by FACTFIN are managers in Slovenia (0.18) and Hungary (0.22). The managers of subsidiaries in these countries are also the most autonomous by the management component. This is already more in line with our Hypothesis 1 and shows that in these two countries the local capacity and the level of development of the environment have favored the autonomy of subsidiary managers. Estonian subsidiaries having the lowest financial autonomy (0.37) also supports Hypothesis 4.

Cross-country comparison shows the lowest management autonomy among the managers from the subsidiaries in Poland (0.45 in Table 3). It appears that marketing autonomy is relatively similar across all the countries except Slovakia with extremely low autonomy in this area (0.50). This reveals that subsidiaries in Slovakia are highly dependent on their parent company in terms of marketing, which may be associated with the role of Slovakian subsidiaries in the corporate internal network. Slovenian subsidiaries are highly export-oriented and produce intermediate products, which

requires close corporate links. In Poland, with a much bigger local market compared to the other four CEE countries and orientation of subsidiaries to the domestic market, the managers in local subsidiaries have achieved the highest autonomy in marketing, while management autonomy has the lowest scores among all of the countries.

This outcome confirms Hypothesis 4 about the functional autonomy of subsidiaries being the highest in the operational areas including domestic marketing. It is an interesting result, which may refer to the complexity of management of the subsidiaries in Poland, but also indicate the still low level of managerial skills in these subsidiaries, which did not allow the headquarters to give the local subsidiaries more autonomy. In this respect, the combination of high autonomy in marketing and low autonomy in management in Poland partly supports our Hypothesis 3 about the role of subsidiaries' power in obtaining more autonomy.

Industry-specific aspects of the autonomy of subsidiary managers

The above analysis compared autonomy across countries and industries, measuring all variables individually. In order to understand the inter-variable influences on the autonomy of managers in subsidiaries, an integrated analysis was performed. Table 4 presents the results of the analysis with three categorical (country, industry, firm size) and four dependent variables (component factors describing different aspects of autonomy). The main focus lies on the joint effects of country and industry features.

If an integrated analysis is used, which combines the industry and country categories, the sector-specific aspects start to play a significant role in determining the autonomy of managers by the technology (p-value 0.000 in Table 4) and management autonomy (p-value 0.020). The autonomy of mangers in the field of technology depends significantly on the size of the firm involved (SME,

large), as well as on the industry and country (p-value 0.009 in Table 4).

The autonomy of managers by the technology factor (FACTTECH) related to activities in product development, process engineering, supply and logistics significantly differs between countries and industries. Figure 1 presents the estimated marginal means of FACTTECH in five countries in relation to industries.

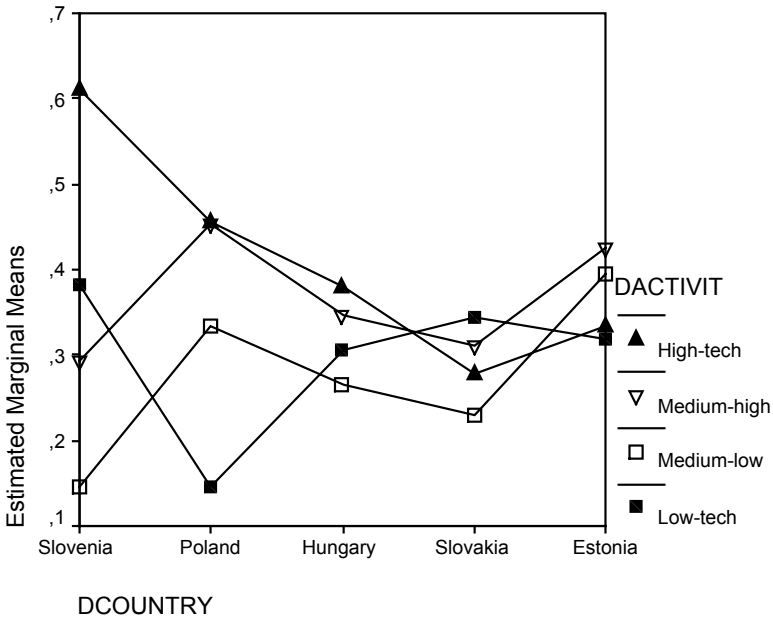

Figure 1. Estimated marginal means between the country and industry dummies by component factor FACTTECH (the low value indicates high autonomy).

Table 4. Statistically significant means for categorical variables (country, industry, firm size) by four groups of functions (MANOVA)

Integration between variables	FACTTECH	FACTMARK	FACTMAN	FACTFIN
Country		F-stat: 7.188 p-value: 0.000	F-stat: 2.243 p-value: 0.064 (sign. 10% level)	F-stat: 5.035 p-value: 0.001
Firm size		F-stat: 5.223 p-value: 0.023		
Country* Industry	F-test: 3.133 p-value: 0.000		F-stat: 2.051 p-value: 0.020	
Firm size* Industry	F-test: 3.932 p-value: 0.009			
Country* Firms size* Industry	F-test: 1.880 p-value: 0.054			

Figure 1 shows that the autonomy of subsidiary managers by FACTTECH is most industry-dependent in Slovenia and Poland. The Slovenian subsidiaries have the biggest variation in autonomy between the four types of industry sectors. Referring to the earlier results, of all the countries Slovenia had the highest autonomy in strategic business functions, especially in relation to management and financing. The combined analysis of country and industry – revealed that despite their appropriate level of skills in management and finance Slovenian high-tech sector subsidiaries must rely on corporate networks and can enjoy less autonomy than subsidiaries in other industry sectors. In the area of technology and production (FACTTECH), their autonomy is the lowest in the high-tech and low-tech sectors and highest in the medium-high- and medium-low-tech sectors. The managers' low autonomy in high-tech subsidiaries supports our Hypothesis 2 about subsidiaries from high-tech industries being more closely engaged in corporate networks and having lower autonomy than subsidiaries in low-tech industries. But the Slovenian results indicate that the autonomy of subsidiaries by industries had a curvilinear character, as vesides the high-tech also low-tech industry subsidiaries had low autonomy. This result could be explained by the low negotiating power of these subsidiaries, which is reflected by the low productivity level in this group (see Table 2). The important role of productivity level as the proxy for a strong negotiating power of subsidiary management is further supported by the fact that the medium-high-tech and medium-low-tech sectors had the highest productivity level.

Managers in the low-tech sector are much more autonomous than managers in the high-tech sector, particularly in Polish subsidiaries. This may indicate that the technology used is rather simple and standardized, requiring little intervention from the mother company. Moreover, we concluded from the earlier analysis that Polish subsidiaries had high autonomy in marketing and low autonomy in management. Consequently, Polish low-tech indus-

try's high autonomy reflects its strong orientation to the domestic market. The final conclusion of this analysis is that the autonomy of subsidiary managers is highly industry-specific and also reveals the importance of subsidiary power (in our case measured as productivity) for autonomy.

Looking at managerial autonomy (see FACTMAN in Figure 2), the largest diversities between autonomy across four areas of business functions appear to be in Slovenia and Poland and by comparison with all industry groups inside medium-high-tech and medium-low-tech subsidiaries by five countries. From Figure 1 it was evident that Poland diverges from the others in terms of very low managerial autonomy. Now Figure 2 more clearly reveals that in general managerial decisions are made by the parent companies and particularly in medium-tech sectors.

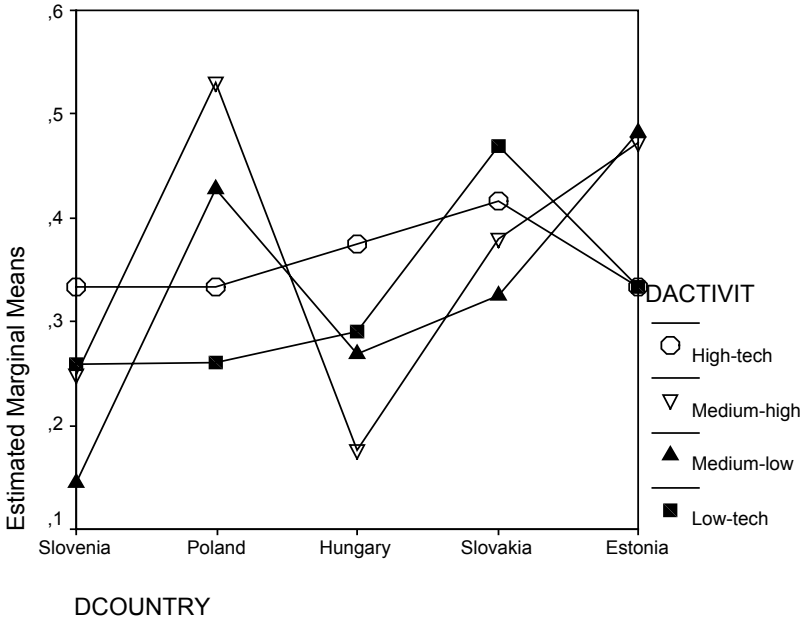

Figure 2. Estimated marginal means between the country and industry dummies by component factor FACTMAN.

Summarizing the results of the above analyses of the country and industry effects, it can be said that the level of economic development is positively related to autonomy, especially in medium-tech sectors, which are the most productive sectors in all the countries analyzed.

Conclusions

The current paper analyzed the autonomy of managers in the foreign subsidiaries in Estonia and four other new member countries of the EU by different business functions.

Using the method of factor analysis, the multidimensionality of autonomy was opened. We were able to distinguish between four statistically independent factors of autonomy (technology, marketing, management, finance). A further analysis revealed that the autonomy of managers in subsidiaries is specific to the country, industry and business function. The host country's level of economic development and the earlier beginning of the transition process affect the autonomy of managers positively. The Estonian managers had significantly less autonomy in all business functions than their colleagues in Slovenia and Hungary, especially in terms of managerial and financial autonomy. Managers from the subsidiaries in the high-technology intensive manufacturing sectors rely more on the corporate networks and were less autonomous than low-tech industries in all countries. By industry types the most autonomous subsidiaries were in the medium-high-tech and low-tech industries. The high-tech industries had a low level of autonomy by all four factors.

The autonomy of managers was lower in the strategic business functions than in the operational functions such as personnel management and domestic marketing.

The lower autonomy of subsidiary managers (e.g., in Estonia, Slovakia) itself does not necessarily mean that the impact of the sub-

sidiaries on the local economy is weak or negative. To the host country it is much more important how the capacities of the subsidiary and its managers are developing and how closely they are linked with the host country's industrial clusters. There is the question to adapt appropriate tacit knowledge and also material assets existing in the multinational company to local specifications and to contribute to its own innovation potential. In the current stage of development of transition countries and firms it might be reasonable to have a low rate of autonomy in areas with shortage of specific knowledge and higher rates of autonomy in selected fields already having the appropriate tacit knowledge. Depending on the shortage of the knowledge, the managers in subsidiaries should be more or less active in their relationships with their headquarters.

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