

**LEGITIMIZING, LEVERAGING AND LAUNCHING: DEVELOPING DYNAMIC  
CAPABILITIES IN THE MNE**

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# LEGITIMIZING, LEVERAGING AND LAUNCHING: DEVELOPING DYNAMIC CAPABILITIES IN THE MNE

## **Abstract**

Multinational enterprises (MNEs) face simultaneous pressures for global integration and local responsiveness. While the extant literature acknowledges that most MNEs are neither entirely geared towards achieving global integration nor local responsiveness, scarce attention is given to *how* MNEs develop organizational flexibility to address multiple and shifting strategy pressures over time. In this paper, we draw on the dynamic capabilities literature to explore how the MNE develops the capabilities needed to achieve this flexibility. Through a qualitative, longitudinal case study spanning 12 years, we identify three recombination capabilities – legitimizing, leveraging, and launching capabilities – through which the MNE develops organizational flexibility. We find that these recombination capabilities improve the MNEs ability to sense and seize new opportunities and enable the MNE to overcome organizational impediments to achieve flexibility. Our study offers a process perspective that shows how the three capabilities together nourish the MNEs resilience to continuously balance between global integration and local responsiveness. Our findings have managerial implications, illustrating that launching new strategic initiatives may fail if the MNE does not have the capabilities to legitimize the new initiatives and to ensure that existing organizational strengths are properly leveraged to support the new initiatives.

**Keywords:** Multinational enterprise (MNE), international strategy, organizational flexibility, recombination, dynamic capabilities

# **LEGITIMIZING, LEVERAGING AND LAUNCHING: DEVELOPING DYNAMIC CAPABILITIES IN THE MNE**

## **INTRODUCTION**

The inherent nature of multinational enterprises (MNEs) with geographically distributed organizational units exposes them to shifting and often diverse external competitive pressures. On one hand, MNEs face pressures to globally integrate, which can increase efficiency and therefore help them remain competitive. On the other hand, foreign subsidiaries are embedded in diverse local contexts with unique market characteristics and customer needs, which require local responsiveness (Meyer, Mudambi, & Narula, 2011). To address these competitive pressures, MNEs need organizational flexibility, which refers to the ability to identify and adapt the organization to dynamics in the competitive context or local market needs (Bartlett & Ghoshal, 1989). Achieving organizational flexibility is particularly challenging in MNEs, since global integration and local responsiveness rely on fundamentally different organizational strengths. MNEs that integrate activities and resources across national and organizational borders typically strive to take advantage of synergies and achieve cost efficiencies. Value is created by developing and exploiting non-location-bound firm-specific advantages (FSAs), such as proprietary knowledge, that add value in multiple external contexts (Roth, Schweiger, & Morrison, 1991; Rugman, Verbeke, & Yuan, 2011b). In contrast, local responsiveness requires the development and utilization of location-bound FSAs, such as physical assets tied to a location, local networks, and local ways of doing business (Rugman & Verbeke, 2001; Verbeke, 2013).

The integration-responsiveness framework identifies various strategies used by MNEs to address these competitive pressures. In particular, this framework favors the transnational strategy, which involves organizing the MNE as a differentiated network with foreign subsidiaries holding various roles and responsibilities (Bartlett, 1983; Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987). The transnational MNE achieves flexibility through diversity in decision-making, differentiated control and coordination processes and social integration (Bartlett & Ghoshal, 1989; Bartlett, 1983). However, even MNEs that attempt to

build transnational organizations struggle to achieve sufficient organizational flexibility (Gooderham & Ulset, 2002), and our knowledge of how MNEs address multiple and shifting pressures is still limited.

Organizational flexibility requires an ability to “sense and analyze, and respond to a full range of strategic opportunities and demands” in an “environment of changeable demands and pressures” (Bartlett, 1983: 141-142). More recent literature has emphasized that MNEs need to be able to effectively recombine location-bound and non-location bound FSAs to address multiple pressures (Rugman, et al., 2011b; Rugman & Verbeke, 1992; Verbeke & Kano, 2016)<sup>1</sup>. While recombination capabilities are frequently emphasized in the MNE literature, the focus has largely been on the content and context of recombination to understand the motives, sources, and patterns of MNE recombination, rather than the specific capabilities underlying such processes. For instance, Rugman and Verbeke (2001) introduced 10 recombination patterns, emphasizing that both FSAs and country-specific advantages influence the need and possibility for developing new FSAs through recombination. They show that recombination occurs across organizational levels and that both internal and external factors can trigger the need for recombination. Most often, it is merely assumed that recombination takes place when an MNE recognizes that both location-bound FSAs and non-location-bound FSAs are needed to compete successfully (Grøgaard, Verbeke, & Zargarzadeh, 2011). Verbeke and Kano (2016) recently argued that the recombination process is influenced by the MNE’s international strategy and entry mode decisions. However, we still have limited empirical insights into the processes through which firms recombine FSAs and the underlying capabilities required.

In this longitudinal, qualitative case study, we draw on the dynamic capabilities literature to explore *how MNEs create the organizational flexibility to meet multiple and shifting demands for global integration and local responsiveness*. We follow an MNE over 12 years as it responds to pressures for global integration and local responsiveness. Our findings show how the MNE develops recombination capabilities that allow them to achieve the needed flexibility to meet the demands in complex environments of evolving, and sometimes competing, competitive pressures.

Our study contributes to the understanding of how MNEs can develop and employ the recombination capabilities needed to manage continuously shifting competitive pressures. We answer the call for making dynamic capabilities more actionable for MNEs by making three important contributions to the MNE literature. First, we explicate the three recombination capabilities of legitimizing, leveraging, and launching. Thus, we unbundle the recombination concept and bridge the concept of recombination in MNEs with the dynamic capabilities literature to elucidate how organizational flexibility can be developed within the MNE. Second, we identify the continuous and dynamic nature of recombination. Our findings conceptualize recombination as a process of developing dynamic capabilities to continuously sense, seize, and reconfigure. Any sense of achieving an “optimal balance” of integration and responsiveness is, at best, fleeting. Third, we conceptualize the learning processes through which the MNE overcomes the organizational impediments and builds recombination capabilities.

This paper is organized as follows. First, we present the theoretical background for our study. We foreshadow our findings by presenting the process model that explains how MNEs create organizational flexibility. Second, we provide details on how we collected and analyzed our data. Third, we present our analysis and findings in a narrative manner, providing the empirical evidence that allowed us to develop our process model. Fourth, we discuss how our findings extend the current understanding of how MNEs recombine to address multiple and shifting global and local strategy pressures. Finally, we conclude with the theoretical and managerial implications of our findings.

## **ACHIEVING ORGANIZATIONAL FLEXIBILITY THROUGH RECOMBINATION CAPABILITIES: A CONCEPTUAL FRAMEWORK**

### **Transnational Strategy and Organizational Flexibility**

Over the past decades, a growing body of research has examined the multiple and sometimes conflicting competitive pressures that MNEs face. In the 1970s and 1980s, international business (IB) scholars conducted insightful in-depth case studies that eventually culminated in the integration-responsiveness

framework (Bartlett, 1983; Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1994; Prahalad, 1976; Prahalad & Doz, 1987). This framework has since persisted as the dominant framework to assess the MNEs international strategy. The strategies are determined by the extent to which MNEs seek global integration and local responsiveness (Kostova, Marano, & Tallman, 2016; Meyer & Su, 2015). In the literature on transnational MNEs, organizational flexibility is seen as the ability to respond to simultaneous pressures for global integration and local responsiveness (Bartlett & Ghoshal, 1989). Transnational MNEs ensure that diverse managerial perspectives are incorporated in decision-making processes, use multiple and flexible control and coordination mechanisms, and develop shared visions and common goals to incentivize the joint development and sharing of knowledge. By attending to these issues, transnational MNEs are able to identify and adapt to unique local market needs or competitive changes. In practice, transnational MNEs build flexibility by differentiating the management of their foreign subsidiaries based on the strategic importance of the local markets and the relative assessment of the strength of subsidiaries' resources and capabilities. Foreign subsidiaries thus vary in levels of integration and autonomy. MNEs that move away from traditional hierarchies towards networks of differentiated subsidiaries enable organizational flexibility and foster worldwide organizational learning (Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1994).

The seminal work on transnational strategies focused mainly on how to develop a flexible organization through the above-mentioned means (Bartlett, 1983; Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1994). However, few subsequent empirical studies actually identify transnational firms and their internal processes. This has led to a lack of conceptual clarity, leaving the transnational strategy open to criticism of being “idealistic” and too complex. Critiques have emerged of the theoretical foundations and empirical support for the transnational strategy (Gooderham & Ulset, 2002). Critics have also questioned whether the existing measures to differentiate subsidiaries are too coarse (Rugman, et al., 2011b) and if the subsidiary level is an appropriate level to differentiate the organization, rather than differentiating through functions, processes, or activities (Benito, Lunnan, & Tomassen, 2014; Grøgaard, 2012; Verbeke

& Kano, 2016). In line with Grøgaard et al. (2011) we argue that organizational flexibility should not be approached as a mechanistic process. Managerial attention to diversity in decision-making processes, the use of multiple control and coordination processes, and extensive investments into socialization can enable MNEs with the potential to achieve organizational flexibility. However, MNEs also need capabilities to act on and implement identified changes.

Even though multiple competitive pressures remain widely recognized in extant research (Birkinshaw, Crilly, Bouquet, & Sun Young, 2016; Meyer, et al., 2011), and despite the rich insights gained from seminal works in this field, subsequent research has paid surprisingly scant attention to the processes and capabilities involved when MNEs implement strategies to address global integration and local responsiveness (Meyer & Su, 2015). Beyond early empirical tests of the integration-responsiveness framework (Harzing, 2000; Leong & Tan, 1993; Roth & Morrison, 1990), later empirical studies have generally taken a narrower approach to strategic challenges, for example focusing on subsidiary level challenges or specific knowledge transfer processes (Kostova, et al., 2016). The subsidiary initiative literature has indeed examined subsidiary-driven entrepreneurship processes that lead to FSA development (Birkinshaw, 2000; Birkinshaw & Hood, 1998). However, this research focuses on subsidiary level capabilities, not the capabilities to achieve overall MNE orchestration of geographically spread organizational units facing multiple, shifting, and sometimes conflicting demands. The lack of attention to further nuancing the ideas proposed through the transnational strategy has unfortunately left the core ideas of a flexible and learning organization under-developed and under-researched (Kostova, et al., 2016; Meyer & Su, 2015). Hence, there is a clear need for further insights into how the process of developing organizational flexibility unfolds.

### **Organizational Flexibility and FSAs**

We argue that the MNE's processes to develop organizational flexibility are directly influenced by the differences in FSAs needed for global integration and local responsiveness. MNEs integrate activities and resources to take advantage of opportunities for value creation from FSAs across multiple markets. For

instance, many MNEs invest heavily in R&D activities to develop technological and other proprietary knowledge. Utilizing such strengths across markets provides an opportunity to leverage unique competitive advantages across geographical boundaries. It also enables the MNE to spread R&D costs, and build economies of scale to address competitive pressures for cost reductions and increased efficiency. MNEs use various mechanisms to achieve integration, such as centralized decision-making, standardization of internal processes, and socialization of organizational members (Cicekli, 2011; Keupp, Palmié, & Gassmann, 2011; Kim, Park, & Prescott, 2003). Most typically, the MNE headquarters (HQ) plays a central role both in identifying the opportunity for integration and in enabling the transfer of FSAs through the (coordinated) use of integration mechanisms.

Some markets, however, require MNEs to locally adapt products, services, or ways of conducting business. In such markets, non-location-bound FSAs may not create value for the MNE. Foreign subsidiaries that experience pressures for local responsiveness may suffer under extensive headquarter involvement due to HQ managers' inherent bounded rationality that limits their ability to identify and understand unique local needs (Verbeke & Kano, 2016). Integration mechanisms such as standardized processes may negatively affect opportunities to identify and act on pressures for local responsiveness. Location-bound FSAs do not add value when transferred across geographic borders. Indeed, some location-bound FSAs, such as prime real estate or local networks, may not even be possible to transfer. MNEs therefore need sufficient subsidiary autonomy to identify, develop, and leverage location-bound FSAs.

Addressing multiple competitive pressures necessitates a mix of FSAs with such fundamentally different characteristics that tensions in the organization can ultimately hinder organizational flexibility. Shifts in the competitive pressures over time will require continuous adjustments in the types and combinations of FSAs (often referred to as FSA recombination), potentially creating additional tensions tied to organizational legacies and managerial experiences that favor one type of FSA.

### **Achieving Organizational Flexibility Through Recombination Capabilities**



The dynamic capabilities framework explains how firms thrive and sustain competitive advantages and achieve organizational flexibility<sup>2</sup> in dynamic environments (Schilke, Hu, & Helfat, 2018; Teece, Pisano, & Shuen, 1997). It was originally developed outside the MNE context, but recently, increasing attention has been given to how this body of literature can shed light on strategic challenges facing MNEs (Lessard, Teece, & Leih, 2016b; Teece, 2014a). The dynamic capabilities literature consists of multiple approaches and definitions (Schilke, et al., 2018; Teece, Peteraf, & Leih, 2016). We adopt Teece's definition of dynamic capabilities as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece, et al., 1997: 516). Dynamic capabilities thus enable the organization to identify new opportunities and redirect or develop resources to meet new challenges (Teece, 2016; Teece, et al., 1997). Making the dynamic capabilities framework actionable within the MNE requires attending to the dispersed and complex context within which such firms operate and its implications for recombination of FSAs. We argue that the dynamic capabilities literature can help us better understand the MNE recombination process since "dynamic capabilities are particularly relevant to the MNE context because they include asset orchestration—the ability to combine selected technologies, individuals, and other resources in new products and processes regardless of location and across organizational boundaries" (Lessard, Teece, & Leih, 2016a: 214).

Within the MNE literature, scholars have argued that recombination capabilities enable the MNE to identify and act on opportunities to compete in foreign markets, based on both non-location-bound and location-bound FSAs (Rugman & Verbeke, 1992; Verbeke & Kano, 2016). Indeed, proponents of "new" internalization theory suggest that recombination capabilities are the MNEs' most important, "higher-order" FSAs (Rugman & Verbeke, 2001; Verbeke, 2013). Recombination is recognized both as the process of combining existing FSAs in novel ways and/or the process of developing or tapping into new resources and combining these with existing FSAs (Rugman, Verbeke, & Nguyen, 2011a). Recombination processes thus also force MNEs to make important strategic decisions about which existing resources and practices to forego (Verbeke, 2013). Even highly integrated firms rely on some location-bound FSAs (e.g.,

access to local distribution networks) to successfully leverage their transferrable FSAs (e.g., proprietary technology) in foreign markets. Similarly, very locally responsive subsidiaries still belong to larger MNE networks that require at least a minimal degree of back-office integration (e.g., finance and accounting). Most MNEs engage in multiple recombination processes (Rugman & Verbeke, 2001; Verbeke & Kano, 2016). Hence, we know that recombination is critical for the MNE's success in foreign markets and aligns closely with the research on transnational MNEs (Rugman & Verbeke, 1992), yet we have limited knowledge of how such recombination processes play out and the underlying recombination capabilities.

To grasp the recombination process in MNEs, we need to unbundle the key recombination capabilities and understand how the recombination process is influenced both by competitive pressures and organizational legacy. We define recombination capabilities as the abilities to integrate, build and reconfigure FSAs within the MNE to address multiple and shifting competitive pressures. Recombination capabilities are thus inherently dynamic. Teece (2007) disaggregates dynamic capabilities into the capacities to sense and seize opportunities and reconfigure the organization. Sensing involves the ability to look beyond current operations and identify changing customer needs, technological developments and other market opportunities. Seizing encompasses the mobilizing or development of resources to take advantage of the identified opportunities. Reconfiguring the organization entails orchestrating assets, combining existing resources, and aligning and realigning tangible and intangible assets (Feiler & Teece, 2014). This includes mobilizing, motivating, and inspiring people to change (Feiler & Teece, 2014). At first glance, the concepts of reconfiguration and recombination seem interchangeable as they are sometimes even described by using the same terminology. In this study we see that the recombination process encompasses both reconfiguration and sensing and seizing. MNEs sense the need for global integration and local responsiveness, seize the identified opportunities, and reconfigure resources and activities as needed. However, it remains elusive how the *process* of recombination unfolds in complex contexts with multiple levels (HQs and subsidiary) and geographically dispersed units. Both headquarters and the various subsidiaries may sense and attempt to seize opportunities and reconfigure. Sensing,

seizing and reconfiguring is not necessarily a straightforward process in a decentralized MNE; instead it may appear to be more of a contested terrain. Hence, we need to further pinpoint which capabilities are essential for developing organizational flexibility.

Many firms invest substantial time and resources into developing key FSAs such as skills, technology, processes, and routines. Most of these enable the organization to achieve efficiency and best practices (Teece, 2007; 2014b). While they are essential to succeed with today's challenges, their value may deteriorate over time as competitive pressures change. These existing FSAs create value for the MNE but they may also generate organizational impediments to recombination, particularly when recombination requires development of new FSAs or novel combinations of existing FSAs, which also entails the choice of abandoning other FSAs (Verbeke, 2013). While the international business literature has long recognized the importance of organizational legacy (e.g., Bartlett & Ghoshal, 1989), its implications for the MNE recombination process remains unclear. Teece et al. (1997: 516) recognize that "dynamic capabilities reflect an organization's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions". In our study, we have attempted to identify the central recombination capabilities that enable successful asset orchestration and the difficult choices of developing and/or abandoning FSAs that this entails.

Foreshadowing our findings, our process model (Figure 1) conceptualizes the answer to our research question of how MNEs create the organizational flexibility to meet multiple and shifting demands for global integration and local responsiveness. The model was developed through an abductive process and illustrates the recombination process in the MNE. Our model specifies three dynamic capabilities that emerged from our data and the relationships between these. These were the capability to legitimize the development of new FSAs, the capability to identify which existing FSAs to continue to leverage and the capability to launch new FSAs. We argue that the capability to legitimize changes is critical to successfully recombine, but grossly understudied in the MNE literature. The need for firms to legitimize strategic decisions is not new to the international business literature, with multiple studies

examining the need for legitimacy and outcomes of actions to achieve legitimacy. For instance, studies on market entry identify the importance of external legitimacy for ownership levels (Chan & Makino, 2007) and MNEs environmental and social activities may be used to signal legitimacy (Rathert, 2016). A recent study on headquarter relocation also points to the importance of building internal legitimacy for controversial decisions (Balogun, Fahy, & Vaara, 2019). However, to our best knowledge, the extant literature has neither conceptualized legitimizing as a dynamic capability nor as a recombination capability.

Similarly, both leveraging existing FSAs and the development (launching) of new FSAs are engrained in extant literature such as new internalization theory (Rugman et al., 2011a). Numerous studies identify integration mechanisms to leverage FSAs across organizational and geographic boundaries (Zeng, Grøgaard, & Steel, 2018) and several approaches have been proposed to develop and launch new FSAs (Rugman & Verbeke, 1992). Nonetheless, the recognition of a need to leverage or launch FSAs, or the outcomes thereof, differs from having the capabilities to selectively determine which new FSAs to leverage versus which new FSAs to launch, and thereby also determine which FSAs to abandon. Hence, although imperatives or tasks related to constructs of legitimizing, leveraging and launching have been addressed in the MNE literature, they have not previously been theorized as dynamic capabilities central for the MNE recombination process. Our model also illustrates how the recombination capabilities jointly contribute to the recombination process. Each individual recombination capability is important, but their interactions and interplay are equally important. For instance, the capability to legitimize changes develops over time and is directly influenced by a deep understanding of the context and current organizational strengths or impediments. Thus, one recombination capability cannot be seen in isolation from the other recombination capabilities. This is a key point, which we will return to in our data analysis and discussion. Our model also highlights the importance of learning throughout the recombination process (as illustrated by the arrows in Figure 1). Our empirical section exemplifies how the capability to legitimize changes developed after multiple failures to launch new FSAs.

Figure 1 thus reflects our iterative abductive approach. Some of the central concepts can be found in existing literature (albeit for different purposes, as illustrated above), yet the full model and the relationships between key constructs emerged through our empirical analysis. We present the model here to guide the reader and structure the presentation of our findings. After describing our methodological approach and presenting our empirical analysis, we will return to the model and elaborate on each component in the model and the linkages that explain the process.

\*\*\* Insert Figure 1 about here\*\*\*

## METHODS

To understand *how* the MNE develops organizational flexibility to address multiple and shifting pressures for global integration and local responsiveness, we required a method that provided us with rich longitudinal data. To this end, we studied an MNE over a 12-year period to capture how the organization managed the complexities of multiple and shifting competitive pressures and how it attempted to achieve organizational flexibility. We aim to build theory, as our knowledge of how recombination unfolds is limited. Qualitative, longitudinal case studies are well suited to understand how a phenomenon emerges and develops over time (Langley, 1999; Van de Ven, 2007), and it thus allows for complex and non-linear explanations (Welch & Paavilainen-Mäntymäki, 2014). Furthermore, qualitative case studies are well suited to develop theory that is both rigorous and context sensitive (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011).

### Research Setting

Our research setting is the internationalization process of a Nordic multinational, hereafter referred to as Telco. Telco has seen a tremendous increase in international activity during the past decades. The deregulation of the telecom monopoly during the 1990s opened for both national and international competition. From being a national monopoly provider of telecom services, international activities became a primary focus and of great strategic importance for Telco within a relatively short period of time. Telco

operates in an environment with large global competitors, which creates external pressures for efficiency and coordination of activities across borders.

Telco initially internationalized at high speed to grab new opportunities in deregulating markets. This resulted in local consortiums where Telco held partial ownership of host market operations, which, in turn, limited HQ involvement in local decision-making. Since its initial foreign market expansion, Telco has pursued greater global integration. During the study period, Telco made attempts to transition from a highly decentralized organization emphasizing local responsiveness to one that also took pressures for global integration into account. By 2015, Telco operated directly in 13 countries and had sales revenues over 18 billion USD. The MNE had the same CEO during the period of our study. The senior management team included previous subsidiary managers with extensive operational experience. At the same time, senior managers were systematically rotated within the MNE to adopt broad responsibilities and an overall understanding of the MNE. As such, the MNE attempted to eliminate biases along some of the lines subscribed by Bartlett (1983) such as upgrading personnel, broadening responsibilities, and diversifying the management group.

Our case is particularly revelatory for several reasons. First, Telco had international activities that were central to its future success. Second, the organization experienced increasing pressures for global integration, while recognizing the need to maintain local responsiveness, making the dynamics of these pressures and how they shaped the firm's internationalization transparently observable.

### **Data Gathering**

This study builds on several sources of data: in-depth qualitative interviews and archival data including annual reports, company presentations, internal strategy documents, and subsidiary board minutes of meetings. We gathered data in Telco that covered the internationalization process during the years 2003 to 2014. Our main data source is the qualitative interviews carried out with managers at headquarters and foreign subsidiaries in two phases. In the first phase (2003–2004), we conducted 14 interviews. In the second phase (2012–2014), we conducted an additional 14 interviews. In line with Ghauri (2004), our

primary selection criteria for key informants was to secure access to individuals who were personally involved in the internationalization process. To secure a variety of viewpoints, we chose informants from different parts of the organization. The interviews were semi-structured and open-ended to capture the informants' perceptions about the MNEs international strategy, recombination challenges, mechanisms used to increase integration, and outcomes.

We designed an interview guide to cover our topics of interest, while allowing for exploration of new areas (Charmaz, 2006). The main topics discussed with the informants were key challenges facing the firm, key success factors in the industry, the strategic positioning of the firm in foreign markets, the development and utilization of FSAs, and decision-making processes related to issues of global integration versus local responsiveness. The last round of interviews also focused on changes over the last decades, change initiatives, motivations behind change initiatives, and implementation challenges. In each round of data gathering, we interviewed until we reached theoretical saturation—that is, until each additional interview provided little new information. In this manner, we tracked the unfolding of events, both in real time and in retrospect, thus covering the 12-year period. The interviews lasted one to two hours and were recorded and transcribed verbatim, yielding approximately 750 pages of double-spaced text.

We also gathered firm-level data from company reports, presentations, and internal documents for the period studied, as summarized in Table 1.

\*\*\* Insert Table 1 about here\*\*\*

We examined the annual reports and company presentations to identify the MNE's international strategy. The archival documents were used to verify and crosscheck information obtained through interviews, to confirm the accuracy of timelines, and to follow up on potential documentation related to key concerns and decision processes that were brought up during the interviews (Eriksson & Kovalainen, 2008). The archival data included board documents on internationalization decisions pertaining to specific countries and regions, corporate strategy documents, minutes from board meetings in selected foreign subsidiaries, and internal documents with reflections on the internationalization experiences that had been used for

internal knowledge-sharing. In this manner, we triangulated data sources, capturing individual managers' perceptions, what the firm communicated to the external market, and what the organization communicated internally. Triangulation of data contributes to the trustworthiness of our study (Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Reuber, 2016).

### **Data Analysis**

In line with our abductive case study methodology, we shifted back and forth between exploring theory and analyzing the data (Dubois & Gadde 2014; 2002). We systemically combined theory and empirical observations to understand how the MNE addressed the multiple demands. We organized our data in Atlas.ti. and to ensure rigor in our qualitative analysis, we structured our analysis as follows:

1. We started with a first-order analysis, where we identified key themes in the data (Van Maanen, 1998) and coded core and recurrent expressions that characterized Telco's strategy decisions and how Telco identified and addressed multiple pressures for global integration and/or local responsiveness. In this first step of the data analysis we stayed very close to our respondents' language, thus firmly grounding our understanding in the empirical case.
2. We then abstracted these themes into categories. In this step, we juxtaposed the emergent findings with existing literature. Throughout our analysis, we refined our codes and concepts through iterations between theory and data. Hence, existing theory was important not only to review existing knowledge but also to interpret our data.
3. Finally, we aggregated our data driven first-order themes and theoretically informed second-order categories into overarching concepts (Gioia, Corley, & Hamilton, 2013).

Our analysis led us to identify relationships between our emergent concepts. In this process, we specifically paid attention to the longitudinal aspects of our data, to establish relationships between our second-order categories. Again, we drew on existing theory to develop explanations and build theoretical insights and explanations. This led to our process model, depicting how organizations work to develop flexibility through overcoming organizational impediments and building capabilities.



Our long-term research engagement with the MNE provided ample opportunities to discuss our preliminary findings with key informants in the organization at various points in time during the 12-year period. We used this feedback to reflect on our interpretations of interview data or as triggers to probe informants for additional information.

## **FINDINGS**

Throughout our study period, we identified the pressures for global integration and local responsiveness as dominant themes in our informants' accounts. The strength and nature of these pressures shifted over time, and we observed how management, through new strategic initiatives, attempted to address these pressures by recombining FSAs. However, the legacy of the organization and managerial capabilities suited for the existing FSA mix were salient organizational impediments to strategy execution. Over time, we identified the evolution of three recombination capabilities in the MNE. Figure 2 shows the structure of our data. It summarizes the key concepts central for developing organizational flexibility and shows how we abstracted from the raw data to theoretical concepts. As such, we have summarized the key concepts central for developing organizational flexibility in Figure 2 below, making the "conceptual leap" that often remains rather mysterious in qualitative studies more transparent. This may potentially also provide valuable insights for researchers taking a more quantitative approach, as the first order themes can be viewed as the operationalization of key concepts.

\*\*\* Insert Figure 2 about here\*\*\*

In this section, we present our findings in a narrative manner, where we integrate quotes to ground and exemplify our key concepts. Then, we return to our process model (presented in Figure 1) to summarize our findings and illustrate the relationships between the key concepts. We describe the model step by step and explain how the MNE develops the flexibility to handle the multiple and shifting pressures of global integration and local responsiveness.

## **Pressures for Recombination**

Based on its early internationalization behavior, Telco's international operations were initially decentralized, with limited HQ involvement. In the fast-paced race for new international telecom licenses, Telco acted primarily on opportunity, and prioritized speed to market. Telco often approached new foreign opportunities in consortiums of multiple actors. This inherently limited Telco HQ's initial influence on local operations, allowing Telco's foreign subsidiaries significant autonomy.

Our data show that pressures for both global integration and local responsiveness were simultaneously evident themes throughout our study period. Below we present the evidence for these two dominant themes in our data.

*Push for global integration.* Our informants described how Telco early on encountered pressures for global integration. Large global competitors operated much more cost efficiently, which placed efficiency pressures on the industry as a whole, as well as pushing Telco to integrate. Cost reduction was a dominant theme in our informants' accounts. HQ management thus initially focused relentlessly on strengthening Telco's competitive position through increased control, consolidation, and synergies.

As time passed, the narrow focus on cost efficiencies and synergies became more nuanced. Annual reports and statements made at the Capital Markets Day clearly indicated that HQ management continuously aimed to capture synergies and create new opportunities by integrating specific functions across the 13 international subsidiaries. Telco was moving into a phase with less focus on attracting new customers and more focus on retaining customers by offering attractive and competitive services. The need to make use of economies of scale and synergies was even more critical to survive in competitive markets. As an HQ manager explained, this involved moving away from the subsidiaries as the source of solutions:

*There are certain aspects of our business that are strongly dependent on the scale. Being able to have scale and claim scale and use scale actively in the market means that you are able to run some of these things centrally as one common agenda. And, of*

*course, if you have a high diversity of different markets you have to make a lot of compromises. (HQ manager)*

*There is an acknowledgement that if we are to deliver satisfactory profitability with the potential for income we see now, in practice the customer growth has stalled. The penetration rate is high in all markets. Prices are declining. We need to enter new segments. That is—rural areas...income per customer is declining dramatically. (...) We see that the solution lies in the MNE rather than in the individual subsidiaries, in that we can exploit scale across the subsidiaries. (HQ manager)*

Because of these market changes, Telco's HQ management identified a need to better facilitate the transfer of resources and capabilities across the geographically dispersed organization to create more value from existing advantages and use the firm's resources more efficiently. With technological developments, management also felt that certain parts of the organization were dependent on scale to remain competitive. Particularly in the later phases of our study, our informants described how technological development was changing the competitive landscape, which created opportunities for synergies:

*We need to find new ways to operate. We need to use the scale we have across the MNE, the competency we have across the MNE, and we need new ways to do networks, IT system, and production. (HQ manager)*

*At the end of the day the customers will not choose us if we are too expensive, so our cost structures must be adapted to what the customer will pay. And the competitive landscape we see up ahead—not just because of lower revenues per customer in emerging markets (...) but also because we compete more and more with solutions to the customers that are based on the internet where the cost structures are very different. (Subsidiary Manager)*

While our data show a move towards pursuing scale advantages, the changing market dynamics also pushed Telco to assess its strategic focus on local responsiveness.

*Push for local responsiveness.* Despite initial efforts to increase integration, HQ management recognized over time that local responsiveness continued to represent a key pillar of Telco's competitiveness. As one manager stated, "It's our DNA." Subsidiary autonomy was initially directly encouraged by Telco's HQ management to ensure that the new international investments catered to the needs of the local markets that had high cultural, administrative, geographic, and economic distances. Indeed, Telco prided itself on being more "local" than its global competitors and saw this as a strength that enabled the organization to gain access to licenses. The firm was very conscious about local culture and

chose a strategy that differed from its competitors by not mandating how to do things in the local unit. This created a strong foundation for autonomous subsidiaries that would prove challenging to overcome once HQ management sought to increase integration.

Our informants described how the localized organizations were quintessential for the successful international growth that Telco had experienced. However, our respondents also frequently mentioned that subsidiaries lacked the necessary capabilities to meet evolving local customer needs. This surprised us, in light of Telco's history of foreign subsidiaries with substantial degrees of autonomy and the recognition of their role in the firm's success. When probing deeper into this theme, we discovered that local subsidiaries had historically mainly focused on attracting new customers and rolling out an infrastructure to meet the scale required, rather than focusing on customizing services to fit local needs. This had been enough to succeed during periods of high growth. Telco had also used expatriates in key management positions when local licenses were initially obtained because local markets lacked skilled and experienced managers. Although these expatriate managers were given substantial autonomy in the running of the foreign subsidiaries, they nevertheless lacked local market knowledge. This limited the expatriates' ability to identify and meet unique local needs.

*Telco has chosen a different approach than (Competitor). For (Competitor), brand was key. Telco focuses on having Telco people in the subsidiary management, such as the CEO, or on having control of ownership—over 51 %. Then we can take out synergies through expertise and on some shared services and products. External—local people—can be recruited; however, they need to be trained as Telco employees. (Subsidiary manager)*

The need to become more customer-oriented was a dominant theme in our informants' accounts during the later interviews. Benefits of local responsiveness were particularly emphasized in terms of being close to the customers and putting the customers' needs at the forefront. Our informants described how there was a strong need to meet the customer demands locally and that these demands were changing.

## Organizational Impediments

Despite extensive integration efforts, the realized level of integration in Telco initially remained low. The MNE was struggling to recombine FSAs in line with the strategic intent. Local subsidiary managers voiced that the units that had been established to lead integration efforts were lacking necessary resources, had a poor track record, and showed low internal legitimacy. Key subsidiary management positions and increased equity stakes in foreign subsidiaries did not automatically result in recombination along the lines of stronger integration. Our data reveal two major organizational impediments to a recombination of FSAs: legacy inertia and managerial capability deficiency. We discuss each of them below.

*Legacy inertia.* Our interview data show that HQ managers were reluctant to push for integration as they believed local adaptation had deep organizational roots. Consequently, subsidiary managers perceived integration efforts to be negotiable. “[S]ynergies are optional,” explained one subsidiary manager. Organizational members perceived the use of integration mechanisms as largely voluntary and no penalties were in place for “opting out” of integration efforts. As a result, Telco struggled to implement integration initiatives and thus recombine FSAs. When asked about the success of Telco’s initial integration efforts, managers replied, “The company has not been successful in creating synergies” and “This goes against gravity.”

As a senior vice-president at headquarters explained, “A worst case scenario would be to act as imperialists.” Subsidiaries were characterized as independent units with their individual stories, making integration difficult:

*All the firms have their individual histories. They have all been independent, so to make all of this connected industrially<sup>3</sup> is a huge challenge. (HQ Manager)*

Our informants described how the strategy of autonomous subsidiaries had served the MNE well over the years. However, this legacy also worked as a path dependent hindrance to recombination. Each subsidiary’s independence and uniqueness, and the lack of shared history was characterized as a challenge:

*Are we to build an MNE with a shared identity? Is that at all possible when you have 11<sup>4</sup> autonomous firms? We had different brands (...) so there was no glue in the system. We chose to say that this is an MNE company, with a portfolio of firms. So the trade-off was that we didn't build the capacity and capabilities for the future, or mental models that there are values to capture by thinking across (the [local] firms). Everything has been me and my [local] firm. (HQ manager)*

Furthermore, the legacy of the MNE's systems represented an inertial force. Telco was dealing with a patchwork of IT systems, solutions, and platforms. Each subsidiary allocated a substantial amount of resources to the maintenance of these elements leaving limited resources to develop new and better customer solutions. In sum, subsidiary managers felt "bogged down" by the existing infrastructure and lacked resources and capabilities to meet changing customer demands. It was therefore recognized as important to equip subsidiary managers with resources to overcome these obstacles for efficient operations that arose from years of decentralization.

*Managerial capability deficiency.* As implied in the previous section, our data show that it is not only legacy that constrains FSA recombination, but also managerial capability deficiencies. Informants suggested that although management had decided on a strategy that implied increasing global integration and had communicated this externally, Telco lacked the managerial commitment to carry out the strategic direction of the company:

*The whole industrialization project [increased attention to global integration] as such, is dependent upon having a committed HQ management. That they are consistent. That is key in any change management textbook. If you do not have the HQ management along, don't do it! We are tacking back and forth here. (Manager)*

Our informants described how the MNE HQ management team was risk averse about challenging strong local subsidiary managers to push the integration efforts, and how capabilities to push the integration efforts through were lacking:

*[Management] is a little risk averse. So, working with governance models or trying to take some decision-making authority away from the local CEOs... we are a little schizophrenic there" (HQ manager)*

*[The subsidiaries] need HQ management push and clarity. This also implies incentives and KPIs to measure their performance. If they are measured every three months on financial targets, it is difficult to make them do the investments in changes a*

*year ahead. (...) this is all about having managers that say “This is what we are doing,” and then make the organization act accordingly. From the top and all the way out. (Manager)*

## **Recombination Capabilities**

Over time, we observed how the MNE developed organizational flexibility through three key recombination capabilities: HQ and subsidiary managers developed capabilities to 1) *legitimize* the need for change, 2) determine which parts of the organization to *leverage*, and 3) assess which initiatives to *launch*.

*Legitimizing strategic change.* Our data show that the organization over time developed capabilities to legitimize new initiatives, particularly integration initiatives. Indeed, the MNE could not achieve subsidiary buy-in until the MNE developed legitimizing capabilities. The legitimizing activities were firmly rooted in the nuanced sensing of opportunities. However, merely sensing opportunities was not enough to create organizational buy-in for proposed strategic changes. For a decentralized organization that valued “being local,” the push for more integration that we identified during our initial round of interviews (2003-2004) was not perceived as “legitimate.” During our second round of interviews however (2012-2014), we identified legitimizing capabilities in our informants’ accounts. These capabilities materialized in different ways. The MNE used external benchmarking and competitive dynamics to identify a gap between the current strategy and what was needed in the future. In this way, they created a sense of urgency and attempted to establish a shared understanding of the need for global integration. They established this gap by focusing on how the need for scale and efficiency in their industry had become more pronounced over the years, while Telco had not achieved the degree of integration needed to deal with these demands. They acknowledged that Telco was lagging behind its competitors in this respect:

*[Industry] comparisons show that (our competitors) do things differently from us—this was an important acknowledgement. We were about to lose our competitive edge, so we couldn’t deliver profitability and if there is one thing we understand here it is how the capital markets respond to falling profitability. (...) so we needed to come up with*

*a story, and say, what do we do about this. And the answer was to introduce this “industrialization” term that we initially called “cross-border standardization and operations.” (HQ manager)*

*[Our competitors] have become more salient global actors. They have a lot of market power, purchasing power, etc. that makes our management a little scared. We see that we can only deal with this standing together. (HQ Manager)*

However, management also referred to the need to meet local customer demands through local responsiveness. Global integration and local responsiveness were emphasized as equally important. Legitimizing capabilities thus also encompassed the ability to recognize the organization’s deeply embedded heritage. Top management, for instance, shifted focus from trying to convince the organization of the general benefits of integration towards catering to the most important incentive for subsidiary managers—their bottom line.

The HQ management team recognized that any motivation for change had to be anchored in subsidiary-specific concerns rather than in an aggregate focus on competitive integration pressures. Legitimizing involved showing “empathy” towards how subsidiaries could improve their ability to identify and meet local customer needs. Telco HQ managers pointed to the opportunity to free up resources for value-adding local activities that would meet local customer needs by streamlining and increasing efficiency in other areas. This was a fundamental change in discourse from our initial interviews. By recognizing and valuing locally responsive customer relations, HQ also legitimized their proposed integration initiatives. In addition, our informants emphasized the need to communicate the benefits of integration to both the subsidiaries and their stakeholders.

Legitimizing is not just a capability at the HQ level. Subsidiary management plays an important part in legitimizing strategic changes as they either legitimize the efforts within their domain of operation, or do the opposite, which is to enlighten HQ management on the costs and risks of proposed changes. We observed how early efforts to increase global integration were perceived as occurring at the expense of local responsiveness (thus value-destroying), which did not generate support in an organization that attributed its past success to a decentralized organization. When integration was repackaged as a “win-



win” scenario for value creation, subsidiaries could also legitimize these changes within their operational unit and communicate it as an opportunity to relieve themselves of resource-demanding tasks that were not customer-oriented. Thereby, the subsidiaries could free up resources to strengthen their local customer relations. Telco also seized new opportunities from external technological advances in the marketplace, which enabled integration in areas that previously would have been more challenging. This suggests that legitimization is not automatic or HQ-driven; it is more about treating the different levels within the MNE as stakeholders and getting their buy-in.

*Leveraging current organizational structure.* The second capability we identified was how managers selectively leveraged the current distributed organization to create flexibility. This reduced organizational resistance and implicitly recognized the value of existing processes. In this manner, the decentralized and locally responsive organization they were moving away from was used as a tool to foster integration across the MNE. By integrating certain activities and resources, the subsidiaries could free up organizational resources that were currently used for “non-value creating activities”:

*If we could cooperate more with the supply industry in the operation of networks, if we could deliver across markets or with other operators within a market and share operations expenses, we can free up capacity to increase focus on the local customer needs. (Manager)*

*We risk losing the extreme drive that lies in the decentralized way of working. Upholding the balance between the decentralized and what you create synergies from, across or within, together with other partner—that we are at risk of losing. I think we actually will, because I think we are so clear on having the market focus locally, that is the drive they have. And then you risk losing control over quality in the production. (HQ manager)*

Telco also changed significantly in its recognition of—and praise of—key organizational practices that had prevailed over the past decade. Established management tools, such as financial targets for subsidiaries, were often mentioned as key strengths. Telco’s subsidiaries were very focused on their “bottom line” and achieving financial targets. Telco had long traditions of measuring and incentivizing subsidiaries through these financial measures, as this had been Telco’s primary control mechanism for many subsidiaries. This explained some of the resistance to previous integration efforts. Subsidiary

managers were simply not interested in participating in any initiatives that could compromise their short-term financial results. Thus, leveraging the current organization and incentive structures provided subsidiaries with the tool to identify areas that should remain intact; they could “opt out” of integration initiatives that they perceived as not helping their bottom line. This ensured that proposed changes were rooted in existing systems, such as the financial measures already in use to manage and incentivize the subsidiaries.

*Launching integration initiatives.* Throughout the period that we studied Telco, we observed that management launched several formal and informal integration initiatives throughout the organization. We conceptualize this as the third capability—it entails assessing which initiatives to launch and executing this launch. While the Telco management had attempted to launch new initiatives previously, the new capability ensured that new initiatives incorporated flexibility to differentiate among organizational units. During our first round of interviews, Telco introduced a range of integration mechanisms to increase its level of integration across geographically dispersed markets. For instance, Telco increased its equity levels in the foreign subsidiaries and worked actively to fill key subsidiary management positions with experienced expatriates. HQ established two formal organizational units with responsibilities to coordinate integration activities. These corporate units had the mandate to identify and track synergies but did not have the authority to mandate subsidiary participation. Telco also invested in extensively communicating, internally and externally, its corporate goals for integration to ensure that key stakeholders understood the need to integrate. In addition, the MNE established formal meeting arenas to enable subsidiary managers to share knowledge and experiences, anticipating that these arenas would result in the identification and implementation of improvement projects across units. Finally, Telco also implemented an enterprise resource planning system to support the integration of processes and systems.

During the second round of interviews, our informants described how they applied informal mechanisms, such as meetings and focusing on their value system, to guide actions towards integration:

*I do not call the “Telco Way” a platform for industrialization. It is more a platform for behavior—this is how we do business here. It started with a code of conduct, in 2002. We added leadership expectations, which we later revised to leadership attitudes. And then we have the values, and our vision in the middle. Then we have covered what people need to think about, working for Telco. “Value” refers to how we approach the market. “Attitude” refers to the attitudes you need to have in the leadership dimension. “Code of Conduct” is about the rules you must follow. “Compliant” applies to all areas. Earlier that referred entirely to the dangers of corruption. (HQ manager)*

The new organizational units, global sourcing, and shared services that were established enabled Telco to better exploit synergies while maintaining local responsiveness:

*Shared services can provide very large effects and it can increase the focus by removing a lot of activities from an organization that should focus on the market. (Manager)*

Based on the leveraging of existing financial structures and incentives, the global sourcing unit set up a process of following up launched initiatives through business cases, which attracted significant interest from the subsidiaries. The focus on seizing opportunities thus spread throughout the organization. Both corporate and subsidiary managers seemed significantly more satisfied with the process of using business cases in terms of implementation and performance success:

*We need to follow up and be very clear about how these benefits develop. We do business case by business case. We make a pipeline now where we track the development of financial results from this. But we have committed, the subsidiaries have committed, and we agree on the ambition. (...) the CEO and CFO love to communicate like this. But we have to say that this is only parts of the picture—if not, this turns into a cost reduction program, and that would be scary for us. (Manager)*

By using business cases to track launched initiatives, new integration efforts that made bottom-line benefits visible to subsidiary managers created a demand (“pull”) for integration activities throughout the organization. The pull effect materialized after a few integration projects were set up with experts from multiple subsidiaries to capture “low hanging fruits” within procurement. Participating subsidiaries received immediate financial benefits from these initiatives, supporting subsidiary managers in their quest to deliver excellent financial performances, as this comment highlights:

*We have managed to establish shared services and survive the first year without anyone challenging our existence. On the contrary, people are asking, “How can I achieve this on an even larger scale?” and “How can we become even more efficient?” ... We have also delivered concrete financial savings. (Manager)*

Hence at the end of our study, the MNE had recombined existing strengths in the subsidiaries with globally integrated sourcing functions and some shared service functions.

### **Process Model of how the MNE Develops Organizational Flexibility**

Our analysis indicates that MNEs achieve organizational flexibility through a dynamic and complex process unfolding over time. Whereas the data structure (Figure 2) presents our key concepts, our process model (Figure 1) situates these concepts in a model that illustrates and explains the relationships between these concepts. Our model shows how the MNE, over time, develops dynamic recombination capabilities that provide the necessary organizational flexibility to respond to the multiple and shifting pressures for global integration and local responsiveness.

As illustrated in the top and bottom arrows within the model in Figure 1, the MNE is continuously exposed to *pressures for global integration and local responsiveness*. These pressures are dynamic, as they develop and shift over time. When MNE management (either at HQ or the subsidiary level) senses shifting pressures, a need for FSA recombination emerges. Organizational impediments may constrain attempts to recombine FSAs. In our study, such impediments took the form of inertia of legacy and managerial capability deficiencies. These impediments necessitated the development of recombination capabilities. We identified three recombination capabilities tied to *legitimizing* strategic change, *leveraging* existing organizational strengths, and *launching* new initiatives. Taken together, these provided the MNE with organizational flexibility to handle multiple and shifting pressures over time.

The *organizational impediments* are forces that potentially constrain organizational flexibility. Our data show that the inertia of legacy and managerial capability deficiencies shape the MNE’s ability to sense, seize, and reconfigure. In our case study, the Telco management clearly sensed the need for increased global integration but it was constrained by the legacy of the autonomous subsidiaries, which

hampered the ability to seize new opportunities. Furthermore, managerial capabilities were tied to existing strategies and governance models, which created barriers to further efforts to integrate as well as efforts to better meet local customer needs. To achieve organizational flexibility, the recombination capabilities must address such organizational impediments.

Our data show how the MNE *legitimized* the strategic change both by external sensing of opportunities and catering to the strengths of the organizational legacy. Legitimizing capabilities are necessary to ensure that organizational members understand both external (competitive pressures) and internal (organizational legacy and established practices) challenges. Legitimizing is inherently tied to the specific context and organizational impediments. In the MNE, legitimizing is not automatic and not necessarily HQ driven. Even if initiatives are driven by HQ, recombination still requires that subsidiaries legitimize the efforts within their domain. Hence, it takes place both at HQ and subsidiary levels.

The second recombination capability in the MNE is *leveraging* the current organization strengths. The MNE we studied used business cases to assess potential subsidiary benefits on a case-by-case basis—an approach that enabled it to leverage both the existing subsidiary focus on the bottom-line and current incentive structures. Furthermore, new integration efforts also benefited from leveraging old initiatives, such as increased equity ownership in the foreign subsidiaries (an effort that had taken place over the past decade). By leveraging the existing strengths, MNE management taps into the established way of thinking and reasoning. This creates a sense of continuity as it moves forward, and allows the MNE to overcome the inertia of this legacy. Leveraging well-acknowledged strengths enables change that would otherwise potentially be perceived as conflicting with the current organization structure, systems, and ways of doing business.

*Launching* changes involves putting in place various formal and informal initiatives to address the needs for integration and responsiveness in novel ways. The capability to launch entails critically understanding which new initiatives to launch to support the intended strategic change. Assessments of

specific initiatives may occur both at the HQ and subsidiary level. Such initiatives often build on, rather than aim to replace, the existing organization.

Taken together, these three recombination capabilities—legitimizing, leveraging, and launching—allow the MNE to overcome organizational impediments and develop organizational flexibility. All three dynamic capabilities are necessary to achieve the organizational flexibility required to handle ongoing and shifting pressures. The dynamic capabilities do not follow a predetermined or specific sequence; rather they interconnect and can be mobilized at various organizational levels and at different points in time. The well-known dynamic capabilities of sensing, seizing, and reconfiguring may feature more or less continuously within the MNE, however, the relationship between these well-known clusters of dynamic capabilities appears to be more complex than previously assumed. In our study, we observed that Telco was increasingly flexible once the recombination capabilities to legitimize, leverage and launch were developed. These important dynamic capabilities (which we observed during our second round of interviews) enabled management to overcome the organizational impediments.

Two important conditions are necessary for the MNE to develop the recombination capabilities that provide organizational flexibility: learning from experience and linking the recombination capabilities directly to the most salient impediments within the MNE (illustrated by the arrows in the middle of the model). As the organization members learn how the organizational impediments constrain flexibility, they develop deeper insights into how legitimizing, launching, and leveraging must be tailored to the specific context at hand. As our data illustrate, the MNE initially attempted to launch initiatives without having developed legitimizing and leveraging capabilities. The experience with failed launching initiatives led to new capabilities that were developed specifically to overcome organizational constraints in the MNE. These were legitimizing and leveraging capabilities. Furthermore, as the MNE accumulated experience of organizational impediments, it actively began to use the existing organization to achieve recombination. As a result, over time, organizational flexibility increased.

## DISCUSSION

The aim of this study was to tease out *how* MNEs develop the organizational flexibility to meet multiple and shifting competitive pressures. Our findings show that achieving flexibility involves developing recombination capabilities. We extend seminal studies that suggest MNEs should pursue transnational strategies. While the transnational solution embraces the need to recognize and address multiple competitive pressures and differentiated needs within the MNE, its main focus is to build organizational flexibility through the use of multiple control and coordination processes, diverse managerial perspectives in decision-making, and social integration (Bartlett, 1983; Bartlett & Ghoshal, 1989). Bartlett (1983) argued more than three decades ago that MNEs need to stop their continuous restructuring and instead focus on their processes. Yet the capabilities needed for this have not been clearly identified. We remedy this by identifying three dynamic capabilities, which allow the firm to develop organizational flexibility and attend to shifts in competitive pressures over time. At an aggregate level, our study builds on and extends the notion of organizational flexibility within the MNE and makes the dynamic capabilities theory actionable for MNEs. More specifically, our findings add to the existing literature in three key areas, as described below.

First, we build on and contribute to the MNE literature, specifically the literature on the transnational strategy (Bartlett & Ghoshal, 1986; 1989) and internalization theory (Rugman, et al., 2011b; Rugman & Verbeke, 2001; Verbeke & Kano, 2016) by identifying three recombination capabilities as central for the process of developing organizational flexibility. We thus unbundle the concept of recombination by going beyond the previous focus on recombination content and context where the process remains a “black box”, and reveal that the process consists of the capabilities to legitimize, leverage and launch.

MNEs need capabilities to *legitimize* strategic changes. Legitimizing strategic changes requires an ability to sense external opportunities, while seizing these also necessitates a profound understanding of the current organization and its legacy. This differs from Bartlett and Ghoshal’s (1989) focus on

legitimizing diversity in the decision making process of transnational MNEs. Legitimacy, as we found it here, is not a characteristic of the individual decision maker, but rather an organizational level capability that resides both at headquarters and the subsidiary level. Even in contexts where decision makers have legitimacy, resistance to specific decisions may occur due to other organizational impediments. This recombination capability is focused on internal legitimacy, in contrast to seeking external legitimacy when entering foreign markets, which is discussed extensively in entry mode literature (e.g., Meyer & Peng, 2016). To recombine, MNEs also need capabilities to *leverage* organizational strengths. This capability nuances the distinction between ordinary (e.g., processes, routines, and best practices) and dynamic capabilities (Teece, 2014b), where leveraging reflects the ability to critically assess and understand which ordinary capabilities to build on in order to support proposed strategic changes. The capability to *launch* selective new initiatives that build on existing strengths goes beyond efforts to overcome the corporate immune system (Birkinshaw, 2000), which can serve as a healthy skepticism to proposed initiatives from geographically dispersed units. Rather, it is the ability to critically assess which new initiatives to launch, particularly when taking into account efforts to legitimize and leverage.

We explain how the three recombination capabilities function together to create organizational flexibility. As described in our findings, the MNE studied here sensed the need for recombining and initially attempted to seize the opportunity primarily by launching new integration initiatives to develop and leverage non-location-bound FSAs. Hence, initial recombination efforts were targeted at adding new transferable FSAs to blend and co-exist with existing location-bound FSAs. Not surprisingly, this did not lead to effective recombination in practice as the MNE failed to overcome organizational resistance. Our study illustrates that recombination does not “just happen”. Within the MNE, sensing, seizing and reconfiguring is not a straightforward and uncontested process. It requires the development and interaction of the three recombination capabilities. Recombination can thus not be viewed as a mechanistic process. This insight complements Verbeke and Kano’s (2016) attention to entrepreneurial capabilities for resource orchestration and highlights behind-the-scene action that is not explained well in extant MNE literature.



By identifying specific recombination capabilities, we provide a conceptual platform for future studies to better understand the recombination processes in MNEs.

Although we draw on the dynamic capabilities literature to help us unbundle the MNE's recombination process, we find that the well-known clusters of sensing, seizing and reconfiguring do not explain the differences we observed over time. We identified continuous sensing, seizing and reconfiguration activities in the MNE (Teece, 2007; 2014a), however, it was the development and interaction of three recombination capabilities (legitimizing, leveraging and launching) that proved to be pivotal for organizational flexibility in the MNE. In the dynamic capabilities literature, sensing, seizing and reconfiguring are often discussed as sequential, and recombination is defined as a component of reconfiguration (Feiler & Teece, 2014; Shuen, Feiler, & Teece, 2014). Our study illustrates that within the MNE context, sensing, seizing and reconfiguring may occur non-sequentially across multiple levels in the organization, thus requiring additional dynamic capabilities such as those we uncovered here.

Second, we empirically illustrate recombination as a continuous process. Based on this, we conceptualize recombination as an ongoing, open-ended and dynamic endeavor. The extant MNE literature has, with few exceptions (e.g., Verbeke & Kano, 2016), conceptualized recombination as a mechanistic process. We thus challenge the established notion of developing a flexible organization without attending to the recombination process and capabilities. Any organizational form will continuously experience conflicting and shifting pressures for integration and responsiveness. This is perhaps why the transnational MNE has received criticism as being "ideal", too complex, or difficult to test empirically (Gooderham & Ulset, 2002; Kostova, et al., 2016; Meyer & Su, 2015). Although the caution to focus on a specific structure was discussed decades ago on studies of the transnational solution (Bartlett, 1983; Bartlett & Ghoshal, 1989), it seems to have gotten "lost in translation", whereby the processes and capabilities underlying organizational flexibility in MNEs has remained under-researched.

Our third theoretical contribution relates to the importance of learning for the development of MNE recombination capabilities. Our study illustrates how learning processes link recombination

capabilities to organizational impediments. The literature on MNE recombination (Rugman & Verbeke, 2001; Rugman, et al., 2011b; Verbeke & Kano, 2016) has paid scant attention to learning. Extant literature has pointed to deliberate and semi-automatic learning processes in the development of capabilities (Zollo & Winter, 2002). Some researchers have considered the evolution of knowledge (Kogut & Zander, 1992<sup>5</sup>) and dynamic capabilities (Eisenhardt & Martin, 2000) as a path-dependent trajectory shaped by experiential learning mechanisms like repeated practice. Our findings add to the literature that considers learning vital for capability development (Luo, 2000; 2002), by explicating the importance of reflective, experience-based learning arising from repeated attempts at recombination. These learning processes are neither automatic, nor routine, but rather based on careful and critical reflection. This experience-based learning also incorporates an understanding and appreciation of the organization's legacy, which if left unattended to often becomes one of the greatest barriers to strategic change (Bartlett & Ghoshal, 1989; Kogut & Zander, 1992)—in this case, the subsidiaries' bottom-line focus.

Our study has several important managerial implications. First, our findings suggest that MNEs can develop organizational flexibility by emphasizing legitimizing, leveraging, and launching capabilities to overcome organizational impediments. We illustrate that the organizational impediments represent important internal “resource recombination barriers,” thereby extending the previous focus on external recombination barriers (Rugman, et al., 2011a). Successful recombination occurs through the interaction of all three recombination capabilities. Managers should be cautious about focusing too strongly on launching new initiatives, before the organization has developed capabilities to legitimize proposed changes and to understand how to best leverage the current organization. Our study also points to the need to approach internal differentiation of organizational units more fluidly; this would contrast to merely assigning subsidiary mandates, which allow varying degrees of autonomy, as is the more typical approach to differentiation. Changes in the organization to address competitive pressures need to be continuously assessed, not only by HQ but also at the subsidiary level. Furthermore, as each MNE differs in its unique legacy and the types of competitive pressures it is exposed to (Meyer, et al., 2011; Teece, 2014a), the

recombination may vary from one MNE to another. Rather than proposing a specific configuration, our model suggests that each firm must assess (a) how to legitimize changes based on the current organizational impediments, (b) which organizational parts are valuable to leverage, and (c) what types of initiatives are feasible and create value to launch.

### **Future Studies**

We recognize that our findings and our model have some boundary conditions. We chose a qualitative, longitudinal case study approach, ideal for obtaining rich, contextualized data over time. We use these insights to theorize the recombination process, thus generalizing to theory, and not to populations (Welch, et al., 2011; Yin, 2014). While this approach provides us with the opportunity to transparently observe the phenomenon we are interested in (Pettigrew, 1990), it also involves the inherent risk that the findings are idiosyncratic. In qualitative studies, researchers seek the transferability of their findings to other contexts or settings through thick description (Miles & Huberman, 1994). In our case, we found that the organizational impediments were tied to specific aspects having to do with legacy and managerial capabilities. In other firms, the specifics of such impediments may differ. Hence, the attention to organizational impediments is transferable to other contexts, while the specific impediments will likely vary from context to context. Similarly, the importance of learning is critical in any context, while the specific type of learning that takes place may vary across contexts. While our study was situated in an MNE, the process model we developed can provide valuable insights in other complex organizations that experience multiple embeddedness. For instance, large multidivisional firms may experience similar types of complexity and multiple embeddedness, yet without being exposed to the international dimension. The capabilities themselves may be transferable, yet how the firm legitimates, leverages, and launches will differ depending on the context.

Our findings provide several suggestions for future studies. First, future studies should avoid a strict sequential approach to dynamic capabilities within an MNE context. Second, understanding dynamic capabilities within the MNE requires incorporating recombination at multiple levels of the organization,

and explicitly exploring where recombination occurs. Third, future studies should aim to develop a deeper understanding of the capabilities required to continuously recombine and examine if certain capabilities are more important to develop at specific organizational levels and if certain patterns of recombination (Rugman & Verbeke, 2001) emphasize certain capabilities. For instance, for non-location bound FSAs developed in a host country, legitimizing capabilities will be more important at the subsidiary level, while headquarters will need substantial launching capabilities.

## CONCLUSION

MNEs that operate and compete globally need organizational flexibility to adapt to multiple and shifting pressures for global integration and local responsiveness. This longitudinal qualitative study has shown how MNEs can develop recombination capabilities that provide them with the necessary flexibility. The recombination capabilities are inherently dynamic as they involve continuous assessment of how to develop, change and adapt the MNE's FSAs. Our process perspective illustrates how legitimizing, leveraging and launching capabilities together nourish organizational flexibility, allowing the MNE to balance between global integration and local responsiveness on a continuous basis.

## NOTES

<sup>1</sup> The focus on recombination in MNEs has particularly been central to key contributions in the field from scholars with a new internalization theory perspective.

<sup>2</sup> Dynamic capability scholars have adopted the term agility as a synonym for flexibility, and defined it as “the capacity of an organization to efficiently and effectively redeploy/redirect its resources to value creating and value protecting (and capturing) higher-yield activities as internal and external circumstances warrant.” (Teece, Peteraf & Leih, 2016: 17).

<sup>3</sup> Informants refer to increased integration as ‘industrialization’ due to a company-wide project named the ‘industrialization project’ that focused extensively on increased integration.

<sup>4</sup> The organization had 11 foreign units at the time of this particular interview.

<sup>5</sup> Kogut and Zander (1992) argue that a firm's capabilities cannot be seen in isolation from the current organization. They refer to combinative capabilities as the ability to generate new knowledge from existing knowledge. While combinative capabilities can reflect one type of recombination, Kogut and Zander see these the development of knowledge through combinative capabilities as a process that ultimately results in market opportunities, rather than a process driven by external market pressures such as changing market opportunities.

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Table 1. Overview of various sources of qualitative data and their use

Data source	Type of data	Use in analysis
28 Interviews (total of 750 pages)	First phase interviews (14)	Understand the informants' perceptions of the strategy of the firm, the pressures it was confronted with and how it dealt with this at that particular point in time. Retrospective data on historical events that were considered important from the informant perspective.
	Second phase interviews (14)	Understand informants' perceptions and experiences of the strategy of the firm, the pressures it was confronted with and how it dealt with this. Real-time data covering the current challenges and activities, and retrospective data on the last 10 years.
Archival data	Company presentations, strategy documents, annual reports	Provide information about the strategy of the firm, in particular related to internationalization strategy and the process of internationalization. Used to support and triangulate the interview data.
	Intranet articles, press-releases, newspaper articles	Create timeline of events. Used to support and triangulate the interview data.
Observations	Informal conversations with managers and employees	Provide insights into ongoing events that could be further probed for in interviews. Provide access to informants. Used to support and triangulate the interview data.
	Meetings where we presented the study to the MNE	Gain trust and access. Used to validate our interpretations and clarify uncertainties or misunderstandings.

Figure 1. The recombination process in MNEs

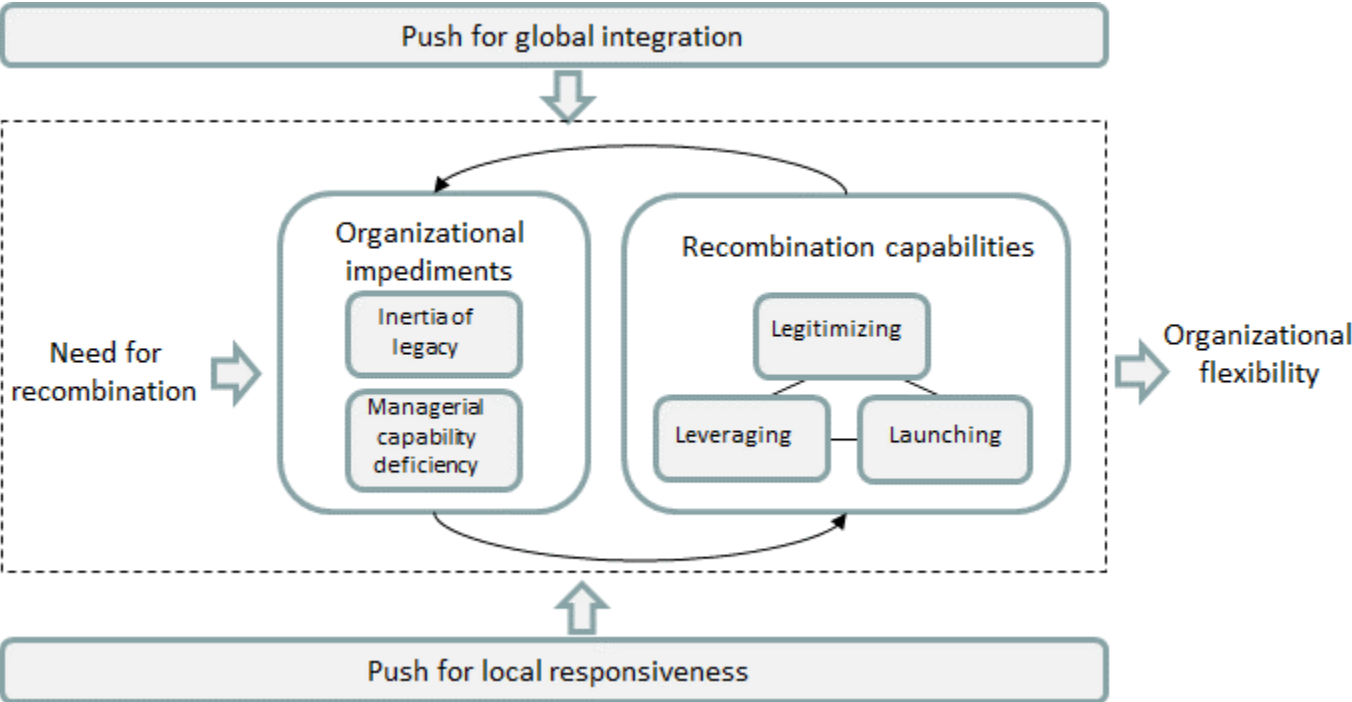


Figure 2. Key concepts and their empirical basis

