Managerial coordination challenges in the alignment of capabilities and new subsidiary charters in MNEs

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Managerial Coordination Challenges in the Alignment of Capabilities and New Subsidiary Charters in MNEs

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Abstract
Subsidiary-level change requires the alignment of subsidiary charters and capabilities. Yet, the mechanisms through which the alignment of charters and capabilities unfolds are not yet well understood. In this paper, we investigate alignment from the perspective of managerial coordination. Drawing on a longitudinal study of a global IT firm, we identify three coordination mechanisms (charter-, experience-, and interaction-based coordination). By tracing the shifts in these coordination mechanisms over time and by specifying the implications of each mechanism for capability level change, we explain how managerial coordination influences alignment via subsidiary level capability change as well as alignment via the potential renegotiation of charters. This also allows us to provide new insights into situations of misalignment by explaining that particular mechanisms of coordination may become a source of decoupling between subsidiary actions and HQ mandates and may also result in capability level inertia. Moreover, while prior research has already acknowledged the role of interaction-based coordination for capability level change we show how and why such a mechanism of coordination emerges.

Keywords: subsidiary change, subsidiary charter, capability development, coordination, micro-foundations, multinational enterprise

Introduction

Multinational enterprises (MNEs) benefit from leveraging the location-specific advantages of their subsidiaries (Bartlett & Ghoshal, 1998; Kirca et al., 2011; Rugman & Verbeke, 2001). Thus, subsidiary charters are tailored to these local advantages and often complement charters of subsidiaries in other countries (Birkinshaw & Hood, 1998; Galunic & Eisenhardt, 1996; Rugman et al., 2011). Such complementary charters are common among IT service providers; customer relationships are managed by subsidiaries in high-cost countries, but actual services are delivered by subsidiaries in low-cost locations (Kumar et al., 2009; Runjuan et al., 2011). In this paper we define the term ‘charter’ as the articulated agreement between subsidiaries and headquarters (HQ) regarding a subsidiary’s activity scope (Galunich and Eisenhardt, 1996). While subsidiary charters allocated by corporate headquarters may function well once established, an important question remains: How do firms manage substantial top-down changes in subsidiary charters?

Subsidiary-level changes require the alignment of subsidiary charters and actual capabilities. Indeed, the alignment of charters and capabilities is central to subsidiary-level change and to the overall notion that MNEs can be strategically managed (Galunic & Eisenhardt, 1996). In extant research, scholars argue that subsidiary charters and capabilities gradually align over time (Birkinshaw & Hood, 1998; Birkinshaw, 2000): subsidiaries either allocate resources to developing new capabilities required to fulfill the charter, or managers renegotiate the charter to match existing capabilities (Balogun et al., 2011; Birkinshaw & Lingblad, 2005; Bouquet & Birkinshaw, 2008). Yet, how the alignment of charters and capabilities is actually accomplished through these mechanisms is not yet well understood. Also, considering the importance of alignment for subsidiary level change it is crucial to understand what challenges managers face while attempting to align charters and capabilities.

This paper contributes towards enhancing research on charter and capability alignment by theorizing alignment as a challenge of coordination between subsidiaries and HQ. By coordinating, HQ and subsidiary managers establish a shared understanding of roles and ensure the accountability and predictability of subsidiary-level resource allocations towards building capabilities commensurate with new charters (Okhuysen & Bechky, 2009; Srikanth & Puranam, 2010). Specifically, this paper addresses two interrelated research questions: What are the mechanisms of coordination through which the alignment of subsidiary charters and capabilities unfolds over time? What managerial challenges are involved in the process of alignment?

We draw on an in-depth longitudinal case study of top-down charter change at Global Service Solutions (GSS). GSS tried to create synergies among subsidiaries by assigning complementary charters. Subsidiaries in high-cost countries were to focus on managing client relationships and selling new services, while subsidiaries in low-cost locations were to be responsible for service delivery. We show that the alignment of subsidiary charters and capabilities is underpinned by how managers coordinate. Yet, we also reveal that alignment following a top-down mandate is potentially undermined by shifts in coordination mechanisms (from charter-based coordination to experience-based and interaction-based coordination). In GSS, these shifts prevented the allocation of resources towards developing new capabilities and undermined the firm's attempt to benefit from co-specialized charters.

Our findings have a number of theoretical implications. By focusing on managerial coordination, we unpack not only how coordination mechanisms influence charter and capability alignment, or the failure thereof (Birkinshaw & Hood, 1998; Birkinshaw et al., 2005; Dörrenbächer & Gammelgaard, 2006, 2010), but also why subsidiary managers may not try to renegotiate charters despite incongruities with capabilities (Balogun et al., 2011; Dörrenbächer & Geppert, 2006). This also allows us to provide new insights into situations of misalignment by explaining that particular mechanisms of coordination may become a source of decoupling between subsidiary actions and HQ mandates (Meyer & Rowan, 1977; Sandholtz, 2012) as well as inertia with regard to subsidiary level capability development (Felin et al., 2012; Vergne & Durand, 2010). Finally, while prior research has already acknowledged the role of interaction-based coordination for capability level change, specifically in situations of uncertainty, we show how and why such a mechanism of coordination emerges (Foss, 2011).

Subsidiary charter change and capability development

Alignment of charters and capabilities: state of research

Subsidiary-level changes require the convergence of subsidiaries' *capabilities* with their roles as specified in *charters* (Birkinshaw & Hood, 1998; Foss et al., 2010; Galunic & Eisenhardt, 1996; Hamel & Prahalad, 1983; van Egeraat & Breathnach, 2012). The notion of charters has been used in two different ways: On the one hand, charters are socially constructed, non-codified agreements regarding a subsidiary's product/market focus within the MNE that are negotiated and renegotiated over time (e.g. Galunic & Eisenhardt, 1996; Geppert et al., 2003). On the other, charters might describe an 'articulated' product/market focus (Galunic & Eisenhardt, 1996, p. 256) that is rather formally captured in target agreements, role descriptions and organizational blueprints which outline the role a subsidiary is supposed to play. In this paper we draw on the latter perspective. In the following, we describe the relationship between subsidiary charters and capabilities in greater detail.

Changes in charters might be triggered by external opportunities or threats, entrepreneurial activity at the subsidiary level or top-down mandate (Birkinshaw, 1996b; Birkinshaw & Hood, 1998; Galunic & Eisenhardt, 1996). Prior research takes a process view, by acknowledging that the alignment of charters and capabilities is accomplished over time. Indeed, after a change in charter, capabilities might initially be misaligned (Birkinshaw & Hood, 1998). Capability-level change is not straightforward and takes time due to capabilities' path-dependent nature (Helfat & Peteraf, 2003) and has wider organizational consequences. For instance some employees may need to be reallocated to new tasks, while others may be rendered redundant (Birkinshaw & Hood, 1998; Rindova & Kotha, 2001). Such shifts are likely to lead to political tensions and organizational frictions (Balogun et al., 2011) to the point where change may stall, and charters might not actually be translated into subsidiary capabilities (Evans & Doz, 1989). Still, research on subsidiary-level change maintains that, over time, charters and capabilities align (Birkinshaw & Hood, 1998). Below we describe the mechanisms of alignment found in prior research.

Alignment through capability-level changes is based on the idea that eventually, capabilities will reflect the new charter. While charters often are based on implicit (and even contested) agreements between HQ and subsidiaries, they might also be manifest as codified and formalized descriptions of subsidiary roles (Galunic & Eisenhardt, 1996). In an empirical study of ten divisions of a US based MNE, Galunic and Eisenhardt (1996) show that charters are instrumental to 'align[ing] evolving business areas with pockets of corporate resources' (Galunic & Eisenhardt, 1996, p. 256). In other words, charters become a means to guide subsidiary level resource allocation towards developing capabilities commensurate with their particular role inside the organization (Birkinshaw & Hood, 1998).

While alignment might be accomplished through capability level changes, a second mechanism of alignment involves the renegotiation of charters. Managers may thereby use their influence (Geppert & Williams, 2006; Geppert et al., 2003) or seek to gain HQ's attention and consideration (Bouquet & Birkinshaw, 2008) in order to shape subsidiary roles. In a qualitative cross-sectional study of eleven German HQs and their Hungarian subsidiaries, Dörrenbächer and Gammelgaard (2006) reveal how such renegotiations might be due to tensions between HQ's strategic intent, on the one hand side and subsidiary level capabilities and resource advantages, on the other. Similarly, in a longitudinal study of subsidiary level change, Balogun (et al., 2011) show how a new top down strategic intent became a threat to subsidiary level autonomy which then triggered negotiations about charters. The new charter is then used to allocate resources toward the maintenance and enhancement of existing capabilities as described above. In this paper, we focus on providing a more nuanced understanding of these mechanisms underpinning the alignment of subsidiary charters and capabilities.

A coordination perspective on charter-capability alignment

Research on subsidiary charter changes suggests that subsidiary charters play an important role in the coordination of resource allocation decisions that underpin how subsidiary-level capabilities evolve. We define coordination as 'sequences of actions toward a goal with an emphasis on contingencies and interactions among actors' (Faraj & Xiao, 2006, p. 1157). Indeed, the coordinated integration of dispersed activities has been an important research theme in the context of MNEs more generally (Lawrence & Lorsch, 1967; Srikanth & Puranam, 2014; Thompson, 1967). We highlight three important themes that are relevant to the role of coordination and the alignment of subsidiary charters and capabilities: the relationship between coordinating mechanisms and task complexity, conditions for coordinated action, and firm-level consequences of coordination.

Coordination mechanisms and task complexity. Coordination mechanisms are the practices or tools used to achieve coordination, and are an important factor influencing organizational flexibility (Mom et al., 2009). In some instances, coordination may be based on formal rules, routines and standard operating procedures (Brown & Eisenhardt, 1997; Galunic & Rodan, 1998; Thompson, 1967). Subsidiary charters can be considered an example of such formal coordinating mechanisms if codified in the form of target agreements. In other cases, coordination may be more ad hoc, informal and based on direct interaction (Foss, 2011; Jarzabkowski et al., 2012; Srikanth & Puranam, 2010). Indeed, the role of formal and informal mechanisms of coordination has been a prominent theme in research on MNEs (Boussebaa, 2015; Edström & Galbraith, 1977; Marcati, 1989; Reger, 1999).

This line of research has particularly emphasized the coordination mechanisms necessary to deal with high levels of task complexity in MNEs. Studies indicate that with increasing task complexity, coordination mechanisms tend to shift towards informal, interaction-based ways of coordinating (Foss, 2011; Mascarenhas, 1984; Sinkovics et al., 2011; Srikanth & Puranam, 2010). For instance, Srikanth and Puranam (2014) showed that with increasing geographic dispersion, intrafirm coordination relies more on what they call tacit forms of coordination, such as a shared understanding of goals. Formal coordinating mechanisms might be inappropriate in such settings, as they tend to restrict the flow of knowledge (Patriotta et al., 2013).

Conditions for coordinated action. Both informal and formal ways of coordinating create so-called conditions for coordinated action: shared understanding, accountability and predictability for mutual actions (Okhuysen & Bechky, 2009). *Shared understanding* turns objectives and related activities and processes into common knowledge. For instance, in their paper on the co-evolution of products, services and capabilities, Helfat and Raubitschek (2000, p. 964) showed how shared understanding 'enables organizations to coordinate activities within...or across vertical chains'. *Accountability* holds managers responsible for actions and helps ensure a subsidiary delivers a service as expected (Okhuysen & Bechky, 2009). Accountability also holds managers responsible for implementing agreed changes—for instance, through contracts or target agreements. Finally, *predictability* means expectations are formed about what particular actions can be expected from other parties, and when to expect them (Okhuysen & Bechky, 2009).

Consequences of coordination. How managers coordinate may have important firm-level implications. Indeed, the extent to which firms may benefit from geographically-dispersed units depends on how functions across units are coordinated (Roth & Morrison, 1992; Zeschky et al., 2014). While the emergence of coordination mechanisms has been interpreted as being generally beneficial for a firm, recent research also demonstrates potential negative effects. In the context of subsidiaries with global mandates (e.g., global factories), Buckley (2011) argues that changes in objectives and erroneous expectations reduce the benefits of such mandates. Similarly, Kellogg et al. (2006) shows that emerging coordinating mechanisms potentially counteract other forms of coordination and lead to sub-optimal outcomes.

Managerial coordination and charter-capability alignment. We aim to provide new insights into the alignment of subsidiary charters and capabilities. We have drawn on two main strands of literature related to subsidiary charters and coordination theory that help to further illuminate the mechanisms underpinning the alignment of charters and capabilities. Prior research has already implicitly taken an entity-like approach (Hussenot & Missonier, 2016) by acknowledging that alignment is a process that is accomplished over time (e.g. Birkinshaw & Hood, 1998). Yet, a theory of alignment has not yet been developed. By taking a coordination perspective we are able to contribute towards developing such a theory by examining the role of both formal and informal mechanisms of coordination through which shared understanding, accountability and predictability of subsidiary-level resource allocations are established and potentially changed. From this theoretical perspective, we address the following research questions: What are the mechanisms of coordination through which the alignment of a subsidiary's charter and capabilities unfolds over time? What are the managerial challenges involved in the alignment process?

Methodology

Research design and empirical context

In order to contribute towards building a process theory of the alignment of charters and capabilities, we employed an inductive, longitudinal, single case study design (Langley et al., 2013) enabling detailed access to the temporal unfolding of charter and capability changes. This research design is particularly useful for illuminating process dynamics (Easterby-Smith et al., 2008; Yin, 2009); moreover, longitudinal qualitative research is becoming increasingly important to MNE scholars (Burgelman, 2011; Doz, 2011; Rugman & Verbeke, 2001).

This research is based on a case study of GSS, a provider of IT software support and enhancement services headquartered in Germany. GSS has 2,500 employees in 10 countries and annual revenues of €300m. GSS is part of an IT conglomerate that we call ITCORP. ITCORP realized that competitors had decreased costs by offshoring standardized IT work and decided to imitate this strategy. GSS was one of the business units spearheading this change. In order to improve competitiveness, GSS introduced 'complementary' subsidiary roles: consulting units (CUs) in high-cost countries (Germany, Austria, US, UK&I, Italy, Netherlands, Finland) were assigned the charter of providing IT consulting services, while standardized delivery units (SDUs) in low-cost countries (India, Russia, Argentina) were assigned the charter of delivering software maintenance services. The complementarity of subsidiary roles required complementary capabilities in the respective subsidiaries.

The main SDUs were located in India and Russia. ITCORP already operated delivery centers in various locations (e.g., Croatia) as part of other business units. However, because GSS's objective was to centralize the processing of IT services, there was no incentive to maintain several medium-sized SDUs. Yet, GSS did not want to have just one SDU, either. GSS's CEO was anxious that such a unit would hold too much power and would become inefficient. For GSS, India appeared to be the most relevant location. The SDU in Russia was being established, but focused on just a few clients. The SDU in Argentina became operational during data collection, but did not have the same importance compared to the subsidiary in India. Therefore, we focus specifically on the SDUs in India and Russia.

Data collection

We collected data from four primary sources: e-mails, records from GSS's ticket tool software, documents and meeting observations.

E-mail data. E-mails have been acknowledged as a rich data source for studying coordination (Jarvenpaa & Leidner, 1999; Kijkuit & van den Ende, 2007). We collected 792 e-mails related to the changes in subsidiary roles at GSS sent directly or copied to the CEO from January 2008 to November 2008. We scanned each e-mail and extracted messages related to the implementation of the new charters based on key themes related to major change initiatives: the target operating model, transfer prices, the ticket tool software or staff skills. These data captured the coordinating interactions of managers at HQ and in subsidiaries following the official launch of the new subsidiary roles.

Ticket records. At GSS, tickets are the primary mechanism for recording and routing tasks across subsidiaries. Tickets include location stamps, and thus show which subsidiaries received and completed tasks. We used ticket data as an objective measure of subsidiaries' compliance with new charters. We were granted access to the overview data for all 65,000 tickets that were opened and resolved in five countries for approximately 50 clients. These data were selected based on the availability of ticket data for subsidiaries using the ticket software. Moreover, we focused on obtaining ticket data for key SDUs within GSS (India and Russia).

Documents. We were also granted access to extensive project documents in the form of spreadsheets and PowerPoint presentations, meeting minutes and workshop summaries (including pictures). Documents included detailed descriptions of GSS's target operating model (TOM), a codified account of subsidiary roles. These documents also enabled us to build a chronological account of events (Runjuan et al., 2011) and yielded insights into how HQ tried to formally coordinate subsidiary activities (such as target agreements). We also were granted access to documents from strategy meetings, including presentation slides, minutes and pictures documenting workshop activities.

Observations. The second author worked at GSS HQ as an assistant to the CEO (2008–2010). In line with Lincoln and Guba's (1985) notion of persistent observation, the second author's deep immersion in the context proved crucial in the analysis of the wide variety of context-bound data sources (Shah & Corley, 2006). His responsibilities involved preparing reports for HQ and planning and participating in quarterly management meetings. However, he was not in charge of activities forming the basis of this study. His position enabled him to observe both day-to-day activities and management meetings. We drew on observational data to construct a picture of the overall transformation process and to understand the actual implications of the intended changes for HQ and GSS subsidiaries.

Data analysis

We followed a process approach to reconstruct the sequence of events at GSS (Langley, 1999; Langley & Tsoukas, 2010). First, we sensitized ourselves to the scope and dynamics of the transformation process in order to become familiar with GSS-specific terminology. We also noted all events associated with changes to subsidiary capabilities. To establish phases, we first plotted operational practices over time using ticket data. Figure 1 reveals critical turning points that enabled us to interrogate document and e-mail data from particular periods. The outcome of this stage of data analysis was a structured timeline of events that formed the basis for subsequent stages of data analysis.

In the second stage of data analysis, we established three phases that describe the initial alignment and eventual misalignment of charters and capabilities at GSS: (Phase 1: April–December 2007; Phase 2: January–April 2008; Phase 3: May–September 2008). Rather than tracking 'stocks' of capabilities, these phases represent 'flows' (Dierickx & Cool, 1989), i.e., the allocation of resources towards fulfilling new charters. Drawing on Leonard-Barton (1992) we tracked capability changes in skills, technical systems, management systems, values and beliefs. In several iterations, we established that until December 2007, subsidiaries were emphasizing developing capabilities commensurate with new charters. From January to April 2008 there was a gradual decline in resource allocation, and from May 2008 onwards, subsidiaries reinforced existing capabilities (Table 1).

In the third stage of data analysis, we evaluated coordination activities between HQ and subsidiary managers and outcomes related to the alignment of charters and capabilities. For Phase 1 we drew on observational, document and e-mail data; for Phases 2 and 3 we predominantly drew on e-mail interactions, as the initial target agreements proved less influential. In order to analyze coordination, we used Okhuysen and Bechky's (2009) components of coordinated action as an analytical scaffold. We drew on documentation, e-mail data and meeting observations to analyze how shared understanding, accountability and predictability were established and changed. In our data, we interpreted predictability as the mutual expectations of managers regarding subsidiary-level changes.

In several iterations, we further refined emerging themes regarding the establishment of and changes in shared understanding, accountability and predictability. Following Miles and Huberman (1984), we identified themes for each of the three components. Overall, 46 themes emerged. We aggregated similar themes, resulting in eight main theoretical themes underpinning the components for coordination: shared understanding (themes: creation, maintenance), accountability (themes: creation, erosion, avoidance) and predictability (themes: expectation structure, expectation reset, expectation clash). For example, data coded as being related to themes underpinning accountability include 'Subsidiary managers sign agreement to implement transfer price regime' (creation), 'CU subsidiary managers ask for exception to transfer price' (erosion), and 'Dependence on existing clients is used as argument to delay introduction of Ti2l' (avoidance). Moreover, this step of analysis also revealed different managerial focal points in each of the three phases: organizing, implementing, and legitimizing.

Finally, we analyzed the interrelationship and outcomes of coordination shifts. In particular, we analyzed how coordination was achieved in each phase. Each phase was characterized by a distinct coordination mechanism (charter-, experience- or interaction-based coordination) that had implications for the establishment of shared understanding, accountability and predictability. We also evaluated how these forms of coordination affected subsidiary-level capabilities (see Table 2).

Changes in subsidiary roles at GSS

An overview of charter changes at GSS

As part of GSS's new strategy, subsidiaries had to focus on different parts of the value chain: subsidiaries in high-cost countries were to manage relationships with customers, and those in the lower-cost locations of India and Russia were to perform the actual IT services for those customers. Service orders were recorded in the form of tickets, which could either be resolved locally, or routed to offshore locations. Under the new charters, we expected to find increased ticket resolution in India and Russia and decreased ticket resolution in high-cost countries. However, the aggregate ticket data for subsidiaries in Austria, Germany, the US, India and Russia (January 2007 to December 2008) show the opposite trend (Figure 1).

INSERT FIGURE 1 HERE

Initially, the number of tickets serviced in India and Russia increased, suggesting that subsidiaries had adopted their new roles. However, deviating from their charters, high-cost locations continued to resolve tickets throughout 2007. Around April 2008, we found that the volume of tickets *received* in Austria, Germany and the US had increased, but the number of tickets *resolved* in India and Russia had stagnated. In high-cost countries more ticket work was received and also resolved locally. This trend became clearer throughout 2008.

This misalignment between subsidiary charters and actual practices prevailed, suggesting that subsidiaries failed to develop the capabilities necessary for their new roles. Table 1 traces the change process at GSS in terms of subsidiary capabilities. Similar to the ticket data, this analysis shows that capabilities initially started to converge with new charters, for example, through target agreements that specified particular IT skills and the use of new software systems. Yet, over time, subsidiaries continued to allocate resources to existing capabilities. Later, we show how this failure to align subsidiary capabilities and charters was rooted in managerial coordination and how shared understanding, accountability and predictability were established and maintained.

INSERT TABLE 1 HERE

We particularly follow the interactions of Thomas (CEO) with subsidiary managers who played an important role in the GSS change effort: Karthik (India), Veera (Finland), Rob (UK) and Ben (US).

Phase 1: striving to align charters and capabilities

In Phase 1 the CEO took initial steps to align subsidiary managers and obtain their support for GSS's new cost reduction strategy in which standardized work would be shifted to employees in India and Russia, and employees in high-cost countries would continue to perform consulting services. We describe the managerial focus as well as how coordination between HQ and subsidiary managers unfolded during this phase.

Managerial focus: organizing. Managers focused on crafting the 'ideal organization' and made strategic decisions based on how the organization should ideally operate in the future. In order to launch the new strategy, Thomas invited subsidiary managers to a series of management meetings to discuss and plan the new organization. Thomas was hired from one of GSS's major competitors, Accenture, which followed a similar model. In a presentation to all managers, Thomas laid out the changes to the organization, but also asked managers to contribute to the future organizational design. The new organization included changes to subsidiaries' charters, in particular, the split into CUs and SDUs.

Charter-based coordination. To support the implementation of the new strategy, subsidiary charters were codified in a so-called target operating model (TOM). The TOM specified the new subsidiary roles as well as the respective capabilities required. These charters marked a significant change, offering units opportunities to increase revenues and reduce costs by 'accessing the [globally] available skill-base' and by 'exchanging services worldwide' as they engaged in complementary activities. CUs would focus on new customers, and would only locally perform tasks that were too complex to be conducted elsewhere, such as consulting work. The actual provision of IT maintenance services would be shifted to the offices in India and Russia (SDUs). At the end of the meeting, Thomas expected subsidiary managers to sign target agreements that specified subsidiary-level investments in building the skills and technologies required to fulfill their new roles.

Creating shared understanding. In this first phase, managers developed a shared understanding of the future state of the organization. Karthik, manager of the Indian subsidiary, expected that the new charter would bring more business to his unit. He was quite clear about GSS's new strategy and the implications for his unit. As part of the meeting he sketched a picture of India's role in GSS, portraying it as 'a "space station" [that] delivers [work] to locations globally', supporting GSS's operations in 'different locations' by providing 'stable delivery of standardized services'. All other subsidiary managers were asked to create similar pictures in order to create a shared understanding of the co-specialization of new subsidiary roles.

Accountability creation. To ensure the creation of new capabilities at the subsidiary level, GSS introduced a system of new 'global' targets for all subsidiary managers. In India, this implied the hiring and training of new employees who would perform IT maintenance services. In other units, new software, Ti2L, had to be introduced to make sending work abroad possible. Further, GSS units had to adapt their service offerings to customers. In one-on-one meetings with Thomas, all subsidiary managers were expected to sign formal target agreements through which they would be held accountable for building capabilities associated with their new roles.

Expectation structure. Managers began to form expectations that complementary capabilities would soon be available in other subsidiaries. As part of regular management meetings, subsidiary managers developed and visualized these expectations: available skills for standardized service provision in India and Russia, fixed transfer prices between units and new standard ticket software (Ti2L) to record and send tasks across subsidiaries. Symbolically, all managers sealed their commitment by signing a flipchart with a drawing of the GSS global business model.

Capability-level changes in Phase 1. At the end of Phase 1, managers within GSS's country units reached an agreement to develop and use complementary and co-specialized capabilities (see Table 1). The framework provided by Thomas delineated fixed terms under which work could be exchanged among subsidiaries. The actions from this first phase at least partially succeeded in shifting country managers' mindsets from purely local to global interests.

Phase 2: Emergence of inconsistencies

GSS was successful at establishing an in-principle shared understanding of subsidiaries' new roles among subsidiary managers. In Phase 2, managers progressed from conceptual organizing to implementing the new subsidiary roles in practice. Yet, when Thomas began to grant exemptions to subsidiary charters, inconsistencies between GSS's strategy and subsidiaries' investments in new capabilities emerged.

Managerial focus: operating. With the support of HQ, roadmaps were created outlining when each customer had to be switched to Ti2L. This is evident in the interaction between an employee in India and the customer service representative in Finland: 'You must be aware that our organization has taken a decision to move from various ticketing tools to a common platform…Since Finland is using [AntiQ] as a ticketing tool, I would request that we can think of switching over to our common software [Ti2L]' (India to Finland, March 2008). This change in software was necessary so that Veera (Finland), Rob (UK) and Ben (US) could transfer the prescribed percentage of work per customer to India or Russia. As they moved into the implementation phase, managers expected that when sending work abroad, it would be performed with the same level of quality.

Expectation reset. However, the work relationships between subsidiaries were not as managers expected. At first, some CUs, such as the Germany office, did route more work to India. However, Karthik struggled to scale up subsidiary operations with the reliability and service quality expected. In an e-mail to the CEO in April 2008, he complained: '[w]e have on going [sic] issue with our mail server for some time now.

This has resulted in delays in service provision and many customers have shown their dissatisfaction'.

SDU managers' expectations were unmet as well. In anticipation of major increases in business volume, Karthik had hired top graduates, attracting them with the prospect of providing challenging work. Instead, the little work that was being transferred to his office typically came in the form of simple standardized tasks—the result of CU managers' attempts to avoid customer dissatisfaction. As a consequence, employees in India started to leave the company, taking advantage of a booming job market: '[In] recent weeks we have seen heavy attrition amongst all teams. Most of these are critical resources of the team' (India to CEO, April 2008). The lack of trained personnel further decreased service quality and made managers in other CUs even more reluctant to outsource services to India.

Experience-based coordination. As a result of failed expectations, managers' decisions about allocating resources to subsidiary-level capabilities were shaped less by the new charters, and more by managers' experiences with cross-subsidiary work. This opened a gap between expectations and actual practices. It would have been sensible for managers to resolve these discrepancies, for instance, by renegotiating subsidiary roles. However, Thomas was not open to such changes, and managers did not voice such desires openly. After all, GSS had been formed within ITCORP around a global business model that required subsidiaries to be complementary. Subsidiaries had high-stakes incentives to be part of GSS.

Thus, as capabilities failed to align with subsidiaries' charters, subsidiary managers were keen to overlook discrepancies and instead sought 'temporary' exemptions. Even after Ben and Veera raised doubts about switching customers in the UK and Finland to Ti2L, Karthik affirmed to Thomas that soon all customers would be switched to the standard software (April 2008). This affirmation stood in contrast to the fact that 10 months after the initial assessment, the number of ticket software applications in use had not changed, and plans to switch customers had been continuously delayed. Nevertheless, managers repeated the mantra that all subsidiaries operated with a single software tool, all standardized work was performed by SDUs and the transfer prices for internal transfer of work were 'not negotiable' (HQ, June 2008). Thus, after initial tendencies toward convergence, there was widespread divergence between expectations from the charter and actual capabilities.

Accountability erosion. To accommodate customers' concerns, Thomas frequently granted exemptions that started to erode the system of accountability that bound subsidiary managers to the development of new subsidiary capabilities. When informed about conflicts between local and global interests, he offered exemptions that allowed managers to delay or even temporarily suspend capability-level changes. He did so particularly when customer relationships were at stake. For instance, while the fixed transfer prices for services from India provided CUs with reliable figures, to Ben these prices appeared too high to compete in the US market: ‘We need to have a market competitive pricing to win this. It is a very large opportunity. We require 20 offshore [employees]. [If we lowered the] average transfer price [to] $25USD per hour this would equate to roughly $1M per year for India and immediately utilize 20 people’ (USA to CEO, April 2008).

Ben used the prospect of much-needed business for India to ask Thomas for his help in adjusting the transfer prices: ‘I need your approval to honor this rate for us to win this bid. Can you please help me here?’ (USA to CEO, April 2008). Thomas knew that the success of GSS depended on acquiring new customers, because only new contracts could offset the loss in revenue caused by lower prices charged for the work abroad: ‘If we can agree between us…we can meet this price. How you are selling to the customer is a different story’ (CEO to USA, April 2008). Such examples demonstrate that Thomas prioritized external relationships with customers and competitive local market positions in accepting deviations in practice from official subsidiary charters.

Maintenance of shared understanding. Whereas shared understanding existed concerning subsidiaries’ new roles, expectations were frequently unmet. Exemptions granted by HQ eroded the structure of accountability that was designed to support and ensure capability-building. Nevertheless, strong incentives existed for both HQ and subsidiaries to maintain managers’ shared understanding of the new roles, even though it did not reflect actual practices. Indeed, their shared understanding about the future global organization connected subsidiary managers. Consequently, despite discrepancies between the charter and actual practices, managers sought to preserve their shared understanding and were reluctant to voice nonconformity. Similarly, Thomas's success within ITCORP was tied to making GSS's strategy work. Thus, despite managers' lack of adherence to the global model, Thomas signaled to ITCORP management and to outside analysts that cross-subsidiary exchanges in GSS were successful.

Capability-level changes in Phase 2. In Phase 2, new employees were hired in India, but as little work shifted to India, it became difficult to retain skilled employees. Also, although managers signaled commitment to Ti2L, they did not implement it. Ti2L is one example where global targets conflicted with local customer demand. Although Thomas frequently granted informal exemptions, they undermined efforts to implement capabilities in line with new subsidiary roles (see Table 1).

Phase 3: misalignment of charters and capabilities

In Phase 3, managers increasingly shifted their focus from operating to retaining their legitimacy as part of GSS. As they faced complex and divergent expectations from customers as well as HQ, subsidiary managers increasingly requested ad-hoc solutions. To balance the gap between their formal commitment and divergent practices, managers tried to avoid being held accountable for implementing new capabilities. This resulted in the misalignment between new subsidiary charters and actual capabilities.

Managerial focus: legitimizing. Managers increasingly focused their actions in order to be seen as legitimate actors within both GSS and ITCORP. For subsidiary managers, being part of GSS had significant advantages. It meant they had access to lower-priced services in India or Russia without the need to establish and maintain offshore relationships themselves. However, this did not suit all needs. For many subsidiaries, the concept of a global organization was a constraint. For instance, an ITCORP unit in the Netherlands shifted standardized work to Croatia due to 'bad experiences with India' and because required knowledge was available in the Croatian subsidiary. Consequently, the local Dutch GSS unit either had 'to go ahead with Croatia too or transfer knowledge to our Indian unit' (Netherlands to CEO, June 2008). Thus, the availability of offshore capacity outside GSS challenged the standing of the Indian subsidiary as a hub for offshore work. Still, the Dutch subsidiary reaffirmed its support and confirmed the shared understanding of new subsidiary roles by emphasizing its intention to shift work to India. In contrast, Veera, the Finnish subsidiary manager, wanted to ensure utilization of local staff before offshoring any work.

Expectation clash. Subsidiary managers were thus faced with a complex system of conflicting expectations that increasingly influenced their actions. Customers expected that services were to be completed at the quality level of domestic services, but at a lower cost: 'German quality at Indian prices', as one manager put it. Thus, HQ expected CUs to send a larger portion of work to SDUs in India and Russia. However, customers raised concerns about the quality of the work performed abroad. Also, many clients did not want to implement Ti2L. In the US, Ben finally managed to convince one of his customers to switch to Ti2L, but his success was short-lived: '[The customer] requires…functionality which we are being told will take a very long time [to implement]. This threatens customer relationships…I sense the client's overwhelming frustration' (September 2008).

Interaction-based coordination. In this phase, the role of codified subsidiary charters as a coordinating mechanism was further diminished. Knowing that some business decisions would violate the expectations of other subsidiaries, subsidiary managers increasingly shifted to a case-by-case approach to coordination in order to maintain HQ approval. We call this case-by-case approach *interaction-based coordination*. This was evident in a number of interactions, such as the request of the German subsidiary to retain staff allocated to standardized work (June 2008). Managers tended to offer services from India as a standard solution to new customers while locally performing services for existing customers.

Accountability avoidance. An important reason for subsidiary managers to follow interaction-based coordination was to meet customer expectations, follow HQ directives and fulfill expectations of other subsidiary managers at GSS. To enable flexibility, subsidiary managers tried to avoid being held accountable for adhering to charter-based changes. After all, subsidiary managers were still bound by the target agreement signed in Phase 1. The implementation of Ti2L illustrates the avoidance of accountability.

In Phase 1, dates were scheduled to switch a customer in North America to the standard ticket software: ‘I have committed January end as possible date for switching to [Ti2L]. I need your support to ensure that this is somehow met’ (USA to CEO, January 2008). However, in Phase 2, the customer still had not been transitioned to the new software and dates were postponed to April. Eventually, in Phase 3, the following conclusion was reached for the same customer: ‘We are discussing it with respective internal and external agencies…and discussions and commitments (and non-commitments) are going to take some time…Committing something before that can create problems for us’ (USA to CEO, September 2008). Subsidiary managers continued to signal that all customers would soon be switched to Ti2L, but delayed concrete plans multiple times. Over time, they increasingly avoided being held accountable for adhering to fixed transition dates.

Capability-level changes in Phase 3. Despite GSS’s efforts to develop capabilities commensurate with the new charters, existing capabilities prevailed (see Table 1). For instance, CUs in Finland and Germany retained the capacity to fulfill ticket work. Although the charter outlined that all standardized work had to be transferred to SDUs, this was largely not practiced: ‘for client F less than 40% of standard services are sourced from India or Russia, 60% are performed in Germany. Currently we only use Russia, as our customer is skeptical about sourcing from India. We do not find that sourcing more services from abroad would work' (Germany to CEO, June 2008). Consequently, CUs shifted less work to India and Russia. This jeopardized the feasibility of the SDU business plans, as employees were hired and trained but workload did not increase as expected. Because little work was transferred to India, employees with the desired skills were lost.

Conceptual Interpretation: coordination and the alignment of charters and capabilities

In the sections that follow, we first discuss the role of shifts in coordination mechanisms for the alignment of charters and capabilities and theorize the reasons why alignment efforts failed. We then identify three key managerial challenges in the alignment process (see Table 2).

INSERT TABLE 2 HERE

The role of shifts in coordination mechanisms for charter-capability alignment

Our analysis suggests that alignment and potential misalignment between subsidiary charters and capabilities unfolds through shifts in how managers coordinate (charter-based coordination, experience-based coordination and interaction-based coordination).

Indeed, we see substantial differences in how these coordination mechanisms establish shared understanding, accountability and predictability with important implications for the alignment of charters and capabilities (see Table 2).

Charter-based coordination is based on the codification of subsidiary roles in order to create a mutual expectation structure among HQ and subsidiary managers. Charter-based coordination aims at clearly specifying roles as well as the underlying capabilities in terms of skills, but also technological and managerial systems. Charter-based coordination has two important implications: it guides resource allocation towards developing co-specialized subsidiary capabilities and formalizes subsidiary managers' accountability. Our analysis also suggests that coordination mechanisms are influenced by managerial focus: actors' key areas of attention, at any given point in time. The initial managerial focus in Phase 1 was on *organizing*. In this phase, managers designed the new organization and made strategic decisions based on how the organization should ideally operate in the future.

Experience-based coordination, on the other hand, draws on subsidiary managers' experiences with the new strategy and the extent to which complementary capabilities are available in other subsidiaries as a coordinating mechanism. This coordination mechanism is focused on the actual *operating* of new subsidiary charters. While this coordination mechanism maintains shared understanding of subsidiary roles it also results in the erosion of accountability. In the GSS case, this shift in coordination mechanism was triggered by the mismatch between subsidiary managers' expectations and reality. Subsidiary managers' willingness to invest in capabilities commensurate with new charters was influenced by the extent to which expectations about the resource commitments of other subsidiaries and expectations of service quality were met.

Interaction-based coordination refers to bi-lateral, ad-hoc and case-by-case coordination geared towards meeting complex and divergent expectations of multiple stakeholders. Our analysis suggests that such a coordination mechanism might be based on a management focus of maintaining legitimacy in the light of complex management challenges (such as implementing co-specialized charters in a global organization). Interaction-based coordination maintains shared understanding of subsidiary roles but also allows the avoidance of accountability, and, due to the ad-hoc nature of coordination, the continuation of expectation clashes. Thus, interaction-based coordination may result in the further reduction of investments in new subsidiary-level capabilities.

Coordination and the failure of charter and capability alignment

The findings of this paper raise an important question: Can the misalignment of charters and capabilities endure in perpetuity, or do subsidiaries eventually drift into alignment by either renegotiating charters or changing their capabilities? The shift in coordination mechanisms identified in this paper allows us to address this question.

Coordination mechanisms affect alignment via capability level change: Our findings imply that alignment through changes to subsidiary capabilities is unlikely unless HQ and subsidiary managers shift from a mode of accountability erosion to one of renewed accountability, focused on allocating resources commensurate with subsidiary charters. Thus, the de facto void of accountability increases the impact of path dependency at the subsidiary level and maintains the existing portfolio of capabilities.

Alignment via the renegotiation of subsidiary charters requires change in coordination mechanism: Alignment via the renegotiation of subsidiary charters requires managers' to abandon interaction-based coordination and reinstate charter-based coordination. The conditions under which this might occur are likely to be contingent on the relationship between subsidiaries in the value chain of the firm (for instance the extent of co-specialization or dependence between subsidiaries) as well as the relationship between subsidiaries and HQ. For example, ITCORP benefited from signaling GSS's new strategy of IT service delivery to the market. Within GSS, HQ accepted CU-level profits at the expense of SDU-level losses. Thus, the risk of co-specialized charters was mainly borne by SDUs. Since SDUs were only able to operate profitably if CUs allocated work, neither CUs nor SDUs had a strong incentive to renegotiate charters.

Implications for change in coordination mechanism: The eventual move towards alignment would require the top-down reinstatement of charter-based coordination. This also would have required subsidiary and HQ managers to more explicitly negotiate which roles particular subsidiaries should assume and how subsidiaries could develop respective capabilities. Yet, these negotiations did not happen, neither at the start of the change initiative, nor later. Rather, negotiation happened on the level of specific customer-related issues symptomatic of the subsidiary managers' struggles to implement the new strategy. Yet, the notion of prevalence must not be interpreted as a situation of lock-in, which cannot be changed. Subsidiary charters and capabilities are constantly in flux and react to changing market conditions.

Challenges in the alignment of charters and capabilities

The process understanding presented above also sheds light on three overarching challenges involved in top-down charter changes (Table 2), which we describe in detail below.

Desired vs. realistic expectations. Initially, managers expected new charters to quickly reflect organizational reality. This shared understanding shaped managers' expectations about subsidiaries' capabilities. When subsidiaries sent work to India and Russia, however, capabilities were not yet fully developed and their expectations were thus unmet. As a consequence, managers reset their expectations and adopted a managerial focus based on their experiences of what had worked previously. Challenge

1 therefore refers to the managerial tension between fulfilling desired expectations by signaling that complementary capabilities have been implemented and forming realistic expectations about which capabilities are aligned with new charters and which ones are not yet functional.

Accountability enforcement vs. exemption. The charter, and the target setting procedure that followed its introduction, created a structure under which managers were held accountable to invest in the development of new capabilities. However, subsidiary managers struggled with the tension between requirements for flexibility on the one hand, and accountability for charter compliance on the other. At the same time, managers were frequently granted exemptions from the charter to meet the expectations of local customers. These exemptions eroded accountability in some subsidiaries, which had a domino effect on all other subsidiaries due to the co-specialization of roles. When subsidiaries in high-cost countries shifted less work abroad, subsidiaries in India and Russia received less work than expected. Ultimately, the shift to interaction-based, ad-hoc coordination enabled subsidiary managers to increasingly negotiate exceptions to charters and thus avoid being held accountable for failing to develop local capabilities commensurate with them. Challenge 2 therefore refers to managers' struggle between enforcing accountability for implementing capabilities and obtaining exemptions from this accountability in order to preserve customer relationships.

Shared vs. accurate understanding. A third challenge for managing alignment refers to the ability of managers to challenge and revise their shared understanding of subsidiary charters. This might be particularly challenging if the managerial focus were no longer on implementing strategy, but on creating internal or external legitimacy. Yet GSS subsidiaries did not try to renegotiate their roles. If India had decided to renegotiate its role, CUs would have lost further confidence and would have immediately stopped routing standardized work to India. Renegotiating single subsidiary roles would have been challenging due to the co-specialization of charters. Moreover, HQ's task was to implement a strategy that closed the gap with major competitors, which supposedly operated according to a global operating model. The rationale for building co-specialized capabilities changed from being a cost-saving measure to a source of legitimacy for GSS subsidiaries. Consequently, despite deviations from charters, subsidiaries continued to promote their shared understanding of subsidiary roles. However, whereas subsidiary managers shared an understanding of the future organization, their views of reality were not shared. Challenge 3 therefore refers to managers' struggle between creating unity by sharing an understanding of an ideal strategy, and accepting an accurate understanding of reality that challenges this shared understanding.

Discussion and theoretical implications

Applying a coordination perspective to the alignment of charters and capabilities and related managerial struggles yields new insights into the dynamics through which multinational firms evolve (Birkinshaw, 1996a; Birkinshaw & Hood, 1998; Galunic & Eisenhardt, 1996). Yet, until now, theorizing on the alignment of charters and capabilities has remained elusive. By analyzing the implications of shifts in coordination mechanisms over time, this paper contributes towards a theory of charter and capability alignment in the MNE literature.

First, extant research points out two main mechanisms of alignment: a) the shared understanding of subsidiary roles between HQ and subsidiaries is sufficient to coordinate resource allocation decisions towards alignment (Birkinshaw & Hood, 1998); b) subsidiary managers will eventually try to renegotiate charters if they consider their subsidiary to have additional capabilities (Balogun et al., 2011; Birkinshaw & Hood, 1998; Dörrenbächer & Gammelgaard, 2006). By taking a coordination perspective we show that both mechanisms of charter-capability alignment are more complex than previously assumed. Below we discuss implications for both mechanisms of alignment.

Our findings confirm Birkinshaw and Hood's (1998) assumption that charter-based coordination facilitates the alignment of charters and capabilities. However, more subtly, we show that the shared understanding of subsidiary roles is only a necessary condition for alignment via subsidiary level capability development and that, in addition, HQ and subsidiary managers need to establish mutual expectations of resource investments as well as accountability for those investments. In GSS, this was evident in the shift to experience and interaction based coordination. As coordination mechanisms changed, so did the ways in which expectations and the accountability for resource allocation decisions were established. Thus, while interaction based coordination maintained a shared understanding of subsidiary roles amongst managers the erosion of accountability and expectation clashes that went with it resulted in the misalignment of charters and capabilities.

Moreover, focusing on managerial coordination also provides a more nuanced picture of alignment via charter renegotiation. Prior research shows that reduced autonomy (Balogun et al., 2011) or local resource conditions (Dörrenbächer and Gammelgaard, 2006) might trigger the renegotiation of charters through micro-political actions (Dörrenbächer & Geppert, 2006). Our findings suggest that shifts in coordination mechanisms towards interaction-based coordination allow subsidiaries to retain autonomy and tap into local resource advantages while leaving formal subsidiary roles unchallenged. This means that micro-political behavior is not targeted towards changing the charter (as suggested by prior research) but towards creating a mechanism of coordination which allows the avoidance accountability. Moreover, such maneuvers might be particularly prevalent in cases of co-specialization and high interdependence of subsidiaries (such as in cases of IT-Offshoring like GSS), where unilateral charter negotiations have severe consequences for the entire network of subsidiaries (Kumar et al., 2009; Rugman et al., 2011).

Second, and related to that, we show how shifts in coordination underpin the phenomenon of decoupling in MNEs, a situation of misalignment between charters and capabilities. Decoupling refers to symbolic forms of action through which organizations (e.g., subsidiaries) signal compliance with formal structures while actually engaging in divergent practices (Meyer & Rowan, 1977). Prior studies show that decoupling might be a deliberate strategy aimed at maintaining operational degrees of freedom when managers are faced, for instance, with regulatory change (Bromley & Powell, 2012; Scott, 2008). Recently, the notion of decoupling has experienced a renaissance (Bromley & Powell, 2012). Examples include Sandholtz's (2012) study on the adoption of ISO 9000 as well as Lozeau and colleagues' (2002) paper on management techniques such as TQM. Research on organizational change also often uses the term 'window dressing' to describe how managers merely pretend to commit to a new strategy thereby disguising a lack of change in the organization (Bartunek et al., 2006). Despite increased interest in this phenomenon, the process through which decoupling emerges has remained under-theorized (Sandholtz, 2012). The shift from charter-based coordination to interaction-based coordination helps to explain the phenomenon of decoupling from the perspective of managerial work—in our case, the coordinating work of subsidiary managers. In particular, we show how decoupling emerges as the articulated charted loses its role as a coordinating mechanism while subsidiary managers maintain a shared understanding of subsidiary roles. Insights into the activities through which decoupling emerges have been identified as the 'missing level of analysis' in research on decoupling (Sandholtz, 2012).

Third, our insights also contribute to establishing micro-foundations of capability development on subsidiary level. Micro-foundations research has been concerned with explaining capability level changes by investigating the behavioral antecedents of managerial decisions, such as actions, interactions, motivation and incentives (Felin et al., 2012; Foss, 2011). Yet, more specifically, micro-foundations scholars have also problematized the role of coordination for the development and change of organizational capabilities, particularly in situations of high uncertainty such as strategic change (Foss, 2011; Grant, 1996). Indeed, Foss (2011) already assumes that in such situations coordination may become more ad hoc. This paper answers to this call but also provides a more nuanced picture of how and why such interaction-based coordination emerges and why such coordination might undermine capability development. We argue that managers' attempts to deal with coordination challenges (such as desired vs. realistic expectations, accountability exemption vs. enforcement as well as shared vs. accurate understanding) trigger shifts in coordination mechanisms. Charter-based coordination shaped managers' expectations about services from other subsidiaries. However, since capabilities were not fully developed, managers found that other subsidiaries did not meet those idealized expectations and lost faith in the new complementary charters. Second, GSS intended to hold managers accountable for the development of capabilities in their subsidiaries. However, faced with underdeveloped capabilities in other subsidiaries, managers requested exceptions from their charters, which were frequently granted by HQ. Finally, managers did not update their shared understanding of subsidiary charters based on operational reality. This continuity had a flipside: managers' shared understanding of subsidiary charters contrasted with reality. As capabilities failed to develop, shared understanding was not updated and financial plans consequently reflected idealized envisioned, rather than real scenarios.

Finally, by investigating the alignment of charters and capabilities we also provide insights into the micro-dynamics underpinning capability-level path dependency on subsidiary level (Leonard-Barton, 1992; Schreyögg & Sydow, 2011; Sydow et al., 2009; Vergne & Durand, 2010). Indeed, Phelps and Fuller (2016) have called for further research on the antecedents of inertia on subsidiary level. Companies remain path-dependent through two processes. On the one hand, everyday decisions reinforce existing capabilities through positive feedback loops. On the other hand, alternative solutions are found lacking or are rejected in particular decision situations (so-called contingent events) (Vergne & Durand, 2010). By investigating changes to subsidiary capabilities from the perspective of managerial coordination we show how path dependency may prevail despite deliberate, top-down attempts to change strategy and depart from path-dependent behavior. Managers' shared understanding of the future organization anticipated a departure from path-dependent behavior, yet it also created vulnerability (Schreyögg & Sydow, 2011; Sydow et al., 2009). When managers' expectations are not met, they tend to revert to prior ways of working, thereby reinforcing existing capabilities (Vergne & Durand, 2010).

Boundary conditions and future research

The setting of this study creates a number of boundary conditions for the theoretical arguments made in this paper and how our findings may inform future research.

The arguments put forward in this paper refer to a particular form of charter: highly articulated, codified subsidiary role descriptions. We suggest that future research could take a broader perspective and study how managerial coordination influences the alignment of charters and capabilities in settings in which charters are not codified. Such research could, for instance, investigate how accountability for subsidiary level investments following charter change is established and maintained in the absence of articulated charters.

A second boundary condition refers to the type of charter change investigated. Or findings are derived from a setting in which changes are driven by a top-down initiated change in subsidiary charters. Prior research indicates that charters may however also evolve through subsidiaries' autonomous actions (e.g. Balogun et al., 2011; Birkinshaw

& Hood, 1998). We therefore encourage future research to focus on the patterns of coordination in other settings of capability and charter alignment, when for instance competition for charters exists or when charters are re-negotiated in a bottom-up process.

Finally, a third boundary condition is the co-specialized relationship between the value creating activities of subsidiaries at GSS, which are common in the IT industry (Kumar et al., 2009), but potentially less common in other industries. Co-specialization might be a reason for subsidiary managers' reluctance to unilaterally renegotiate charters. Hence, in cases where there is less co-dependence amongst subsidiaries the described dynamics might unfold differently. We therefore encourage future research to investigate coordination following charter change across a variety of organizational forms and subsidiary relationships.

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TABLES AND FIGURES

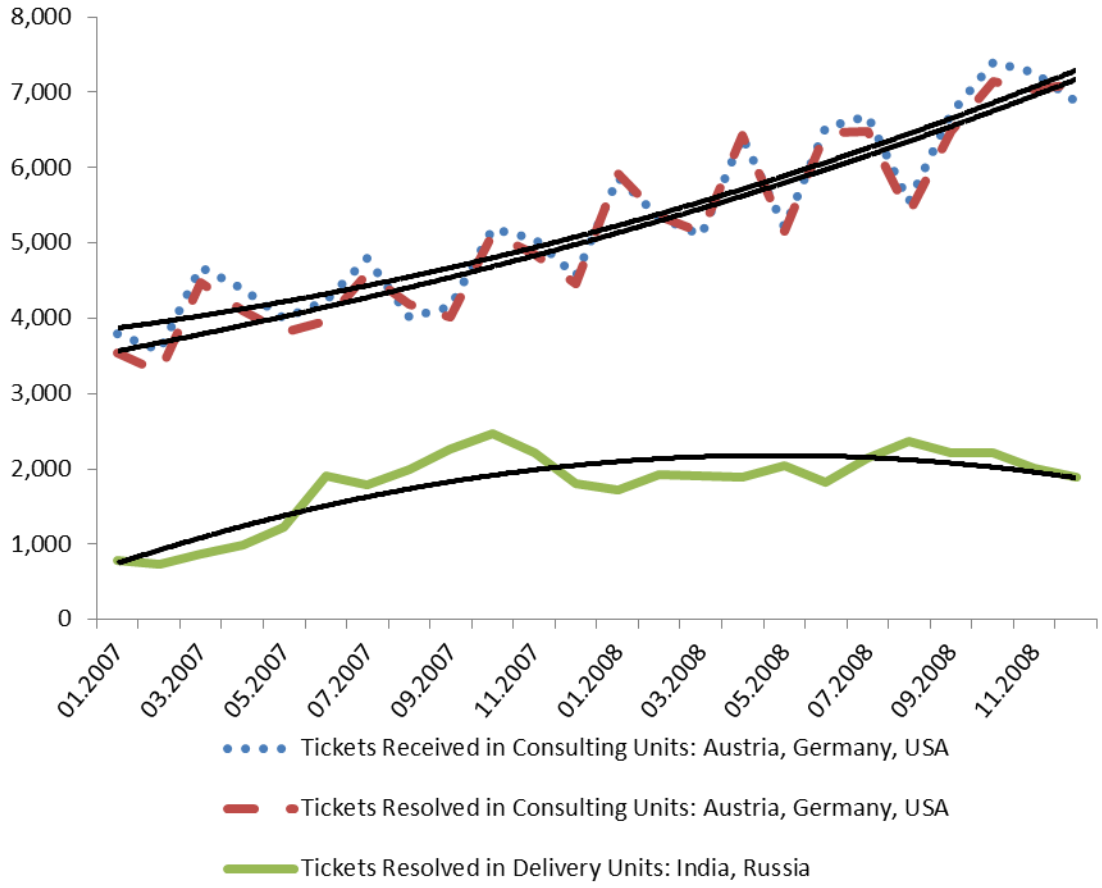

Figure 1. Services ordered and delivered between January 2007 and December 2008, by geographic location.

Table 1. Overview of subsidiary capability development, April 2007–September 2008

Capability components	Subsidiary capabilities required by new charters	Actual changes to subsidiary-level capabilities over time		
		Phase 1 (Apr 2007–Dec 2007)	Phase 2 (Jan 2008–Apr 2008)	Phase 3 (May 2008–Sep 2008)
Skills	▪ CUs required to increase number of IT consultants ▪ SDUs required to reduce number of consultants and increase number of IT engineers to perform standardized IT services	Cross-subsidiary agreement to build and use complementary skills *Examples:* ▪ *UK & GER: Convert ticket workers to consultants* ▪ *IN & RU: Increase number of ticket workers from 465 to 923*	Subsidiaries do not invest in developing employees' skills *Examples:* ▪ *GER: Fear of job loss when giving work to RU or IN* ▪ *IN: Ticket workers lack knowhow*	Old skills are retained; new skills are lost *Examples:* ▪ *FIN: Ticket work is retained* ▪ *IN: High rates of attrition of critical employees* ▪ *GER: Retains unit for standardized service delivery*
Management systems	▪ The complementarity of charters requires the establishment of a service catalogue and clearly defined transfer prices per service item	Incentives and standards for cross-subsidiary exchanges *Examples:* ▪ *Targets for CUs focus on increasing sales and giving work to IN & RU* ▪ *Targets in IN & RU focus on standardization and efficiency*	Avoidance of fixed targets; HQ grants exceptions that undermine standardization *Examples:* ▪ *Transfer prices above competition* ▪ *Low number of projects means no efficiency improvements in SDUs* ▪ *Changes in transfer price lead to profitability problems for IN & RU*	Standard terms unchanged despite frequent exceptions *Examples:* ▪ *Profit and customer retention prioritized over offshore targets* ▪ *Targets for standardization and efficiency gains not achieved*
Technological systems	▪ The delivery of services across CUs and SDUs requires the harmonization of IT platforms to manage customer requests (Ti2L)	HQ and subsidiary managers decide to introduce Ti2L as new standard across all subsidiaries *Examples:* ▪ *Management meeting: Subsidiary managers commit to implementation* ▪ *IN: Agrees to monitor implementation*	Commitment to standard ticket tool contrasts with lack of its adoption across subsidiaries *Examples:* ▪ *IN: Pushes subsidiaries to use standard software* *FIN: Global software differs from local standard* ▪ *UK: No transition to new software due to licensing costs*	Implementation of standard software stalls and eventually comes to a halt *Examples:* ▪ *US: Software use threatens customer relationship* ▪ *FIN: Local solution is retained*
Values & beliefs	▪ New subsidiary charters require subsidiary managers to perceive IT service delivery as a global rather than a localized business	Shift from local to global mindset *Examples:* ▪ *Global work exchanges intended to increase staff work satisfaction* ▪ *Subsidiary managers visualize their roles and symbolically sign pictures as they commit to new charters* ▪ *Target agreements with global targets*	Increasing friction between global mindset and local values *Examples:* ▪ *GER: Few employees are considered fit for new tasks* ▪ *IN: Staff fears unit closure*	Subsidiary managers actions guided by local pressures *Examples:* ▪ *FIN: Keeping work local becomes more important* ▪ *IN & RU: Only simple tasks are offshored; employees quit*

Table 2. The role of coordination in the alignment of charters and subsidiary capabilities

	Coordination between HQ and subsidiary managers			Overarching challenges
	Phase 1 (Apr 2007–Dec 2007)	Phase 2 (Jan 2008–Apr 2008)	Phase 3 (May 2008–Sep 2008)	
Coordination mechanism	*Charter-based coordination* Coordination based on codification of subsidiary roles in TOM	*Experience-based coordination* Subsidiary managers draw on prior experience with new strategy to coordinate	*Interaction-based coordination* Coordination is based on ad-hoc interactions between HQ and subsidiary managers	
Predictability	*Expectation structure* ▪ All services and their costs are specified in a standardized service catalogue (transfer price) ▪ Subsidiaries in high-cost countries mandated to outsource standardized services to India, Russia or Argentina	*Expectation reset* ▪ CUs complain about competitive disadvantage based on new transfer price ▪ New charter changes create difficulties to retain talent in India which puts quality and speed of delivery under pressure ▪ Introduction of ticket software delayed	*Expectation clash* ▪ Revenue targets conflict with targets to increase global sourcing. Dependence on existing client-base delays ramp-up of offshoring ▪ CEO is determined to match competitor prices in Finland at any cost. Unfreezing of transfer prices creates planning and profitability issues in SDUs	Desired vs. realistic expectations
Accountability	*Accountability creation* ▪ Offshore service delivery part of target operating model ▪ HQ sets target for the use of standard service catalogue ▪ Based on TOM, the use of the standard software Ti2L is mandatory in order to facilitate offshoring	*Accountability erosion* ▪ Increased pressure on HQ to legitimize "one-off" deviation from fixed transfer price regime ▪ Introduction of lower transfer price for a set of existing customers ▪ Deviation from standard ticket tool "accepted" if interface is used and paid for by the subsidiary	*Accountability avoidance* ▪ Subsidiary managers contact CEO to renegotiate standard transfer price ▪ Subsidiaries further delay introduction of Ti2L due to dependence on existing clients	Accountability exemption vs. enforcement
Shared understanding	*Creation of shared understanding* ▪ ITCORP confirms that GSS is changing its strategy by shifting work to standardized delivery units ▪ HQ communicates roadmap outlining when each customer will be switched to standard software	*Maintenance of shared understanding* ▪ Despite delay in introduction of Ti2L, subsidiaries maintain commitment to switching to Ti2L ▪ Subsidiaries agree to fix transfer prices	*Maintenance of shared understanding* ▪ HQ and subsidiaries maintain commitment to TOM and new subsidiary charters	Shared vs. accurate understanding
Alignment of charters and capabilities	*Alignment* ▪ Allocation of resources at the subsidiary level towards fulfilling new charters ▪ Creation of global mindset	*Alignment/misalignment* ▪ Introduction of Ti2L stalls ▪ Challenges related to staff retention in India	*Misalignment* ▪ CUs retain capabilities for standardized work (e.g., Germany) ▪ Ti2L not implemented as new standard ▪ Skill and staff retention issues in SDUs	