



A dual-role typology of multinational subsidiaries

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ABSTRACT

This paper argues that, since a subsidiary is embedded in a dual context of both the MNE and the host environment, its strategic role should be assessed by its relative positions and contributions both within the knowledge networks of the MNE and the host country. Based on this, we develop a dual-role typology. The 369 multinational subsidiaries in our sample from China can be classified into as many as 12 out of the 16 conceptual groups of the typology. Our results indicate that dual activists (active both internally and externally) account for only 12% of the total sampled multinational subsidiaries while dual loners (inactive both internally and externally) reach 20%. The results from a larger sample by adding 113 minority foreign share firms show that external knowledge links are positively associated with local Chinese ownership. The central message from this paper is that a large proportion of foreign-invested firms in China are inactive in knowledge exchange either internally or externally or both. Managerial and policy implications are discussed.

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1. Introduction

Since White and Poynter's (1984) pioneering study, there has been an increasing interest in the roles, strategies or characteristics of multinational subsidiaries (Bartlett, 1986; Bartlett & Ghoshal, 1989; Birkinshaw & Morrison, 1995; D'Cruz, 1986; Gupta & Govindarajan, 1991; Hogenbirk & van Kranenburg, 2006; Jarillo & Martinez, 1990; Roth & Morrison, 1992; Taggart, 1998; Vereecke, Van Dierdonck, & De Meyer, 2006). This great interest has resulted mainly from the recognition that foreign subsidiaries can contribute substantially to the vibrancy of the multinational enterprise (MNE) at the local level (Bartlett & Ghoshal, 1989), and enable the MNE to enhance and sustain competitive advantage at the corporate level (Levitt, 1983; Porter, 1980; Yip, 1992; Taggart, 1998).

Ferdows (1997) argues that since subsidiaries differ in the level of creation, sharing, and absorption of innovations, they may play different roles in the knowledge network in the company and in local environments. Although existing research has shed considerable light on the strategic roles subsidiaries play within the MNE, one shortcoming is its excessive focus on the internal management to achieve corporate efficiency without adequate consideration of the impact of the interaction between the MNE and its local business environment. White and Poynter (1984) and Hogenbirk and van Kranenburg (2006) use a subsidiary's product, market and value added scopes to classify its roles or strategies. Bartlett (1986), Bartlett and Ghoshal (1989), Roth and Morrison (1992) and Taggart (1998) apply the integration-localization/responsiveness framework to differentiate subsidiary roles or strategies given the international business environment. While having made significant contributions to our understanding of subsidiary roles within MNEs, these studies may pay too much attention to the interests and challenges facing MNEs, and not enough to how MNEs help or hurt local economies, especially developing

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country economies (Meyer, 2004; Ramamurti, 2004). Given that globalisation has significantly transformed the context in which MNEs operate, an investigation of the role of MNEs in economic development needs to be a central concern in the mainstream international business research (Buckley & Ghauri, 2004; Ghauri & Yamin, 2009). Gupta and Govindarajan's (1991) study focuses on knowledge flows within the MNE to identify different roles of subsidiaries, but does not analyse knowledge exchange between a subsidiary and its local environment.

The current paper proposes a dual-role typology of multinational subsidiaries. This typology is based on the network approach to MNEs (Ghoshal & Bartlett, 1988; Harzing, 1999; Hedlund, 1986; O'Donnell, 2000). While this approach has recently been adopted to explain knowledge creation and diffusion of MNEs (Andersson, Forsgren, & Pedersen, 2001; Andersson, Bjorkman, & Forsgren, 2005), it has not been fully applied to subsidiary typology. Following this approach, an MNE is a network of internationally dispersed units which are simultaneously embedded in two business contexts: the internal networks of the MNE and the external (host country) environment. An MNE may not only adjust to or overcome the differences it encounters at the borders of its various markets, but also exploit these differences for value creation opportunities so that value chains may increasingly span multiple countries (Ghemawat, 2007). In this process of the MNE's global expansion, the roles and/or strategies of its subsidiaries are both shaped by and affect the internal and external networks. A subsidiary's strategic role should be assessed by its relative positions and contributions within the knowledge networks of both the MNE and the host country.

This typology extends the study of Gupta and Govindarajan (1991) by considering external as well as internal knowledge flows, and is believed to be useful not only for MNE managers but also for policy makers, especially from host countries. The rest of the paper is organized in the following way. Section 2 reviews the literature on subsidiary roles and strategies, and in Section 3 we present our dual-role typology. Section 4 explains the research methodology. In Section 5, we test the typology on a survey data set of 369 multinational subsidiaries in China and compare the results with those when 113 firms with at least 25% foreign ownership are added to the data set. Finally, Section 6 concludes by summarizing the paper and discussing managerial and policy implications and limitations of this research.

2. Literature review

The traditional view on foreign direct investment (FDI) (Buckley & Casson, 1976, 2002; Casson, 1994; Hymer, 1976) assumes a hierarchical relationship between the headquarter (HQ) of an MNE and its subsidiaries. Typically, the MNE creates technological knowledge at the HQ and then diffuses it to subsidiaries worldwide (Almeida & Phene, 2004) while expecting them to perform in line with the overall corporate strategy. However, as Casson, Pearce, and Singh (1991) and Buckley and Ghauri (2004) note, since the early 1980s there has been a shift away from such a hierarchical relationship. During this process, the favoured form of firm has become a federal structure of operating divisions drawing on a common resource of international expertise, while each division belonging to the federation is able to outsource expertise from its partners (Buckley, 2004; Buckley & Ghauri, 2004). In other words, subsidiaries have seen their roles change over the past two decades or so.

With regard to roles in the MNE, a subsidiary does not just receive and apply knowledge, but in many cases creates knowledge in its local (host country) environment and then diffuses it back to the HQ and the rest of the MNE (Almeida & Phene, 2004). This increases efficiency at both the subsidiary and corporate (MNE) levels. On the other hand, since it is located in a host country, a subsidiary may contribute to the development of the local economy through transferring advanced knowledge, engaging local employees and contributing to local tax. In this process, the subsidiary may also benefit from the local environment through learning indigenous knowledge including indigenous technology and local information in order to increase profits, widen the global market share and enhance its reputation.

A very important contribution by White and Poynter (1984) is their recognition of different business strategies pursued by different subsidiaries as these subsidiaries are themselves affected differently by environmental changes. If we described all subsidiaries as branch plants, then this variation could not be captured. Hedlund's (1986) concept of heterarchy (contrasting with hierarchy) is perfectly consistent with this idea, which implies that subsidiary roles are not necessarily assigned by HQs. Actually, the concept of heterarchy has already proved a stimulating one in the field of multinational strategy and structure (Young & Tavares, 2004).

So far three main types of typology of subsidiary roles/strategies have been developed in the literature: the Product-Market-Value Added Framework, the *Integration-Localisation Framework* and the *Knowledge Flows-Based* framework. A review of these frameworks is useful for the development of our own dual-role typology of multinational subsidiary roles or strategies.

2.1. Typology 1: Product-market-value added framework

Based on their case studies, White and Poynter's (1984) pioneering work divides business strategies pursued by multinational subsidiaries into five categories, defined by the activities of subsidiaries with regard to the product, market and value added scopes. Depending on the different combinations of these three dimensions, five types of strategies can be identified. The first is as a miniature replica business which produces and markets some of the parent's product lines or related product lines in the local country. Depending on the degree of product and marketing modifications performed by the subsidiary, there can be three sub-strategies: adopter, adapter and innovator. The second is as a marketing satellite business

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