Journal of International Management
10 (2004) 77–105

Corporate link and competitive strategy in multinational enterprises: a perspective from subsidiaries seeking host market penetration

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Abstract

This study examines how the corporate link between a foreign subsidiary and its corporate members (parent and peer subsidiaries) is influenced by the subsidiary's competitive strategy in a specific host country. The mainstream logic, especially that of Michael Porter, suggests that corporate link should be stronger when a multinational enterprise (MNE) focuses on cost leadership than on product differentiation because of greater needs for system-related efforts, such as sharing global economies of scale, optimizing factor costs across countries, and leveraging existing knowledge. Departing from this view, we present that this logic may not hold true for an MNE's foreign subsidiaries seeking local market penetration in promising yet increasingly competitive emerging markets. Corporate link may be stronger when these subsidiaries emphasize product differentiation than using low cost due to heightened needs of corporate resource support tailored to the specific host market and due to declined contributions of system-related efforts to maintain a differentiation-based competitive foothold there. Our analysis of subsidiaries that emphasize host market penetration in China demonstrates that the strength of corporate link increases along cost leadership, strategic focus, and product differentiation strategies. Subsidiaries with such configurations tend to perform better than those without these configurations in terms of profitability. Moreover, there is a stronger correspondence between corporate link and competitive strategy when subsidiaries are wholly owned (compared to joint ventures), involve larger scope of products, or become more important to overall success of their corporate groups.

Keywords: Corporate link; Multinational enterprise; Host market

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1075-4253/$ - see front matter
doi:10.1016/j.intman.2003.12.006

1. Introduction

Corporate link between an overseas subsidiary and its parent as well as peer subsidiaries in other countries has been rigorously addressed in numerous studies on multinational enterprises (MNEs). As described in the research, corporate link is concerned with the extent (or strength) to which a focal subsidiary is linked to its corporate members (parent firm and peer subsidiaries) via sharing strategic resources and activities (Bartlett and Ghoshal, 1989). Parent–subsidiary relations comprise both strategic (flows of critical resources and activities) and administrative (communication and control) dimensions, and corporate link captures the strategic dimension in parent–subsidiary relations and reflects the interdependency between a focal subsidiary and the corporate group (Bartlett et al., 1990; Gupta and Govindarajan, 2000). Corporate link also differs from global integration in that the former emphasizes only resource sharing and value chain activity integration, but the latter involves not only resource sharing and activity integration but also corporate governance integration along dimensions, such as decision-making centralization, reward systems, frequency and openness of communication, socialization, and staffing. With the increasing globalization of world economy, corporate link is becoming an important means for creating global competitive advantages (Govindarajan and Gupta, 2001). Cross-border competition now wrests competitive initiatives by harnessing knowledge from sources in multiple nations to gain more returns from exploiting existing resources and upgrading new capabilities.

Research on global integration suggests that MNEs are no longer able to compete as a collection of independent subsidiaries (Bartlett and Ghoshal, 1989; Prahalad and Doz, 1987; Yip, 1995). Competition has become based in part on the ability of the corporation to link its subsidiary activities across geographic locations (Birkinshaw et al., 1995; Kobrin, 1991). Studies on parent–subsidiary relations document that corporate link is shaped by knowledge flow patterns (Gupta and Govindarajan, 1991), headquarters mandates (Jarillo and Martinez, 1990), subsidiary competencies (Marcati, 1989), local environment conditions (Bartlett and Ghoshal, 1989), and organizational slack (Poynter and White, 1985). The literature on subsidiary mandates states clearly that corporate link is influenced by subsidiary characteristics, such as host country experience, operational capabilities, strategic goals, market position, and strength of local management (Golden, 1992; Roth and Morrison, 1992; Roth et al., 1991).

To extend extant research, this study suggests that corporate link is also determined by competitive strategy at the foreign subsidiary level. The mainstream logic, especially that of Porter (1980, 1985, 1991), suggests that corporate link should be stronger when an MNE focuses on cost leadership than on product differentiation because of greater needs for system-related efforts, such as sharing global economies of scale, optimizing factor costs across countries, and leveraging and sharing existing knowledge among geographically dispersed business units around the world. In this study, we argue that this logic may not apply to the situation wherein foreign subsidiaries target centrally at their host market penetration, especially in immensely promising yet increasingly competitive emerging economies. For MNEs that focus on the global strategy, that is, seeking global economies of scale for more standardized products (subsidiaries are a part of global platform for system-wise cost reduction), Porter's logic evidently holds true. This is because a stronger