

## **CONSISTENCY ACROSS INTERNATIONAL MARKETING STRATEGY, EXPERIENCE, AND SUBSIDIARY ROLES**

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### **ABSTRACT**

An industrial firm's implementation of international marketing strategy can be hampered where there is limited consistency across the strategy, the firm's international marketing experience, and the value-adding role of the foreign subsidiary. This paper develops a framework consisting of three dimensions: international marketing strategy in terms of character of main competitive advantages, international marketing experience, and value-adding role of the foreign subsidiary. Propositions are put forward regarding consistent relationships between the dimensions. The propositions are generated based on case studies of Swedish firms and their subsidiaries in the US market. Contributions to theory are discussed.

Keywords: Consistency, strategy, international marketing, experience, subsidiary, role.

### **INTRODUCTION**

This article examines industrial firms' consistency across international marketing strategy, international marketing experience, and value-adding roles of foreign subsidiaries as consistency largely determines the accomplishment of strategy (e.g., Covin, Slevin, and Schultz, 1997; Piscitello, 2004). Strategy consistency is defined as the alignment of a firm's resource configuration and other aspects of the organization with the articulated strategy (Love, Priem, and Lumpkin, 2002). Efficient configuration of product development, production, and sales is crucial for industrial firms (e.g., White and Poynter, 1984; Delany, 2000). Furthermore, consistency is particularly important in international contexts owing to the complexity of coordinating activities on foreign markets (Covin *et al.*, 1997; Evans and Berman, 2001; Hewett, Roth, and Roth, 2003).

The type of value-adding activity chosen establishes the firm's capacity to implement the marketing strategy internationally and realize the competitive advantages that the firm seeks (Porter, 1985). However, implementation of an international marketing strategy may fail because there is not enough consistency between the character of the competitive advantages, the firm's international marketing experience, and the value-adding role of its subsidiaries in foreign markets. For example, an experienced firm that seeks customer-based advantages may not fully recognize the need to build the capacity of its foreign subsidiaries to develop products locally.

The literature on consistency is fragmented and the field needs to be further explored (Furrer, Alexandre, and Sudharshan, 2007; Richter and Schmidt, 2005). In particular, the literature underscores the necessity of choosing value-adding roles of foreign subsidiaries that are consistent with either the firm's international strategy (Evans and Berman, 2001; Hewett *et al.*, 2003) or its international marketing experience (Forsgren, 1989). Furthermore, scholars show that the strength of a firm's strategy consistency is influenced by factors such as governance procedures, the time lag between the announcement of a strategy and resource allocation decisions, and subsidiary autonomy (Ambos, Asakawa, and Ambos, 2011; Rabbiosi, 2011; Richter and Schmidt, 2005). To my knowledge, no study has simultaneously explored consistency relevant to international marketing strategy, international marketing experience, and value-adding roles of foreign subsidiaries. The purpose of this paper is to contribute to the understanding of international marketing strategy by developing a conceptual framework and proposing consistent relationships among product-driven and customer-driven competitive advantages, international marketing experience, and value-adding roles of foreign subsidiaries.

## **CONCEPTUAL FRAMEWORK**

### **Product-driven and Customer-driven Competitive Advantages**

The character of the industrial firm's main competitive advantages is a central element of industrial marketing strategy. Besides striving for low costs and be able to offer low prices the firm may achieve a competitive advantage by differentiating its offering from those of its competitors (Porter, 1980). However, no matter the generic strategy, the firm may seek competitive advantages that originate from aspects of the product, or from knowledge of customer needs and requirements. As customers react to the international marketing strategy, categories of attributes need to be relevant to customers. Shaw (2001) suggests product attributes and attributes enabling customer responsiveness. Product-driven advantages may concern attributes such as product technology, product assortment, and product design.

Customer-driven advantages and responsiveness to customers' needs may be an effective strategy for the industrial firm as the firm may be equipped to achieve high performance levels owing to its greater knowledge of customer needs (e.g. Kohli and Jaworski, 1990; Pehrsson, 2011). Customer responsiveness is defined as the action taken in response to market intelligence concerning target customers. Attempts to achieve customer-driven advantages include solving customers' problems, building relationships with customers, and customizing the offering (e.g. Storbacka and Nenonen, 2009).

### **International Marketing Experience**

International marketing experience originates from the firm's international expansion through foreign market entry (Zahra, Ireland, and Hitt, 2000; Yeoh, 2004). Exposure to diverse environments promotes, for example, technological learning and market learning. The expansion may be regarded as a process where the stock of knowledge restricts available alternatives (Forsgren, 1989). In this process, the firm tries to exploit its experience in order to achieve competitive advantage in the foreign market.

International marketing experience is manifested by the relative importance of sales in foreign markets and number of years since the firm established its first sole operation abroad. Also, the firm's international marketing experience is reflected by the firm's experience of conditions in the particular market. Market conditions can include such aspects as the behavior of competitors, suppliers and customers, and customers' preferences and the character of market segments (e.g. Yeoh, 2004). In general, familiarity with foreign market conditions is positively associated with number of years of international operations (Taylor, Zou, and Osland, 2000).

Bartlett and Ghoshal (1989) argue that foreign subsidiaries' access to the firm's international experience to a large extent determines where the firm locates value-adding activities. In general, a subsidiary that is able to extensively exploit the firm's international experience becomes responsible for advanced value-adding activities. The argument implies that knowledge flows between the headquarters and subsidiaries, and between subsidiaries, are essential to strategy consistency and the creation of competitive advantage (Gupta and Govindarajan, 1991; Manolopoulos, 2008). For example, Zahra *et al.* (2000) found that international expansion leads to broader and deeper technological learning facilitating local value-adding by product development or efficient production.

### **Value-adding Roles of Foreign Subsidiaries**

Several value-adding activities that build competitive advantage have been highlighted (e.g., Porter, 1985). The current article follows the example of Hobday and Rush (2007). They studied manufacturing firms and acknowledge product development and production that add value beyond sales. The number of activities manifests the scope of value-adding activity (Manolopoulos, 2008). Foreign product development means that engineering takes place in the foreign market, and the subsidiary may customize products and, perhaps, design new products. A foreign subsidiary with production ability (assembly and/or manufacturing) employs engineers who are concerned with the efficiency of the production process. Finally, a foreign subsidiary with sales activity is involved in sales operations.

Various typologies of foreign subsidiary roles have been established (e.g., Bartlett and Ghoshal, 1989; Tseng, Fong, and Su, 2004). According to Manolopoulos (2008), scholars present roles where the scope of value-adding activity is central (e.g., Delany, 2000; Manolopoulos, 2006; White and Poynter, 1984). White and Poynter provide the first scope typology and identify five roles: Marketing Satellite, the specialized Rationalized Manufacturer, Product Specialist, Miniature Replica, and the Strategic Independent subsidiary. Furthermore, Delany (2000), Eckert and Rossmeyssl (2007), and Manolopoulos (2006) identify stages of development. Delany (2000) found that foreign subsidiaries frequently develop from basic value-adding roles to more advanced roles. Here, the Marketing Satellite and the Miniature Replica are basic roles, while the Rationalized Manufacturer, the Product Specialist and the Strategic Independent are advanced roles. The framework adopts the typology of White and Poynter (1984) but combines the specialist roles.

The basic *Marketing Satellite* role is usually a foreign subsidiary's role. The subsidiary imports goods manufactured elsewhere and supplies only the local market. The value-adding scope is very limited although some features may be added to the product. The *Miniature Replica* assumes a basic role as it produces and markets some of the parent's products in the host country. The foreign subsidiary replicates the parent to some extent, from adopting the parent firm's products, to refining its operational procedures and products. The subsidiary penetrates the host country only, but the innovating subsidiary has the potential to broaden its value-adding scope.

The advanced *Product or Production Specialist* develops or produces components or products to supply the firm's local or global market. However, the subsidiary focuses on products that are part of the core business of the parent firm. On the other hand, the advanced *Strategic Independent* subsidiary has a potential to focus on unrelated products and procedures to supply global markets as it demonstrates a broad value-adding scope. The main difference between the advanced subsidiary roles is the product scope, as the Strategic Independent may design and implement new technologies, products, and procedures.

## **CASES ON FOREIGN SUBSIDIARY ROLES**

### **Method**

A case study approach was used to generate propositions regarding consistent relationships among the concepts. The approach is suitable as the phenomenon is complex and there is just a little prior knowledge (Eisenhardt, 1989). In order to keep country effects constant, a convenience sample of four Swedish industrial firms and their US subsidiaries were chosen. However, a few cases limit generalizability of the identified patterns. The intention was to study cases representing the four value-adding roles. Several firms were contacted and four firms were willing to participate. The firms are referred to as Air Cleaning (Marketing Satellite), Concrete (Production Specialist), Extraction (Miniature Replica), and Air and Ventilation (Strategic Independent). The firms offer industrial products based on clean-technology designed to protect the environment in various ways.

A systematic process of data collection was followed. Company presentations and strategy information were collected from annual reports and press releases. Also, eight face-to-face interviews were conducted at the parent firms in Sweden and at the subsidiaries in the USA. The interviews in Sweden were conducted in 2010, and the interviews in the USA were carried out in 2011. The interviews were semi-structured (Yin, 1994) and followed the conceptual framework.

The respondents provided detailed information over the course of 60 to 90 minutes. At Air Cleaning, the CEO of the parent firm, the business development manager at the US subsidiary, and his assistant were interviewed. At Concrete, the chairman of the subsidiary in the USA was interviewed and at Extraction, two interviews were conducted with the sales executive of the parent firm in Sweden and one interview was carried out with the sales executive at the US subsidiary. The US sales manager of Air and Ventilation was also interviewed. The interviews generated a deep comprehension and the interviewers were able to ask follow-up questions. However, there is a general risk that interviewers affect respondents and the answers (Yin, 1994). To reduce the risk the interviewers discussed possible answers and tested the comprehensibility of the questions prior to the interviews. All interviews were

made by two interviewers. Interview answers were compared with information collected from the secondary sources in order to extend validity. In cases of disparity, annual reports were used as the primary source in order to achieve objectivity. Interview respondents read the case descriptions and corrected minor misunderstandings.

#### **Value-adding Roles in the USA**

Table 1 summarizes the cases. Air Cleaning was established in 1993; during the period from 2008 to 2010, its average turnover was 11 million USD and the average return on assets (ROA) was 18 per cent. The core products consist of air cleaning equipment and filters that collect oil mist, oil smoke, and dust particles in metal production. Products are developed and produced in Sweden and the automotive industry is the main target segment. Air Cleaning cannot compete on price and emphasizes low operation costs manifested by a clean work environment, a need for less cutting fluid, and reduced energy costs. A subsidiary responsible for sales was established in Chicago that assumes the character of a *Marketing Satellite*. Agreements were signed with distributors, and cooperation was initiated with a systems supplier. The expansion of sales operations in the USA continued and two more sales offices were established. Additional distributors were engaged with the aim of covering the entire country.

Concrete was founded in 1954. The average turnover during the 2008 to 2010 period was 475 million USD and the average ROA was 8 per cent. The parent firm is responsible for product development and the firm primarily offers ready-mix concrete, architectural concrete, and high early strength concrete for commercial markets. Essentially, product differentiation is based on technology and environmental friendliness. The concrete is used in construction sites for bridges, roads, houses, and other large structures. The firm possesses around 40 domestic production plants, while the subsidiaries in Germany (around 20 plants), Poland (around 10 plants), and the USA (around 40 plants) are responsible for production and sales. The firm's desire for local *Production Specialists* is motivated by the fact that concrete is a fresh product and geographical proximity to customers is a must.

Extraction was established in 1972 and meets customers' needs for clean and efficient production by developing, producing, and selling suction systems for dust, smoke, and chips. The average turnover during the 2008-2010 period was 26 million USD, and the average ROA was 7 per cent. Extraction produces on the domestic market and targets market segments such as building construction, pharmaceuticals, composite, food processing, printing, and waste management. The firm has reduced the dominance of standardized products and instead pursues an international marketing strategy of customization. A lot of effort is put into the flexible techniques such as energy-efficient systems composed of standardized modules. The firm has established sole operations in seven foreign countries. The expansion follows three principles: (1) the same products are offered in all countries, (2) the target markets are the same, and (3) the whole countries are to be covered. The role of a foreign subsidiary corresponds to the basic *Miniature Replica* role.

Air and Ventilation was established in 1963 and the average turnover over the 2008-2010 period was 746 million USD, while the average ROA was 13 per cent. The firm has established subsidiaries in several countries. In all markets, Air and Ventilation offers air filtration products for commercial, industrial, transportation, and residential markets. The target segments include, for example, air pollution control, automotive, bio pharmaceutical, commercial buildings, food and beverage processing, microelectronics, and nuclear power. The firm's response to customer needs includes customized products and solutions regarding clean air and process applications. In the USA, the subsidiary is responsible for sales, product development, and production. The subsidiary enjoys a high degree of autonomy and is a *Strategic Independent* subsidiary.

Concepts and indicators	Air Cleaning	Concrete	Extraction	Air and Ventilation
	<i>Main business: Air cleaning in industrial production</i>	<i>Main business: Concrete for industrial use</i>	<i>Main business: Extraction systems in industrial production</i>	<i>Main business: Air filters and ventilation for industrial use</i>
Main competitive advantage	The products mean low operation costs	Technology	Flexible technology adapted to customers' needs	Customized products and solutions
<i>International marketing strategy</i>	<i>Product-driven advantages</i>	<i>Product-driven advantages</i>	<i>Customer-driven advantages</i>	<i>Customer-driven advantages</i>
Export share, average 2008-2010, %	72	74	71	90
Year of first international establishment of sole operations	2000 (USA)	1965 (Germany)	1985 (Germany)	1966 (Germany)
Year of first establishment of sole operations in the USA	2000	1985	2006	1998
<i>International marketing experience</i>	<i>Limited</i>	<i>Extensive</i>	<i>Limited</i>	<i>Extensive</i>
Value-adding activity in the USA in 2010	Sales	Production, sales	Product customization, sales	Product development, production, sales
<i>Value-adding role in the USA in 2010</i>	<i>Marketing Satellite</i>	<i>Production Specialist</i>	<i>Miniature Replica</i>	<i>Strategic Independent</i>

*Table 1. Summary of the cases.*

#### **IDENTIFICATION OF CONSISTENT RELATIONSHIPS**

This section identifies consistent relationships between the framework dimensions and puts forward propositions. Figure 1 summarizes the propositions.

		International marketing experience	
		Limited	Extensive
Customer-driven advantages	Narrow local value-adding eg., Miniature Replica <i>Proposition 3</i>	Broad local value-adding eg., Strategic Independent <i>Proposition 4</i>	
	No local value-adding eg., Marketing Satellite <i>Proposition 1</i>	Specialized local value-adding eg., Product or Production Specialist <i>Proposition 2</i>	

*Figure 1. Consistent relationships.*

#### **Product-driven Advantages and Limited International Marketing Experience**

Luo and Zhao (2004) argue that the relationship between a parent firm and a foreign subsidiary is particularly strong when product-driven advantages are sought. Foreign subsidiaries need stronger relations with parents or other corporate members than those emphasizing other strategies. In particular, a subsidiary that has access to just limit international marketing experience suffers from the liability of newness. Therefore, the subsidiary needs to exploit core competence based on product/market relatedness to support the product advantages (Pehrsson, 2010). Also, product-driven advantages depend on continued resource sharing within the corporate group as realizing the advantages demands innovation to meet threats from rivals. Thus, it is proposed that an international marketing strategy in terms of product-driven advantages favors centralization of value-adding provided that the firm possesses limited international experience. A *Marketing Satellite* fits the situation (Proposition 1).

The US subsidiary of Air Cleaning assumes this basic value-adding role. Regarding product relatedness, Air Cleaning offers standard oil mist filters and standard oil smoke filters in all markets, but standard dust filters are only available in Sweden. The narrow product scope in the USA brings vulnerability to changes in demand in target segments such as the automotive industry. Limited market relatedness is shown by the fact that Air Cleaning uses its own sales force in the domestic market, but it engages local distributors in foreign markets. As the US subsidiary does not have direct access to the end customers the subsidiary will encounter potential difficulties in trying to build relationships with the customers the way it is done in the domestic market. Due to the different product ranges and differences in sales channels, however, the US subsidiary cannot fully exploit core competencies of the corporation.

Proposition 1: A foreign subsidiary role, such as Marketing Satellite, with no local value-adding is a consistent choice for an industrial firm that seeks product-driven competitive advantages and possesses limited international marketing experience.

#### **Product-driven Advantages and Extensive International Marketing Experience**

A foreign subsidiary that has access to extensive international marketing experience may have developed into a *Production Specialist* or a *Product Specialist* provided that the firm tries to achieve product-based competitive advantages (Proposition 2). Whether or not the foreign subsidiary has developed in accordance with a general pattern (Delany, 2000; Eckert and Rossmeissl (2007), the

subsidiary assumes an advanced role that is characterized by specialized local value-adding. However, even a foreign subsidiary that has the benefit of relying on extensive international marketing experience needs corporate support in order to be able to realize advantages (Luo and Zhao, 2004). Support may be needed regarding technology sharing, process innovation, and product development, as the specialist develops or produces products to supply the local or global markets of the international firm.

The situation for a production specialist is illustrated by the case for Concrete, which develops products centrally but produces locally, as geographical proximity to their customers is a necessity. Although the firm may enjoy benefits of efficient product-driven advantages, it may encounter difficulties in achieving economies of scale with its core product of ready-mix concrete as all production takes place on-site.

Proposition 2: A foreign subsidiary role, such as Product or Production Specialist, with specialized local value-adding is a consistent choice for an industrial firm that seeks product-driven competitive advantages and possesses extensive international marketing experience.

### **Customer-driven Advantages and Limited International Marketing Experience**

The industrial firm may follow an international marketing strategy of responsiveness to customers' needs (e.g. Pehrsson, 2011). However, customer responsiveness generally requires flexibility as local customer needs may vary (Bartlett and Ghoshal, 1989). Flexibility is manifested by a fulfillment of the needs of each customer (Solberg, 2000), which makes it possible to build up customer relations. Also, flexibility demands quick reactions and, hence, it requires decentralization and short distances between the location of key value-adding activities and the target customers (Prahalad and Doz, 1987). For an industrial firm, customer responsiveness is theoretically associated with local presence of key value-adding such as product development and production.

For an industrial firm that possesses limited international marketing experience and relies on customer-driven advantages it is proposed that a foreign subsidiary role consisting of a narrow scope of value-adding is the consistent choice (Proposition 3). In early phases of development the subsidiary may exploit corporate resources to respond to needs of local customers (Birkinshaw, Hood, and Young, 2005). If the subsidiary assumes the character of a *Miniature Replica* it reduces uncertainty as the role implies replication of a narrow part of the established value-adding activity conducted by the parent firm.

In order to achieve consistency, a *Miniature Replica* has to balance the demand for unique solutions to customer needs with replication of the parent firm, which may limit flexibility. The potential obstacle is illustrated by Extraction's subsidiary in the USA, which tries to meet local price competition by introducing new customized products more quickly than its competitors but keeping the corporation's customer responsiveness strategy. The dominant competitors are able to achieve economies of scope and exploit scale effects as they possess broader product ranges and larger volumes. Thus, a potential issue is how the subsidiary can contribute to a faster introduction of new customized products, relying on the parent's core business (Birkinshaw *et al.*, 2005; Pehrsson, 2010).

Proposition 3: A foreign subsidiary role, such as *Miniature Replica*, with a narrow scope of local value-adding is a consistent choice for an industrial firm that seeks customer-driven competitive advantages and possesses limited international marketing experience.

### **Customer-driven Advantages and Extensive International Marketing Experience**

When the firm has extensive international marketing experience, the foreign subsidiary may perceive less uncertainty and be able to pursue a broad scope of value-adding in its efforts to respond to customer needs. In particular, a strategic independent subsidiary may take initiative to develop products and procedures, and thereby contribute to the corporation (Tseng *et al.*, 2004). To a large extent, the subsidiary demonstrates autonomy and makes decisions on its own behalf (Ambos *et al.*, 2011).

Following the role of an advanced *Strategic Independent* (Tseng *et al.*, 2004), the US subsidiary of Air and Ventilation relies on the firm's international experience and would frequently to a large extent take autonomous initiatives to develop and produce products that suit a strategy of customer responsiveness (Proposition 4). In its strategy development, the subsidiary is triggered by strategies of large competitors that enjoy scale effects and are able to offer low prices on physical products. In order to avoid price competition, the subsidiary develops customized products and has increased emphasis on selling directly to end customers at the expense of selling through distributors. However, the subsidiary's contribution to the corporation as a whole diminishes if the subsidiary moves into product/market areas that are not sufficiently related to the core of the corporation.

Proposition 4: A foreign subsidiary role, such as Strategic Independent, with a broad scope of local value-adding is a consistent choice for an industrial firm that seeks customer-driven competitive advantages and possesses extensive international marketing experience.

## **DISCUSSION**

### **Conclusions and Contributions to Theory**

In order to avoid obstacles to implementation of its international marketing strategy the industrial firm needs to strive for strategy consistency across international marketing strategy, international marketing experience, and value-adding roles of foreign subsidiaries. The conceptual framework and the propositions developed in this article identify consistent relationships between the character of competitive advantages that the firm seeks, the experience, and the subsidiary roles. The article contributes to the understanding of international marketing strategy by simultaneously exploring relationships among the three dimensions and provides new insights. The framework extends our understanding of fit between corporate and local conditions, and decisions on whether headquarters or foreign subsidiaries should take on crucial roles of value-adding. Thus the framework represents a theoretical contribution to the literature on international marketing strategy as well as strategy literature in general.

The case studies show that obstacles to strengthen consistency differ according to the context. First, an industrial firm that possesses just limited international marketing experience and seeks product-driven competitive advantages will most probably find that greater product/market relatedness between the parent firm and the foreign subsidiary, the *Marketing Satellite*, will strengthen the possibilities to locally realize the strategy supported by central value-adding. Second, a foreign subsidiary role comprising specialized local value-adding is a consistent choice for an industrial firm that emphasizes product-driven advantages provided that the firm possesses extensive international marketing experience. The *Production Specialist* fits the context and supplies the local or global markets of the firm. However, the specialist may encounter obstacles to achieving economies of scale if the local production volume is too small. Third, the *Miniature Replica* role fits a foreign subsidiary that tries to realize customer-driven advantages of a firm that has limited international experience. The subsidiary may enjoy the benefits of a consistent and narrow scope of local value-adding. However, it is crucial that the subsidiary balances the need to respond to unique customer needs and the flexibility restrictions that generally follows replication of the parent firm. Finally, the *Strategic Independent* role is consistent with a strategy of customer-driven advantages of an industrial firm that has extensive experience. In this case of broad local value-adding activity, a potential obstacle to strategy consistency would be that the subsidiary may develop into a business that is not related to the corporation as a whole, thereby obstructing coordination activities.

### **Managerial Implications, Limitations and Future Research**

The framework suggests that managers should focus on aligning corporate conditions with decisions on whether headquarters or foreign subsidiaries should take on roles of value-adding that are crucial to the implementation of international marketing strategy. In particular, ways to strengthen consistency across international marketing strategy, international marketing experience, and value-adding roles of foreign subsidiaries include evaluation of benefits and boundaries of product/market relatedness between the parent firm and the subsidiary. Also, the issue of balancing corporate support and a foreign subsidiary's need for flexibility needs attention. For a local production specialist, it is crucial to assess ways to achieve economies of scale.



There are limitations to generalizing the conceptual framework and the propositions. First, the article focuses on industrial firms. Second, international contexts are highlighted. Third, the convenience sample consisted of four Swedish firms and their subsidiaries in the USA. Fourth, the interviewers may have affected interview respondents in the cases studies despite the fact that the interviewers tried to minimize the risk.

Future research may be conducted in several ways. It would be interesting to develop the framework by turning the propositions into hypotheses that can be tested in larger samples of industrial firms originating from more countries and operating in a diverse collection of host countries. For example, hypotheses may concern the impact of character of competitive advantages and degree of international marketing experience on the type of value-adding role of a foreign subsidiary. It is also possible to include more value-adding activities and firms targeting, for example, consumer markets. Finally, there is a need to incorporate impact on performance into the framework of strategy consistency.

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