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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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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 corporate link is needed to streamline and facilitate system-related cost reduction efforts within an MNE's centrally coordinated global network. However, for highly diversified MNEs that do not pursue the global strategy but emphasize transnational or multidomestic solutions, 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 in that market. We posit that, for MNE subsidiaries emphasizing the penetration in a foreign emerging market, corporate link between a foreign subsidiary and the rest of the MNE network increases with cost leadership, strategic focus, and product differentiation strategies. The corporate link is strongest if the emphasis is on product differentiation, followed by strategic focus, and then by cost leadership. We realize the important relationship between corporate link and competitive strategy because different competitive strategies implemented in a host country involve different levels of dependence on parent resources, interactions with host markets, and proactiveness in risk taking, adaptation, and innovation. These in turn jointly affect a subsidiary's required corporate link or strategic interdependence. For subsidiaries targeting an important host market, corporate link is an internalized device that can mitigate challenges in implementing varying competitive strategies.

We also suggest that an appropriate alignment between corporate link and competitive strategy may result in better performance at the subsidiary level. The logic is that such alignment reduces external transaction costs as well as internal coordination costs. This alignment helps subsidiaries reap benefits from foreign market opportunities or attenuate host country threats through corporate support without incurring unnecessary costs or wasting MNE resources. Furthermore, we propose that the strength of the relationship between corporate link and competitive strategy may be moderated by other factors, such as entry mode, product scope, and the importance of a focal subsidiary to the corporate group. The corporate link-competitive strategy relationship may be stronger when (1) MNE subunits are wholly owned subsidiaries (compared to joint ventures), (2) the product scope in a host market is larger, and (3) a subunit is more important to the parent.

As noted in the integration–responsiveness (I–R) paradigm, corporate link is shaped by a large number of external and internal factors associated with required global coordination or required national adaptation (Bartlett and Ghoshal, 1989; Birkinshaw et al., 1995; Kobrin, 1991; Prahalad and Doz, 1987; Roth and Morrison, 1990; Taggart, 1998). Many of these factors seem realistically unable to be included or controlled in a single study. To overcome this issue, we delimited the particular boundary of the study, which should be noted when one interprets our results. First, we focus on MNE subunits seeking host market expansion or penetration, rather than export benefits or using a host country as a production platform for the MNE's global products and global standardization; that is, our results do not apply to the MNEs using global strategy. For subsidiaries under global strategy, their corporate link is mainly determined by the headquarters' global mandates and less affected by a competitive strategy tailored to a specific host market (Gupta, 1987). Second, we examine competitive strategies and advantages that occur at the subsidiary level, rather than at the corporate level. Corporate-link-competitive strategy relations vary according to these levels. For instance, the cost-driven global strategy at the corporate level will require stronger corporate link to streamline global integration and pursue global economy of scale associated with global standardization (Yip, 1995). Contrarily, the cost-driven competitive strategy for a local-market-seeking subsidiary may not need this strong link. Third, our sample subsidiaries operate in the same host country with an emphasis on the technology-intensive electronics and electrical product industry. This partially helps us to remove some national or industrial environment correlates that might affect corporate link. Lastly, we operationalize competitive strategy by the degree of an emphasis on product differentiation, cost leadership, and strategic focus placed by each individual subsidiary (a continuous variable), instead of categorizing sample firms into one of these three dichotomous types. Kotha and Vadlamani (1995) demonstrate that the dichotomous approach is limited in capturing intended strategies of managers in a complex environment.

2. Theoretical development

2.1. Theoretical background

Generic competitive strategies (product differentiation, cost leadership, and strategic focus) have been rigorously addressed in strategic management studies but relatively understudied for foreign subsidiaries. The competitive strategy framework (Porter, 1980; 1985; 1991) holds that a successful business is one with an attractive relative position. This position can arise either from the selection of a cost base lower than the competition or from the firm's ability to differentiate its offerings and command a premium price that exceeds the accumulation of the extra costs. In this framework, market environment is viewed as partly exogenous and partly subject to influences by firm actions. Strategy is viewed as a consistent array or configuration of activities, aiming at creating a specific form of competitive advantages for which there exist two fundamental types: differentiation and low cost. These in turn (together with the scope of operations) define the notion of generic competitive strategies that include product differentiation, strategic focus, and cost leadership. These generic competitive strategies can be employed either at headquarters (global) level or subsidiary (host country) level, or at both in a coordinated fashion.[2]

Formulating and implementing an appropriate competitive strategy is critical to foreign subsidiaries competing with local or other foreign rivals. As commented by Govindarajan and Gupta (2001), executives must work relentlessly to convert global presence into offshore competitive advantage. Presence in the strategically important markets, such as major emerging economies, gives companies the right to play the game. However, it says nothing about whether and how they will actually win the game. Doing so requires not

[2] MNEs employing global strategy generally focus on the global-level competitive strategy, while MNEs using multidomestic strategy tend to focus on the local-level competitive strategy, and MNEs following transnational strategy focus on both. By emphasizing competitive strategy at the subsidiary level, this study attempts to show how corporate link is arranged to fulfill the desired competitive advantage in a host market. Early research assumes that corporate link can be absent when the MNE uses multidomestic strategy. We suggest that when subsidiaries operate in a major emerging market, such as China, a certain corporate link is still necessary even under the pure multidomestic strategy.

only identifying offshore opportunities for value creation but also (and more importantly) exploiting such opportunities by using appropriate competitive strategies in a host market. For firms seeking gains from emerging market growth, competitive strategy is an important vehicle to build distinctive business position and achieve superior financial returns.

The choice of competitive strategies at the subsidiary level depends on both internal and external factors. Internally, this choice is determined by a subsidiary's strategic role set by the headquarters and the firm's distinctive capabilities and resources that can be deployed overseas (Gupta and Govindarajan, 2000). Externally, this choice is shaped by a host country's market conditions, industrial dynamics, rivalry intensity, and investment infrastructure. As industry life cycles and market structures differ between home and host markets, host market (used competitive strategy in the same product domain) may therefore differ from home market (used competitive strategy). Competitive advantage is an important mechanism to curtail liabilities of foreignness and exploit a unique bundle of an MNE's existing resources unavailable in a host country. Such liabilities will be reduced if competitive positioning aligns local market conditions with rent-generating resources, or if the building blocks of competitive strategy (e.g., innovation, quality, responsiveness, and efficiency) cannot be easily imitated by local firms. As some distinctive resources are inevitably transferred from MNE parents or corporate members, competitive strategy becomes an architecture extending an MNE's strategic heritage to host operations, leveraging home resources in a new setting, and revitalizing MNE capabilities in a new environment. These gains can be hardly achieved without some corporate link.

For market-seeking MNEs, the host environment is a source of scarce resources sought after by competing MNEs. As foreign emerging markets are characterized by structural transformation, market volatility, and limited protection of property rights, market-seeking MNEs confront many uncertainties and risks that are difficult to predict and verify. Managerial ability to cope with these conditions by reducing the firm's dependence on or increasing its control over these resources will affect market-seeking effectiveness and efficiency. Thus, corporate support or intraorganizational link is an organizational lever adjusting a foreign subsidiary's dependency on indigenous resources and its vulnerability to indigenous uncertainties. This link is endogenous, rather than predetermined or fixed, which will change with different competitive strategies as well as other factors associated with environmental dynamics, organizational mandates, and subsidiary initiatives as identified by extant research. Corporate link is used to facilitate the achievement of competitive advantages generated from a particular competitive strategy. Thus, corporate link will not hold the same for varying competitive strategies used by subsidiaries.

Different competitive strategies involve different reliance on parent resources (internal) as well as host country resources (external). A conventional wisdom holds that most cost advantages of MNEs relate to sharing global economies of scale, optimizing factor costs across countries, and sharing knowledge and value chain functions among globally dispersed units (Porter, 1985; Yip, 1995). As per this wisdom, one would expect that corporate link should be stronger when the low cost strategy is used. We attempt to clarify and extend this wisdom with the following argument.

The conventional logic applies well to the case in which an MNE adopts the global strategy to deal with global products (e.g., RCA deals with its Mexican subsidiary which produces regular VCRs). In this case, a parent firm has to maintain a strong corporate link to standardize products and coordinate value chain integration that is functionally shared by various subsidiaries in different countries. When MNEs invest in major emerging markets, such as China, however, it is not rare to see that many of them are emphasizing local (host country) market expansion and penetration by specializing products and services only tailored to a host country's consumers and localizing supplies, marketing, distribution, and management (Xerox's copy machines produced in Shanghai). In this circumstance, cost leadership is not achieved mainly through global economy of scale, global system sharing, or cross-border value chain integration but instead by using local materials and supplies, and more importantly, local labor. Some foreign investors can compete effectively on the basis of this strategy because they can benefit from relatively larger economy of scale within the host country, leveraging existing technologies, process management and reputation, or capitalizing on relatively better quality than local rivals.

Let us look at one example. Xerox's low-end copiers, now mainly produced by its subsidiary in Suzhou, have dominated the Chinese market for years with the cost leadership strategy. This low-cost strategy has been implemented mainly by the subsidiary itself ever since machinery, equipment, and technologies from the parent were put in place in the first year. Why has it been able to do this without a strong corporate link with the parent and other corporate members? First, these low-end copiers only target the Chinese users (e.g., small businesses, low-level governments, schools, small hotels, etc.). Second, its product quality is better than other low-end copiers made by local rivals. The team of engineers and quality control staff is able, on their own, to modify the product to fit the local users' needs (e.g., paper feeder was redesigned to fit the poor-quality papers) and to develop a process supervision system for this particular line of business. Third, its productivity is superior. With higher wages, benefits, and bonuses than local rivals (mostly state-owned), efficiency in production, management, and marketing is accordingly higher. Fourth, its economy of scale within China is higher compared to local competitors. Finally, its corporate image helps improve customer loyalty and market expansion.

Thus, among subsidiaries specializing their products and services only to the host country's consumers, low-cost operators can achieve low cost in a local sense (not in a global sense) by taking some cost leadership measures within the host country on their own. Of course, this does not mean that low-cost operators should not maintain and benefit from corporate link with the corporate group. Our position, instead, is that among subsidiaries emphasizing their operations tailored only to the host country's consumers, differentiation operators (overall differentiation as well as focus differentiation) will maintain a stronger corporate link than low-cost operators. This is because the former require more resources and more support from its corporate group to realize differentiation advantages in a promising but volatile environment in which they have just built a foothold. They need stronger corporate support, sharing, and coordination in areas, such as R&D, product development, process innovation, advanced equipment, and manufacturing facilities in an attempt to fortify its market power and competitive position. The lack of developed intellectual property right protection in most emerging markets reinforces differentiation operators to rely corporate support in these areas.

This study assesses three generic competitive strategies as stated by Porter (1980): product differentiation, overall low cost, and strategic focus. To coincide with the fact that businesses may use these strategies in combination (Porter, 1980, 1985; Hitt et al., 2003), we did not operationalize these strategies as dichotomous types but instead as the continuous variable—the degree of an emphasis placed by each business unit on each of the three generic choices. Inasmuch as the focus strategy in the Chinese market typically emphasizes on differentiated market niches filled by some high-purchasing-power customers, rather than low-income massive consumers (Batra, 1997; Cui, 1999), our items used to measure the focus strategy describe a focus differentiation orientation.

Inasmuch as emerging-market governments still exercise some control over upstream resources (e.g., raw materials) or downstream resources (e.g., distribution) on which foreign firms depend, those subsidiaries emphasizing product differentiation may encounter more pressure from local government's bargaining power. To overcome such pressure, subsidiaries can turn to more dependence on their parents or peer units for needed resources. We want to note again that our discussion is limited to foreign subsidiaries seeking local market penetration in a major emerging market. With this market orientation, competitive advantages and their underpinning generic strategies occur at the subsidiary level and arise only in a host country. We next discuss in detail how corporate link varies according to the three generic competitive strategies used at the subsidiary level.

2.2. Corporate link and competitive strategies

2.2.1. Product differentiation

According to the competitive strategy framework, the differentiation strategy consists of creating differences in the firm's product or service offering by creating something that is perceived industrywide as unique and valued by customers. Differentiation can take many forms, such as brand image, technology, innovation, features, customer service, or distribution network. Corporate link is likely to be strongest for subsidiaries emphasizing differentiation, for several reasons.

First, subsidiaries with this emphasis need stronger intracorporate relations with parents or other corporate members than those emphasizing other competitive strategies. Rather than costs, the differentiation's focus is on continuously investing in and developing features that differentiate a good or service in ways that indigenous customers value. Because most MNE subsidiaries in emerging markets are relatively newer than long-established local companies, thus suffering from the liability of newness, they need strong intraorganizational linkages to back up product differentiation. In particular, local operations with this strategy require corporate support in sharing technology, process innovation, and product development.

Second, within a large emerging market, local customers' demand preferences and their utility functions are heterogeneous across regions, income levels, and ethnical groups. Subsidiaries emphasizing differentiation must adapt not only to the nationwide host market but also to many differentiated segments within the host country. Stronger corporate linkages are needed than the linkages under other competitive strategies to fulfill product adaptation and build a broad competitive foothold in an economically and/or socioculturally heterogeneous nation. These stronger linkages might include technological resources. Because emerging markets are becoming increasingly competitive, the differentiation strategy is also likely to depend more on continued resource sharing within the corporate group than other strategies. This strategy demands constant innovation and corporate support to hold a competitive position, counteracting threats from rivals as well as substitute products.

Third, differentiation is more vulnerable to unverifiable and uncontrollable uncertainties in a host country than other strategies due to its more extensive interactions with the local business community required to execute adaptation. Kogut (1985) suggests that obviating the hazards from such vulnerability requires strategic option or operational flexibility, which in turn necessitates strong corporate link.

Finally, differentiation needs a stronger corporate linkage to deal with emerging market governments than other strategies. Differentiation requires not only strategic capability but also market positioning. The latter, however, is often interfered with, regulated, or administered by the central or local governments. Salient corporate link, especially in transferring technological and organizational resources, improves an MNE's organizational legitimacy perceived by officials and amplifies its bargaining power vis-à-vis regulatory bodies, which in turn nourish the firm's market accession and positioning.

2.2.2. Cost leadership

By contrast, cost leadership is based on creating a low-cost position relative to local or other foreign rivals in the same host country. With this strategy, a subsidiary must be devoted to lowering costs throughout the production and operational process. This strategy requires vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of managerial customer accounts, and cost minimization in all activities, such as R&D, advertising, process innovation, and product development.

For local-market-seeking subsidiaries, cost leadership is often used when they operate in a highly competitive market. Inasmuch as the experience curve is an important means to lower costs (over time, the business learns how to reduce costs as it gains experience with production processes), subsidiaries emphasizing cost leadership also tend to familiarize themselves with the host market. Moreover, subsidiaries with this strategy do not need strong parent support in critical technological capabilities, nor do they require frequent sharing of information and managerial expertise with subsidiaries in other countries. Subsidiaries gain cost leadership in a host market by reducing direct and indirect costs. It is true that some subsidiaries with cost leadership strategy may still need parent support in scale economies in sourcing, manufacturing plant scale, and manufacturing management skills; however, we conjecture that overall needs for parent support or corporate sharing under this strategy are comparatively narrower or weaker than those using differentiation or focus strategies.

2.2.3. Strategic focus

In this study, a focus strategy is defined as an emphasis on a niche market segmented by geographical region, product specialty, and/or income level. We expect that the strength of corporate link for subsidiaries emphasizing strategic focus will be lower than subsidiaries emphasizing differentiation but higher than those focusing on cost leadership. The focus strategy is based on the choice of a narrow competitive scope within an industry. A subsidiary following this strategy selects a segment and tailors its strategy to serve customers in this segment. The focuser dedicates itself to the segment exclusively. The essence of focus is the exploitation of a particular market niche that is different from the rest of the industry.

With this strategy, subsidiaries need some degree of corporate link, especially parent support, in offering resources necessary for the technological niche, product niche, or market niche. Because it deals with a much narrower scope of products, market, or technologies, parent support is likely to be weaker under the focus strategy than under the differentiation strategy. The link with peer subsidiaries may also be weaker due to its concentration on a small yet focused domain (product or market). Relative to cost leadership, however, strategic focus involves more commitment to customer responsiveness and product innovation in a specific product or market area. For local-market-seeking subsidiaries, focus is often used to target high-income consumers for certain products in which the firms have competitive advantages. These consumers generally prefer original brands, quality, and design similar to those marketed in the home market. During the process of overseas production, information and resource sharing with the corporate family hence becomes imperative to ensure this conformity or similarity. If some adaptations are needed to satisfy demands of these upscale consumers, even stronger corporate links are anticipated because the corporate family needs feedback, market information, and demand situations provided by a nodal subsidiary in the target country. In light of the above, we hypothesize the following:

H1. For MNE subsidiaries pursuing host market expansion, those emphasizing the differentiation strategy will maintain a stronger corporate link than those emphasizing the focus strategy, which will in turn maintain a stronger corporate link than those emphasizing the low cost strategy.

2.3. Performance consequences

Early studies, such as Govindarajan and Gupta (2001), Gupta (1987), and Golden (1992), emphasize that the relationship between subsidiary strategy and subsidiary performance is moderated by the corporate link, with the latter facilitating or inhibiting the implementation of the subsidiary's intended strategy. The corporate linkage is necessary to provide the resources to implement the subsidiary strategy effectively (Golden, 1992). Without the corporate linkage, the subsidiary strategy would not have the intended positive effect on business performance (Gupta, 1987). This moderating or mediating view has been further validated by several other studies (e.g., Kostova and Roth, 2002; Roth et al., 1991; Taggart, 1998). Departing from this established view and to enrich current literature, we seek to verify that the configuration between subsidiary strategy and corporate link as hypothesized above will have some performance implications—that is, associated with higher subsidiary profitability, ceteris paribus. In this study, corporate link is not viewed as a predetermined moderator but as a varying endogenous instrument used to support specific subsidiary strategies. When this instrument aligns better with competitive strategy, the superior subsidiary performance is likely to accrue. This attempt sharpens an emphasis that the corporate link is not an exogenous phenomenon but is, rather, a contingent variable, subject to changes designed to underpin value generation from competitive strategies in a foreign market. In addition, varying states of the corporate–subsidiary dyad that match a subsidiary's task uncertainty and strategic contexts are likely to generate greater returns at the business unit level.

Strong performance resulting from the alignment between corporate link and competitive strategy at the subsidiary level tailored to a host market can be seen through the lens of external transaction costs and internal coordination costs. Externally, this alignment reduces transaction costs associated with operational uncertainty. It fills the void in resources, information, or assets that a subsidiary needs for playing its strategic role and streamlines overseas investments, operations, and management. Undersupport, as required from corporate link, escalates subsidiary dependency on indigenous resources, weakens subsidiary bargaining power against competing stakeholders, and cripples subsidiary ability to compete effectively through supporting building blocks, such as innovation and customer responsiveness. Oversupport, as required, may waste MNE resources and impair the subsidiary's capacity in self-developing host-country-specific resources and in improving its national adaptation. The importance of this alignment accords with the strategic option view that proposes the criticality of constructing flexibility that permits subsidiaries to exploit future changes in market competition, regulatory framework, and environmental dynamics (Kogut, 1985; 1994). Thus, the above alignment may foster the efficiency of resource deployment and exploitation, while keeping the subsidiary strategically flexible and organizationally adaptive.

Internally, the alignment between corporate link and competitive strategy reduces coordination costs associated with information process, transferring, and sharing between corporate members in the nexus of headquarters–subsidiary interactions and communications. Nohria and Ghoshal (1994) maintain that the extent to which an MNE internally and structurally differentiates corporate links to fit the contexts of its various subsidiaries will be positively related to the MNE performance as a whole. This view addresses the performance effect of the above alignment at the aggregate (parent) level. We envisage that this view also applies at the subsidiary level. Inasmuch as competitive strategy determines both the nature of the subsidiary's product–market environment and the competencies required to implement its intended strategy (Golden, 1992), the fit between competitive strategy and corporate link diminishes information processing and coordination costs between a nodal subsidiary and the rest of the MNE network. Contrarily, the misfit could significantly increase this coordination cost because it can elevate subsidiary uncertainty, disrupt intraorganizational communication, or misplace output or bureaucratic mechanism of control over overseas activities. Task uncertainty associated with varying competitive strategies thereby brings up differing needs for information-processing capacity, and the good alignment of corporate link with this task uncertainty will reduce coordination costs. We thus predict the following:

H2. For MNE subsidiaries pursing host market expansion, proper configurations between corporate link and competitive strategy tailored to the host market (as stated in H1) will be associated with higher profitability of these subsidiaries.

2.4. Moderator variables

We further argue that the relationship between corporate link and competitive strategy may be moderated by entry mode, product scope, and the importance of a host country to the MNE. Theoretically, subsidiaries with varying entry modes, product scope, and host importance will have heterogeneous dependencies on local resources, resulting largely from different organizational needs. For instance, wholly owned subsidiaries emphasizing differentiation may necessitate stronger corporate link than joint venture subsidiaries with the same strategy because the former could not secure any support from local partners, as in the case of the latter. When this dependency varies, the strength of how corporate link is used to support competitive strategy may accordingly change. Under the stronger dependence, corporate link may become more critical in promoting the realization of a desired competitive strategy.

As explained below, entry mode, product scope, and host market importance are proposed to be major moderators responsible for varying dependencies. Entry mode (wholly owned vs. joint venture) explains differences in organizational needs, governance, and channels for localized learning and institutional support. Product scope is a key variable that represents the breadth of product–market offering, thus shaping how strong the corporate link should be to fulfill a formulated competitive strategy. This scope indicates the sizes of product domain and market domain in the host country, with a broader scope being more extensively interactive with the host country market. For a given competitive strategy, required corporate links are stronger if the product scope associated with this competitive strategy is larger. Perceived importance of host country operations to the corporate group is essentially a coefficient of how gaining competitive advantages in a host country is important to the entire group, thus modifying the relationship between competitive strategy and corporate link. Together, these three moderators are major contingencies that modify the vigor of the corporate-link-competitive strategy association for market-seeking MNEs.

2.4.1. Entry mode

The entry mode decision has strong implications in capability development, organizational control, local resource dependence, and subunit–headquarters relations (Agarwal and Ramaswami, 1992; Anderson and Gatignon, 1986; Root, 1994). A relationship between corporate link and a given competitive strategy may be stronger for wholly owned subsidiaries than for joint venture subsidiaries. This is because the former subsidiaries cannot get support from local partners as the latter do, thus fortifying the strength of the link between resource/value chain integration and a given competitive strategy. For wholly owned subsidiaries, their acquisition of competitive advantages from a chosen competitive strategy needs stronger support or sharing of various resources from the corporate group to back up their market power, innovation capability, or input efficiency improvement compared to overseas joint ventures. In China, guanxi (interpersonal connections) plays a paramount role in conducting routine businesses, and it often transforms into interorganizational connections (Luo, 2000b). Through a local partner's connections and its representatives' guanxi, the joint venture mode enables the company to gain more from local resources or reduce local threats than does the wholly owned mode in which such connections and guanxi are lacking. Although wholly owned subsidiaries can also hire local managers, major positions in management are typically occupied by expatriates. Because these expatriates do not have extensive guanxi, the wholly owned subsidiary has to rely more on parental support to build and hold a superior competitive position. In the absence of strong guanxi with the local business community, a given competitive strategy will require more parental resources or stronger corporate link to compensate this absence.

Implementing any intended competitive strategy requires favorable market and regulatory environments in an emerging market (Peng, 2000). Although joint ventures seek such environments mainly through local partner commitment and network, wholly owned subsidiaries often obtain or improve these environments via increased bargaining power vis-à-vis indigenous regulatory bodies (Gomes-Casseres, 1990). Their bargaining power comes largely from corporate resources, such as technologies, know-how, and experience, that are used locally (Anderson and Gatignon, 1986). Thus, stronger corporate link becomes a mandate for wholly owned subsidiaries to sharpen their bargaining position so as to better compete for institutional preferences, government support, and competitive position, all of which are fundamental to implementing an intended competitive strategy. Because it provides greater organizational control over offshore activities than the joint venture mode (hence greater integration with the corporate group), the wholly owned entry mode makes it much easier to bilaterally or multilaterally interact with parent firms and peer subsidiaries. Therefore, a stronger corporate link for wholly owned subsidiaries than for joint ventures to realize a desired competitive strategy is not only necessary but also facilitated by greater control and integration. We thus propose the following:

H3. There will be a stronger association between corporate link and competitive strategies for wholly owned subsidiaries than for joint ventures.

2.4.2. Product scope

Product scope is an important issue for businesses operating in an emerging market. On one hand, emerging opportunities across industries and regions attract businesses to extend their product scope. On the other hand, a large scope brings in increasing difficulties in maintaining competitive position in every product segment. In this study, we view product scope as a moderator variable affecting the influence of competitive strategy on corporate link. We expect that the stronger corporate linkage is needed to foster the execution of a chosen competitive strategy if this strategy is applied in a larger product domain. Competitive strategy always functions in a particular market or industrial setting. As such, a subsidiary's product scope in a host market defines its domain or battlefield in which it competes. The broader the products offered in a major emerging market, the greater the opportunities as well as the constraints facing this subsidiary. To reaping gains from these opportunities while diluting threats from these constraints, stronger corporate link, such as resource sharing, is imperative for fulfilling the given competitive strategy, whether differentiation, cost, or focus, for subsidiaries with larger breadth of a product domain in a host country. When an additional yet different product line is launched, the firm needs to have heightened corporate link to underpin the execution of a given competitive strategy in an expanded or new product arena.

Furthermore, as product scope within a host country increases, the firm's dependence on local resources and markets is expected to escalate. Increased scope propels the firm to interact with more local stakeholders, analyze more market parameters, and rely on more indigenous resources, such as materials and workforce. In this situation, subsidiaries need stronger corporate support to implement smoothly and effectively the competitive strategy that is already chosen. A stronger corporate link to satisfy the execution of a given competitive strategy in this dependence situation reduces transaction costs that incur in dealing with external resources or external suppliers, buyers, regulators, and competitors (Roth and Morrison, 1992). Thus, an enhanced corporate link alleviates the possible hazards from the increased susceptibility caused by an expanded product scope. This in turn reduces external dependence and creates an improved intracorporate environment so that the implementation of a chosen competitive strategy in expanded product fields will be streamlined. For instance, under cost leadership strategy, broader product categories propel greater corporate link to help the subsidiary cut production or operational expenses. Under product differentiation strategy, broader product categories demand more parent support or resource sharing with peer corporate members to realize differentiation advantages. Under strategic focus strategy, product scope broadening requires a strengthened corporate link to facilitate the niche pursuit. A focus differentiation strategy typically requires peculiar yet strong technological or entrepreneurial skills in a special area, which in turn necessitates corporate-level support in creating such skills (Miller and Friesen, 1986). Accordingly, we anticipate the following:

H4. There will be a stronger association between corporate link and competitive strategies for subsidiaries with a broader scope of products.

2.4.3. Importance of subsidiary operations

Importance of subsidiary operations is in this study defined as the significance of a focal subsidiary's host country operations to global success of the MNE (corporate group) as perceived by senior subsidiary managers. In the same host market, the roles or importance of subsidiaries belonging to different MNEs vary (Roth et al., 1991). An MNE is an internally differentiated community comprising of geographically dispersed subsidiaries with different roles, tasks, and importance (Nohria and Ghoshal, 1994). When the importance of host country operations to MNE global success is higher, corporate link will become more crucial in boosting the realization of an intended competitive strategy, whether differentiation, cost, or niche-based. If corporate link and competitive strategy are assumed to be two ends of an equation, then this importance will be the coefficient indicating the extent to which corporate link should be used to support competitive strategy. When a subsidiary's operations in a host country are perceived to be more important, then consequences of these operations will exert a greater impact on the MNE's current as well as future performance. Inasmuch as these consequences are largely determined by how an intended strategy is successfully enforced in a desired direction, corporate link will be used as a lever to help the subsidiary gain financial returns or market share sought by the corporate group. When rigid control mechanisms, such as budget or bureaucratic devices, are being substituted by information or knowledge-sharing-based corporate link (Birkinshaw et al., 1998), the role of this lever is heightened. We thus conjecture the following:

H5. There will be a stronger association between corporate link and competitive strategies for subsidiaries perceived to be more important to the global success of their corporate group.

3. Methods

3.1. Data collection

We think China is an appropriate setting to test our propositions. China is today the world's largest emerging market in which MNEs are competing for economic gains from emerging market opportunities. Liberalized economic policies, continued economic transformation, and escalated demand from middle-class consumers not only drive the country to be one of the fastest growing economies in the world but also make it the second largest destination for foreign direct investment. More than US$100 million foreign capital is now being invested everyday in China (Far Eastern Economic Review, 2002). Its recent accession to the WTO will make the nation even more open to MNEs attempting to build a stronger competitive position and maximize sustained financial returns. As the Chinese market becomes increasingly competitive in deregulated industries, a competitive strategy that meets an MNE's strategic goals and matches environmental conditions and corporate competencies becomes critical. To successfully achieve expected gains from a selected competitive strategy, MNE subsidiaries depend, for either defensive or offensive reasons, on corporate links with parent firms or peer members to solidify their competitive position there.

To verify our hypotheses, we used archival and survey data. Archival information was used to measure some control variables while the multisource survey information was used to measure major variables. We used foreign subsidiaries located in Shanghai as the sample population. From the database of the Shanghai Foreign Investment Commission and the Foreign Investment Association, 602 sample subsidiaries were chosen, based on the following selection criteria after consulting with several scholars in this area and with local officials in charge of foreign investment approval: First, we emphasized foreign firms seeking market expansion in China. Export-focused subsidiaries (i.e., using China as a production platform for the MNE's global strategy) were excluded from our sample (identified in the above database, export-focused subsidiaries were defined as those exporting at least 70% of its output produced in China). This ensures that the host (Chinese) market is the primary competing field for all sample firms. This is a prerequisite for comparing competitive strategies, which requires the same market and industry setting. Competitive strategies are actions taken to provide value to customers and to gain a competitive advantage by exploiting core competencies in a specific, individual setting (Porter, 1980). Second, we restricted our sample to manufacturing subsidiaries in the electronics and electrical industry. Narrowing the sample in this industrial setting is necessary not only for comparing competitive strategies but also contrasting corporate link and performance. Firms in various industries often present varying corporate links (Birkinshaw et al., 1995) and financial performances (Robinson and Pearce, 1988). In this industry, the three competitive strategies are each used by various market-seeking MNEs. To compete with local or other foreign rivals in this industry, some emphasize differentiation while others focus on either strategic niche or cost leadership (Luo, 2000a; pp. 128–130). Shanghai is the major location in which many MNEs manufacturing electronics and electrical products are concentrated and clustered (Luo, 2000a; p. 128). Last, we selected subsidiaries that had operated in China for at least 3 years. This length requirement is needed to assess effects of competitive strategy, product scope, and performance outcomes.

To mitigate possible threats arising from single rater-related common method variance, we split questionnaire items and sent them to different informants of each sample firm. Subsidiary CEOs are primary informants who responded most survey questions, while senior financial managers filled in profitability information (in a separate part attached to the main questionnaire). Our cover letter explains our research purpose, defines major concepts and terms, specifies the importance of accurate estimate, and addresses response confidentiality. To mitigate possible measurement errors and maximize content validity, the questionnaire was developed through an iterative process of drafting, pilot testing, and redrafting as suggested by (DeVallis, 1991). Pilot questionnaire after the first draft was pretested through field interviews of six executives of subsidiaries. The feedback from this pilot test was then incorporated into the redrafting of the final questionnaire. The survey was administered in collaboration with the Sun Glorial School of Management of The Eastern China University, which provided graduate assistants in conducting mailing and tracking.

To ensure accurate translation and achieve conceptual equivalence, the survey was originally developed in English and was then translated into Chinese by a bilingual professor in management and cross-checked by two local bilingual Chinese who work for MNEs in China. We then mailed a bilingual questionnaire with an English version at the front pages and translated Chinese at the back pages. After follow-up reminders, 136 questionnaires were returned out of 602 samples. After omitting those missing important information, we were left with 121 usable questionnaires (main survey and attached financial segment), with about 20% effective response rate.

Based on the database of the Shanghai Foreign Investment Commission and the Foreign Investment Association, we checked the nonresponse bias. From this database, we were able to compare some subsidiary attributes between responding and non-responding firms identified by a code number we stamped initially on each questionnaire. The mean differences between respondents and nonrespondents with respect to the number of employees, length of operations, and sales were tested using an unpaired t test. No systematic differences were found between the responded and the nonresponded from this test. To check the representativeness of the sample, the mean of the project size of the sample firms was compared with FDI national population in the same industry sector, using information obtained from the *China Statistical Yearbook*. The national average is US$1.73 million as compared to the sample average of US$1.81 million. The t test results were insignificant, suggesting no bias from the population in terms of investment size.

Table 1
Description of measurements, sources, and reliability

Variable and reference	Source	Alpha	Communality
Performance (Roth and Morrison, 1990)			
The past-3-year average after-tax ROI	Financial managers		
Corporate link (Cray, 1984; Jarillo and Martinez, 1990)	Subsidiary CEOs	.71	
Integrating purchasing with the corporate group	(five-point scale)		.74
Integrating manufacturing with the corporate group			.72
Integrating marketing with the corporate group			.66
Sharing technological resources with the corporate group			.62
Sharing production resources with the corporate group			.56
Sharing organizational resources with the corporate group			.53
Cost leadership emphasis (Zahra and Covin, 1993)	Subsidiary CEOs	.75	
Efficiency in securing raw materials	(five-point scale)		.67
Emphasis on finding ways to reduce costs			.69
Level of operating efficiency			.79
Level of capacity utilization			.85
Emphasis on price competition			
Strategic focus emphasis (Zahra and Covin, 1993)	Subsidiary CEOs	.73	
Uniqueness of your products	(five-point scale)		.78
Targeting a clearly identified segment			.69
Offering products for high price segment			.66
Offering specialty products to the market			.64
Product differentiation emphasis (Zahra and Covin, 1993)	Subsidiary CEOs (five-point scale)	.72	
Emphasis on using new technology			.71
Emphasis on new product development			.69
Rate of new product introduction to market			.67
Number of new products offered			.63
Intensity of your advertising			.73
Developing sales force			.84
Emphasis on building strong brand identification			.87
Entry strategy 1 = wholly owned; 0 = joint venture	Subsidiary CEOs		
Product scope (Zahra and Covin, 1993)	Subsidiary CEOs	.61	
The breadth of the line of businesses relative to rivals	(five-point scale)		.65
The breadth of products relative to rivals			.58
Subsidiary importance (Bartlett and Ghoshal, 1989; Roth and Morrison, 1992)	Subsidiary CEOs (five-point scale)	.66	
Importance of your operation in			
Sales and market expansion			.64
Information, experience and learning			.58
Rationalizing global production			.71

Table 1 (*continued*)

Variable and reference	Source	Alpha	Communality
Control variables			
Size: total number of employees (in 100)	Local archive		
Scale: total amount of invested capital (in US$ million)	Local archive		
Age: number of years operating in China	Local archive		
Cultural distance (Kogut and Singh, 1988)	Hofstede, 2001		

Local archive refers to the database compiled by the Shanghai Foreign Investment Commission and the Foreign Investment Association.

3.2. Variable measurement

Variable measurement and internal consistency for multi-item constructs are presented in Table 1 and detailed in Appendix B. Wherever possible, we either borrowed the instruments used in prior studies or adapted instruments based on theoretical reasoning to measure these constructs in the context of China. To further check the common method variance associated with the link between competitive strategy and corporate link (from the same raters), we asked 30 senior marketing managers (one from each firm) to report their estimate about the competitive strategy in their respective firms. Their results were highly consistent with CEO responses to this construct (Pearson correlation $P < .0001$).[3] We then provided a post hoc test by conducting a global factor analysis in which all multi-item variables in the survey were included altogether in the single factor analysis (Appendix A). Neither were all variables loaded in a single factor nor was any single factor dominantly accounted for the majority of the variance, suggesting that serious common method variance threats were not present (Podsakoff and Organ, 1986). Appendix A also displayed that various subitems were properly loaded in proposed factors (variables).

Following previous research (Dess and Davis, 1984; Miller and Dess, 1993), the above variables were each grouped and averaged to create overall scores.[4] For each construct, the mean score was derived by adding responses to each question item and then dividing by the number of question items for each construct. These question items were anchored in reference to a subsidiary's key competitors in the Chinese market. This approach has been extensively adopted by strategic management research (Buzzell and Gale, 1987; Miller and Dess, 1993) as it recognizes the fact that strategy is comparative (Snow and Hambrick, 1980). Cronbach's α_s and communality estimates shown in Table 1 validate the reliability and dimensionality of these constructs.

We asked financial managers to report return on investment (past-3-year average after-tax ROI). This measure is the most commonly used to appraise the performance of subsidiaries seeking gains from emerging market opportunities. No matter what compet-

[3] The correlation coefficients between two groups are .87 in cost leadership, .83 in strategic focus, and .79 in product differentiation.

[4] Corporate link was operationalized as a single construct consisting of multiple items showing the interdependency of resources and activities. Although each of these items focuses on one functional activity, they all measure the interdependency or intracorporate link between a focal subsidiary and the corporate group. Collectively, they depict the degree of overall corporate link.

Table 2
Descriptive statistics and correlation matrix

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
(1) ROI	5.92	2.54											
(2) Corporate link	4.27	1.21	.27**										
(3) Cost leadership	3.58	0.71	.21*	− .11									
(4) Strategic focus	4.08	0.79	.28**	.19*	.08								
(5) Differentiation	4.65	1.05	.44***	.32***	.11	.20*							
(6) Entry strategy	0.39	.48	.12	.25**	.19*	.11	.33***						
(7) Product scope	3.59	0.81	.11	.22*	.06	− .07	.08	.14					
(8) Subsidiary importance	3.33	0.98	.07	.36***	.13	.19*	.26**	.03	.05				
(9) Size	839.12	14.70	− .09	.13	.23*	.12	.09	.18*	.01	.10			
(10) Scale	1.82	0.94	.11	.23*	.11	.08	.12	.21*	− .17*	.21*	.22*		
(11) Cultural distance	4.20	1.47	.04	.22*	.11	.17*	.05	.05	.10	.11	.03	.11	
(12) Age	6.40	3.62	.32***	.12	.05	.04	.12	.11	.02	.07	.19*	.15	.32**

* $P<.05$.
** $P<.01$.
*** $P<.001$.

itive strategy the subsidiary uses, profitability is the common objective (Bartlett and Ghoshal, 1989; Porter, 1985). Other measures, such as sales, may be appropriate for firms emphasizing differentiation but not so for those emphasizing cost leadership (Dess and Davis, 1984).

The tests included several control variables, including employee size, investment scale, subsidiary age, and cultural distance. All these variables were measured based on the secondary dataset (see Table 1 for both the measurement and data source). Prior studies demonstrate that these variables may be related to a subsidiary's involvement of local risks and its ability to reduce such risks, thus shaping its competitive behavior and performance (Kogut and Singh, 1988; Root, 1994) or associated with a subsidiary's demands for parent resources or its dependence on indigenous resources (Poynter and White, 1985; Sundaram and Black, 1992). Table 2 exhibits descriptive statistics of all variables used in this study and their correlations.

4. Results

We conducted a discriminant analysis (univariate and multivariate) to assess how the strength of corporate link may change in response to different competitive strategies (H1).[5] Table 3 shows that firms emphasizing differentiation maintain significantly stronger

[5] As a common method of a multiple discriminant analysis, a canonical discriminant test performs univariate and multivariate one-way analyses of variance (ANOVA), computer squared distance between class means based on the pooled within-class covariance matrix, and derives canonical variables that summarize between-class variation. Unlike ANOVA, which involves a single categorical classification variable, the canonical discriminant involves the metric classification variables. The conventional criterion of .05 or beyond is often considered as statistical significance.

Table 3
Canonical discriminant analysis

Corporate link and competitive strategy				
Panel 1	Differentiation (Mean 1)	Strategic focus (Mean 2)	Wilk's λ	*F*
Corporate link	4.37	3.87	.89	16.11***
Log determinants of covariance	0.09	0.08	Canonical correlation: .36	
Eigenvalues	0.15		Chi-square: 14.67*** Correctly classified (%): 73.2	
Panel 2	Strategic focus (Mean 1)	Cost leadership (Mean 2)	Wilk's λ	*F*
Corporate link	3.87	3.25	0.81	27.43***
Log determinants of covariance	1.17	0.84	Canonical correlation: .44	
Eigenvalues	0.24		Chi-square: 24.49*** Correctly classified (%): 77.1	

*** $P<.001$.

corporate link than those emphasizing strategic focus (Panel 1: $F=16.11$, $P<.001$; Wilk's ë $=0.89$) and that firms emphasizing strategic focus present significantly stronger corporate link than those emphasizing cost leadership (Panel 2: $F=27.43$, $P<.001$; Wilk's ë $=0.81$). The model estimates further confirmed the validity of the two-panel tests (chi-square: 14.67 to 24.49, $P<.001$; 73.2% to 77.1% correctly classified). This analysis supports H1, stating that corporate link will be heightened along cost leadership, strategic focus, and product differentiation strategies.

To verify whether appropriate configurations between corporate link and competitive strategy as noted in H1 will be associated with higher profitability, we performed a subgroup canonical correlation test (Table 4). The canonical correlation approach was used because we sought to find whether there existed the bivariate correlation between the linear composite of the predictor set (competitive strategy) and the linear composite of the criterion set (corporate link) in a high-performance group.[6] We divided the sample into two subgroups (high performance vs. low performance) based on the mean of the profitability. As Table 4 shows, the high-performance group observes a strong alignment between corporate link (both activity sharing and resource sharing aspects) and a set of competitive strategies, with each canonical loading exceeding .67. Differentiation has the strongest loading in configuring with corporate link variables (.89), followed by strategic focus (.78), and lastly by cost reduction (.67). The low-performance group, however, does not deliver this message. Except strategic focus (.61), all other loadings in either Set 1 or Set 2 are negative or lower by far than .60, the generally accepted rule of thumb to interpret the

[6] Canonical correlation is a multivariate statistical model that facilitates the study of interrelationship between a linear composite of dependent variable(s) and a linear composite of independent variables. It also places the fewest restrictions on the types of data on which it operates and is generally believed that the information obtained from this technique is of higher quality (Hair et al., 1992, pp. 194–195). A canonical loading of .60 or higher is considered as statistically significant.

Table 4
Subgroup canonical correlation analysis

Performance effect of corporate link-competitive strategy configuration		
	High-performance group loadings	Low-performance group loadings
Corporate link (set 1)[a]		
Activity sharing	.89	.22
Resource sharing	.72	−.51
Competitive strategy (set 2)		
Differentiation	.89	−.55
Strategic focus	.78	.61
Cost leadership	.67	.18
Canonical correlation	.89	.54
Wilk's	.20	.96
Chi-square	180.2	2.51

[a] Activity sharing was measured by Items 1–3, and resource sharing was measured by Items 4–6 (see Appendix B).

loading's significance (Thompson, 1984). These results display that an appropriate configuration between corporate link and competitive strategies (as stated in H1) is associated with better performance. Misalignment is generally associated with low performance. This finding lends an overall acceptance of H2.[7] Nonetheless, the relationship between focus strategy and corporate link is not found to affect performance (the alignment exists in both high-performing and low-performing groups).

We employed a multiple and hierarchical moderated regression test to investigate how the alignment between corporate link and competitive strategy might be moderated by entry mode (M1), product scope (M2), and subsidiary importance (M3). The low VIF values (<1.45) in the base model of Table 5 ruled out the threat of multicollinearity. By comparing the model statistics, especially hierarchical F values and their significance, we find that the inclusion of each moderator significantly increases the predicting power of a related model. Model 2 in Table 5 reveals that there is a stronger association between corporate link and differentiation and focus strategies when the subsidiaries are wholly owned, as opposed to the joint ventures. Model 3 suggests that there is a stronger association between corporate link and differentiation if the subsidiaries have a greater scope of products operated in the host country. Model 4 reports that the interrelationship between corporate link and differentiation or focus will be stronger when the subsidiaries are perceived to be more important to the overall success of the corporate groups. Our plotting of interaction terms in

[7] To confirm whether the moderating effect of corporate link on the relationship between subsidiary strategy and performance, as documented by previous studies (Golden, 1992; Gupta, 1987), also applied in the setting of MNE subsidiaries in an emerging market (China), we performed a moderated regression that treated corporate link as a moderating variable. The results showed that the interactions between corporate link and product differentiation or cost leadership were statistically significant and positive in relation to performance (β=.29, $P<.01$ for the interaction with differentiation; β=.20, $P<.05$ for the interaction with cost leadership). The plot analysis further verified the moderating effect of corporate link. The interaction between corporate link and focus was only marginally significant (β=.14, P=.11). These results generally accord with the findings of the above studies.

Table 5
Multiple moderated regression

Moderating effects of entry mode, product scope, and subsidiary importance

Variables	Corporate link						
	Model 1	Model 2		Model 3		Model 4	
	(Base)	Step 1	Step 2	Step 1	Step 2	Step 1	Step 2
Competitive strategy							
Differentiation (X1)	.56***	.24**	.27**	.50***	.45***	.42***	.40***
Strategic focus (X2)	.40***	.23**	.20*	.30***	.24**	.22*	.21*
Cost leadership (X3)	− .20*	− .10	− .11	− .13	− .12	− .15	− .16
Moderators							
Entry mode (WOS) (M1)		.23**	.21**				
Product scope (M2)				.25**	.24**		
Subsidiary importance (M3)						.30***	.34***
M1 × X1			.29***				
M1 × X2			.19*				
M1 × X3			.08				
M2 × X1					.33***		
M2 × X2					.10		
M2 × X3					.07		
M3 × X1							.26**
M3 × X2							.29**
M3 × X3							.12
Covariates							
Size	.10	.08	.10	.12	.11	.15	.12
Scale	.20*	.16*	.20	.21*	.20*	.18*	.17*
Age	.12	.12	.13	.11	.09	.15	.10
Cultural distance	− .23**	− .24**	− .21**	− .25**	− .23**	− .17*	− .19*
Model F	7.8***	8.7***	8.9***	10.9***	11.6***	10.7***	11.4***
Adjusted R^2	0.42	0.48	0.52	0.46	0.52	0.44	0.52
Δ Adjusted R^2		0.06	0.04	0.04	0.06	0.02	0.08
Hierarchical F		12.9***	3.1**	8.3***	4.6***	4.0**	6.1***

The mean-centering technique was used for all interaction terms.
* $P < .10$.
** $P < .05$.
*** $P < .01$.

Table 5 in which the lines of regression between corporate link and competitive strategy were depicted as a function of each moderator's three values (one standard deviation below the mean, at the mean, and one standard deviation above the mean) provides the same results as suggested by the coefficients of interaction terms. Overall, 3, H4, and H5 are each partly supported. The results suggest that corporate link will be stronger in responding to differentiation or focus strategy when the subsidiary is wholly owned, becomes more important to the corporate group, or involves larger product scope. These moderators, however, do not affect the relationship between corporate link and cost leadership. Among control variables, investment scale is found to be positively associated with corporate link while cultural distance is negatively related to this link in our sample.

5. Discussion and conclusion

This study addresses how corporate link is shaped by competitive strategy used by subsidiaries in a host nation. It seeks a better understanding of how corporate group–business unit relations may change in an international setting, depending on varying competitive strategies implemented overseas. Accumulated extant research has already identified or verified a large array of factors that affect corporate link, along two dimensions including global integration mandates (e.g., homogeneity of products and customers, knowledge diffusion and sharing, global competition, MNE objectives, vertical integration, economies of internalization, and capabilities in coordination and communication) as well as local responsiveness mandates (e.g., subsidiary role and initiative, uniqueness of host market structure, volatility of local environment, demand differentiation, and market growth opportunities). To extend the research, we argued that corporate link between a nodal subsidiary and the rest of the MNE community is contingent on the choice of competitive strategy (product differentiation, cost leadership, or strategic focus). This choice itself is often selected with considerations of both local responsiveness factors and global integration imperatives. In today's competitive marketplace, subsidiaries are searching for competitive advantages through using appropriate competitive strategies and their underlying building blocks. To fulfill this goal, it is inevitable for subsidiaries to depend on corporate link to the point that resource support from, and knowledge sharing with, the corporate family will fortify their market power or competitive position vis-à-vis overseas rivals. Our analysis of 121 MNE subsidiaries in China validates that corporate link is stronger for those emphasizing differentiation than for those emphasizing on strategic niche, which is in turn stronger for those emphasizing cost leadership.

We developed a theoretical logic that explains the interrelationship between corporate link and competitive strategy. The mainstream logic, especially that of Porter, 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 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 emerging markets. Corporate link will 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. Competitive strategy involves actions to gain a competitive edge in a particular setting where a subsidiary must interact with and depend on various stakeholders. In most emerging markets, local stakeholders, especially regulators, often control imperative resources or inputs needed by foreign firms, thus creating a dependency situation. We expect that firms with differentiation strategy are more susceptible to the endowment conditions of local resources and the supportiveness of stakeholders than those with niche strategy, which are in turn more prone to these conditions than those with a cost minimization strategy. Corporate link should thus be flexibly designed in response to such differing needs.

We documented that an appropriate alignment between competitive strategy and corporate link, as suggested above, is generally associated with higher profitability for subsidiaries. Previous studies offered many insights into how subsidiary-level imperatives are unilaterally or causally related to corporate link (e.g., Birkinshaw and Morrison, 1995; Gupta, 1987; Nohria and Ghoshal, 1994; Roth and Morrison, 1990; Taggart, 1998). Nevertheless, the performance implications of the above configuration have not yet been adequately articulated. Corporate link itself is endogenous, variably designed to reinforce overseas success. Mismatch between corporate link and competitive strategy may escalate costs of resource dispersion, create unnecessary stocks of redundant resources in a subsidiary, or otherwise temper international operations due to the shortage of resource support or knowledge flows. From the lens of internalization, a proper alignment between them increases gains from improved capability exploitation and utilization. MNEs are increasingly competing against each other in offshore battlefields. Home-developed resources cannot generate the highest possible returns unless they are deployed, shared, or utilized in overseas battlefields through appropriate corporate links. From the lens of foreign expansion, this alignment is critical as it buffers hazards from local resource dependence or from indigenous hostility.

We stepped further by exploring the extent to which the connection between corporate link and competitive strategy will remain stable or hold the same under different circumstances, such as different entry modes, product scope, and perceived importance of host country operations. This study introduced a contingency view toward the relationship between corporate link and competitive strategy. It suggests that this relationship does not hold the same vigor in various situations. The competitive strategy–corporate link association becomes stronger when subsidiaries are wholly owned (compared to joint ventures), involve greater scope of products, or become more important to the group's success. The existence of such moderating effects demonstrates that the design of corporate link should consider not only the required alignment with a chosen competitive strategy but also other strategy contingencies that moderate this alignment. This accords with a view that corporate link is so complex that not only should subsidiaries in different nations be differentiated in structuring headquarters–subsidiary relationships but different subsidiaries within the same host country should also be distinguished in this structuring course (Nohria and Ghoshal, 1994). We presented that within the same country, entry mode, product scope, and subsidiary importance are important contingencies that undercut or reinforce the relationship between corporate link and competitive strategy.

Empirically, this study tested several hypotheses using market-seeking MNE subsidiaries in China, the largest emerging market in the world. Corporate link is influenced by many factors aside from competitive strategy, so we controlled for these factors by deliberately defining sample firms as those seeking gains from the host market opportunities (not from export nor economy of scale for global products) in the same location (Shanghai) and in the same manufacturing industry (electronics and electrical products) that has been virtually deregulated by the government. An emerging market seems an interesting and rich setting to test how corporate link is shaped by competitive strategy because of the fact that most MNEs tend to emphasize the local market if the industry is characterized with strong local demand. A right competitive strategy is fundamental to building the firm's competitive position and achieving abnormal returns. Because different strategies depend differently on local conditions, thus subject to varying risks, exposure, and deterrence, corporate link should be elastically designed to cope with such differences. We do find some unexpected results from our sample that should be noted. First, strategic focus is strongly associated with corporate link variables in both high-performance and low-performance groups. This implies that the alignment between strategic focus and corporate link is not associated with subsidiary performance. A possible explanation is that firms using the focus strategy, even without a proper configuration with corporate link, may still be able to succeed. The significant and positive correlation coefficient between focus and ROI in Table 2 seems to accord with this possibility. An alternative explanation for this result is the likelihood that firms using the focus strategy are relatively stable in relation to corporate link regardless of their performance. Second, for firms emphasizing cost leadership, the configuration between low cost and corporate link is not significantly affected by proposed moderators, such as entry mode, product scope, and subsidiary importance. This means that the importance of this configuration is rather stable, not shaped by these moderating factors. A theoretical explanation for the finding is that parent firms may maintain a more stable, or less variable, corporate link with those subsidiaries that emphasize low cost, no matter whether subsidiary importance, product scope, or entry mode remains the same or is changed. By contrast, parent firms may treat corporate link more variable and adjustable with subsidiaries that use differentiation or focus when these parameters change. Future research should verify these possible explanations.

Several limitations ought to be redressed by future studies. First, this study addresses competitive strategy only at the subsidiary (host country) level and delimits only local-market-seeking subsidiaries in an emerging market. It did not unveil how corporate link is shaped by competitive strategies used at the global level and how this link is affected by competitive advantages generated at the corporate level through varying integration strategies, such as global, multidomestic, and transnational. Second, this study restricts the research setting as one single host country, and we do not know how competitive strategy and many other factors jointly and simultaneously affect the design of corporate link for MNEs with different goals or capabilities and operate in different nations and industries. Third, this study focuses on host-market-seeking subsidiaries, and we do not know how corporate link is aligned with competitive strategy for those with dual orientation—that is, targeting both local and export markets to sharpen strategic flexibility, as claimed by the option theory (Kogut, 1985, 1994). It is possible that firms with dual orientation may use different competitive strategies in different market domains, thus requiring more complicated corporate links in strategic planning, resource allocation, knowledge sharing, information flow, and communication systems. Fourth, for the simplicity to test several major research questions within a single study, we treat corporate link, which is multidimensional in nature, as a single construct. We thus do not know how competitive strategy should be configured with specific aspects (e.g., information sharing, organizational practice, or R&D transfer), specific directions (unilateral inflow vs. bilateral sharing), or specific units (parent, peer units within a region, or peer units in a different

[8] The five factors above were retained by the MINEIGEN criterion within one single (global)-factor analysis in which all multi-item survey variables were included.

[9] Rotation method: Varimax.

region) of corporate link. To explore insights of corporate link, decomposing these elements in a single or multiple studies is warranted. Finally, this study is weak in revealing the dynamic nature of how corporate link corresponds to competitive strategy. We do not know the evolutions of this correspondence, especially how this correspondence changes along the levels of subsidiary experience, age, and knowledge. Exploring such evolutionary insights is indispensable because both corporate link and competitive strategy are not prefixed but developed gradually.

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Appendix A. Global factor analysis of survey items[8,9]

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Product differentiation					
Emphasis on using new technology	**.75**	.12	.27	.07	.32
Emphasis on new product development	**.73**	.22	.10	.30	.08
Rate of new product introduction to market	**.63**	.39	.11	.21	.17
Number of new products offered	**.52**	.19	.06	.27	.36
Intensity of advertising	**.85**	.23	.19	.09	.20
Developing sales force	**.82**	.20	.37	− .12	− .08
Emphasis on brand identification	**.69**	.14	.22	− .11	− .10
Cost leadership					
Efficiency in securing raw materials	.17	**.64**	.11	.29	− .28
Emphasis on finding ways to reduce costs	.50	**.61**	.10	.18	.07
Level of operating efficiency	.44	**.80**	.25	− .14	.23
Level of capacity utilization	.24	**.84**	− .19	− .06	.31
Emphasis on price competition	.18	**.58**	.36	.44	.18
Corporate link					
Integrating purchasing with the corporate group	.21	.10	**.73**	.15	.18
Integrating manufacturing with the corporate group	.25	.22	**.69**	.31	.06
Integrating marketing with the corporate group	.08	.35	**.62**	.21	.11
Sharing technological resources with the corporate group	.33	.22	**.59**	.28	.10
Sharing production resources with the corporate group	.16	.29	**.77**	.31	.04
Sharing organizational resources with the corporate group	.13	.18	**.75**	.38	.15
Strategic focus					
Uniqueness of your products	.04	.16	.25	**.73**	.11
Targeting a clearly identified segment	.24	.09	.18	**.71**	− .13
Offering products for high price segment	.13	.27	.20	**.69**	.25
Offering specialty products to the market	.28	− .05	.44	**.54**	.20

(continued on next page)

Appendix A (*continued*)

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Subsidiary importance					
Importance of your operation to the corporate group in:					
Sales and market expansion	.07	.18	.33	− .15	**.75**
Information, experience and learning	.12	.30	.24	.08	**.62**
Rationalizing global production	.40	− .09	.17	.31	**.52**
Percentage of variance	23.4	20.14	9.96	9.47	5.84
Eigenvalue	5.33	4.87	2.46	2.31	1.25

Appendix B. Selected items in the questionnaire

Please rate the degree to which your company focuses on the following in comparison to your major competitors in the Chinese market using the five-point scale (1 = *very low*, 3 = *average*, 5 = *very high*). If a given question item does not apply to your firm, please write NA.

1. Corporate link

(a) Integration of purchasing with the rest of the corporate group
(b) Integration of manufacturing process with the rest of the corporate group
(c) Integration of marketing activities with the rest of the corporate group
(d) Technological dependence on the parent or sharing technological resources with peer subsidiaries
(e) Sharing key production resources with the parent or peer subsidiaries
(f) Sharing key organizational resources with the parent or peer subsidiaries

2. Cost leadership emphasis

(a) Emphasis on efficiency of securing raw materials or components (e.g., bargaining down the purchase price)
(b) Emphasis on finding ways to reduce costs (e.g., standardizing the product or increasing the economy of scale)
(c) Level of operating efficiency (e.g., productivity in production or efficiency in outbound logistics)
(d) Level of production capacity utilization
(e) Emphasis on price competition (i.e., offering competitive prices)

3. Strategic focus emphasis

(a) Uniqueness of your products (e.g., unique function or design)
(b) Targeting a clearly identified segment (e.g., emphasizing a geographical region or a specific group of consumers)

(c) Offering products suitable for a high price segment
(d) Offering specialty products tailored to a particular group of customers or users

4. Product differentiation emphasis

(a) Emphasis on using new methods and technologies to create superior products
(b) Emphasis on new product development or existing product adaptation to better serve customers
(c) Rate of new product introduction to market
(d) Emphasis on the number of new products offered to the market
(e) Intensity of your advertising and marketing
(f) Emphasis on developing and utilizing sales force
(g) Emphasis on building strong brand identification

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