

Determinants of Superior Foreign Subsidiary Performance

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■ Questions

- ❖ What is the **core argument** of this piece of work?
- ❖ Define ‘**intangible assets**’ in general & **why** they are **important** for multinational firms in outperforming their local competitors.
- ❖ Explain the logic behind the statistically significant interaction effect between **host country experience & advertising assets** on profitability in the case of **wholly owned subsidiaries**.
- ❖ Discuss the **managerial relevance** of this article in detail.
- ❖ Search **one multinational firm** venturing in a foreign market environment, which takes full advantage of its **own marketing capability** & then evaluate the **nature & quality** of its **marketing capability**.

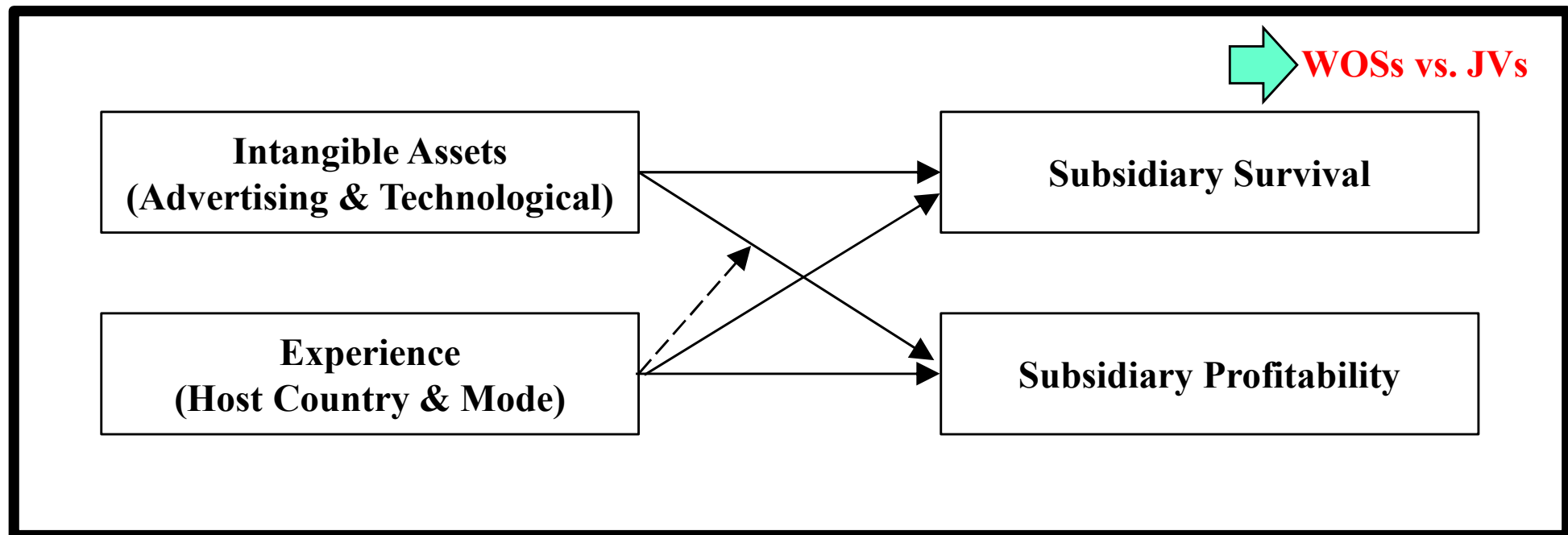
Delios & Beamish (2001)



■ Proposed Conceptual Model

Theory: An evolutionary view on MNCs.

Data: 3,080 subsidiaries of 641 Japanese MNCs.



Time Periods: 1986-1996.

Statistical techniques: Survival analysis & Ordered logistic.

—————> **Direct influence**

- - - - -> **Moderating influence**

Note: Own illustration.

Delios & Beamish (2001)



Empirical Results

Variable	Survival Analysis ^b				Ordered Logistic Regression for Profitability ^c							
	Model 1: Wholly Owned Subsidiaries		Model 2: Joint Ventures		Model 3: Wholly Owned Subsidiaries		Model 4: Joint Ventures		Model 5: Wholly Owned Subsidiaries		Model 6: Joint Ventures	
Intangible assets												
Advertising	5.80**	(2.02)	1.71	(2.09)	-6.17 [†]	(3.49)	-0.03	(2.78)	-3.51*	(1.70)	-2.15	(5.12)
Technological	4.23***	(0.91)	2.12**	(1.01)	6.86**	(2.54)	0.04*	(0.02)	6.28**	(2.40)	0.04 [†]	(0.02)
Experience												
Host country ^d	0.04***	(0.01)	0.08***	(0.02)	-0.01	(0.01)	0.01	(0.54)	-0.01	(0.01)	0.01	(0.27)
Mode ^d	0.14***	(0.02)	0.14***	(0.02)	0.01	(0.00)	0.02*	(0.01)	0.01	(0.01)	0.02*	(0.01)
Host country × advertising									10.14**	(3.70)	0.14	(0.33)
Host country × technological									3.45	(0.70)	0.07	(0.11)
Organizational characteristics												
Subsidiary age					0.02***	(0.01)	0.03***	(0.01)	0.01**	(0.00)	0.03***	(0.01)
Subsidiary size	0.05**	(0.02)	0.10***	(0.02)	0.11***	(0.03)	0.10***	(0.03)	0.11***	(0.03)	0.10***	(0.03)
Parent firm size	-0.16***	(0.03)	-0.11***	(0.03)	0.04	(0.05)	-0.00	(0.04)	0.04	(0.05)	-0.01	(0.04)
Region dummies												
Asia	0.55***	(0.10)	0.63**	(0.18)	0.43**	(0.14)	0.46***	(0.13)	0.44**	(0.14)	0.46***	(0.13)
Europe	-0.01	(0.11)	-0.08	(0.20)	0.06	(0.15)	0.14	(0.18)	0.08	(0.15)	0.14	(0.18)
North America	-0.18	(0.11)	-0.18	(0.19)	0.00	(0.13)	0.17	(0.17)	0.02	(0.14)	0.17	(0.17)
Log-likelihood	-1,513.55		-2,305.34		-696.54		-784.20		-690.14		-783.88	
Model chi-square	353.50***		405.54***		124.08***		114.38***		136.88***		115.02***	
Incremental chi-square									12.80**		0.64	
Number of cases	1,375		1,705		728		928		728		928	
Number of exits	350		300									

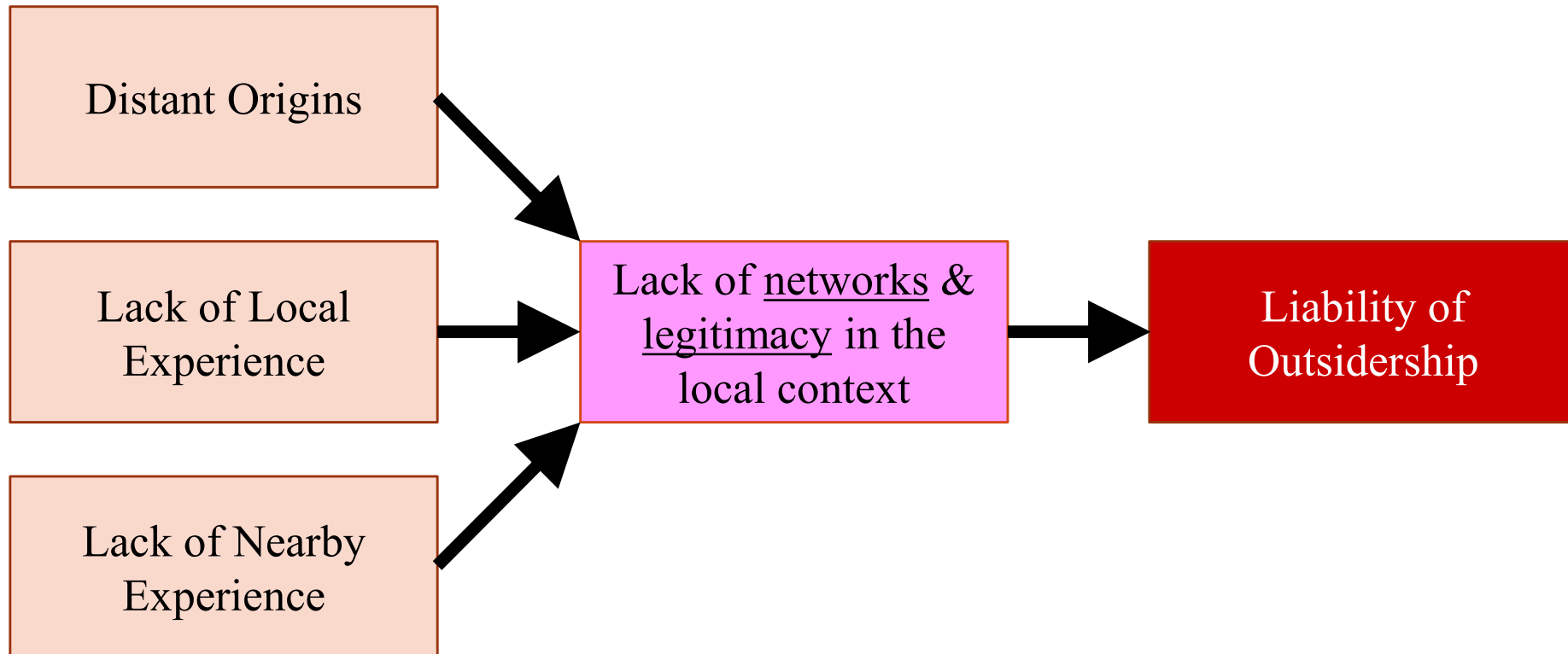
Source: Delios & Beamish (2001: 1034).



WHY do you think that the positive effect of an MNC subsidiary's technological assets on subsidiary profitability is NOT strengthened by its level of host country experience?



■ Liability of Outsidership (Foreignness)



Source: Peng & Meyer (2011: 14)



■ The Resource-Based View of the Firm

- ❖ ... attaches importance to the logic that a firm's competitive advantage lies in its **internal organization** (Barney, 1986).
- ❖ ... originated in **Penrose's** (1959) "*Theory of the Growth of the Firm*", offers crucial insights into corporate strategy.
- ❖ ... is that different internal resources in different firms shape their own capabilities that become **competitive advantages**.
- ❖ Collis & Montgomery (1995) develop five analytical indicators:
 - **Inimitability:** Is the resource hard to copy?
 - **Durability:** How quickly does the resource depreciate?
 - **Appropriability:** Who captures the value that the resource creates?
 - **Substitutability:** Can a unique resource be trumped by a different resource?
 - **Competitive superiority:** Whose resources are really better?

The **VRIO** framework focuses on the **value creation (V)**, **rarity (R)**, **inimitability (I)** & **organization (O)** aspects of resources.



■ The Distinction Between Resources & Capabilities

RESOURCES



- > The **tangible & intangible assets** as well as **human resources** that a firm uses to choose & implement its strategies.
- > **Tangible assets:** Financial & physical assets.
- > **Intangible assets:** Technical & reputational assets.
- > **Human resources** (or human capital): Individual employees' skills, talents & knowledge through experiential learning & their capacity for collaboration & communication.

CAPABILITIES



- > ... are firm-specific abilities to use resources to achieve organizational objectives.
- > ... are harder to observe & more difficult to quantify.
- > No firm is likely to generate competitive advantage by relying on primary resources !
- > ... refer to abilities to connect different stages of **the value chain**.
- > **Five major function capabilities (Please see the next slide!)**

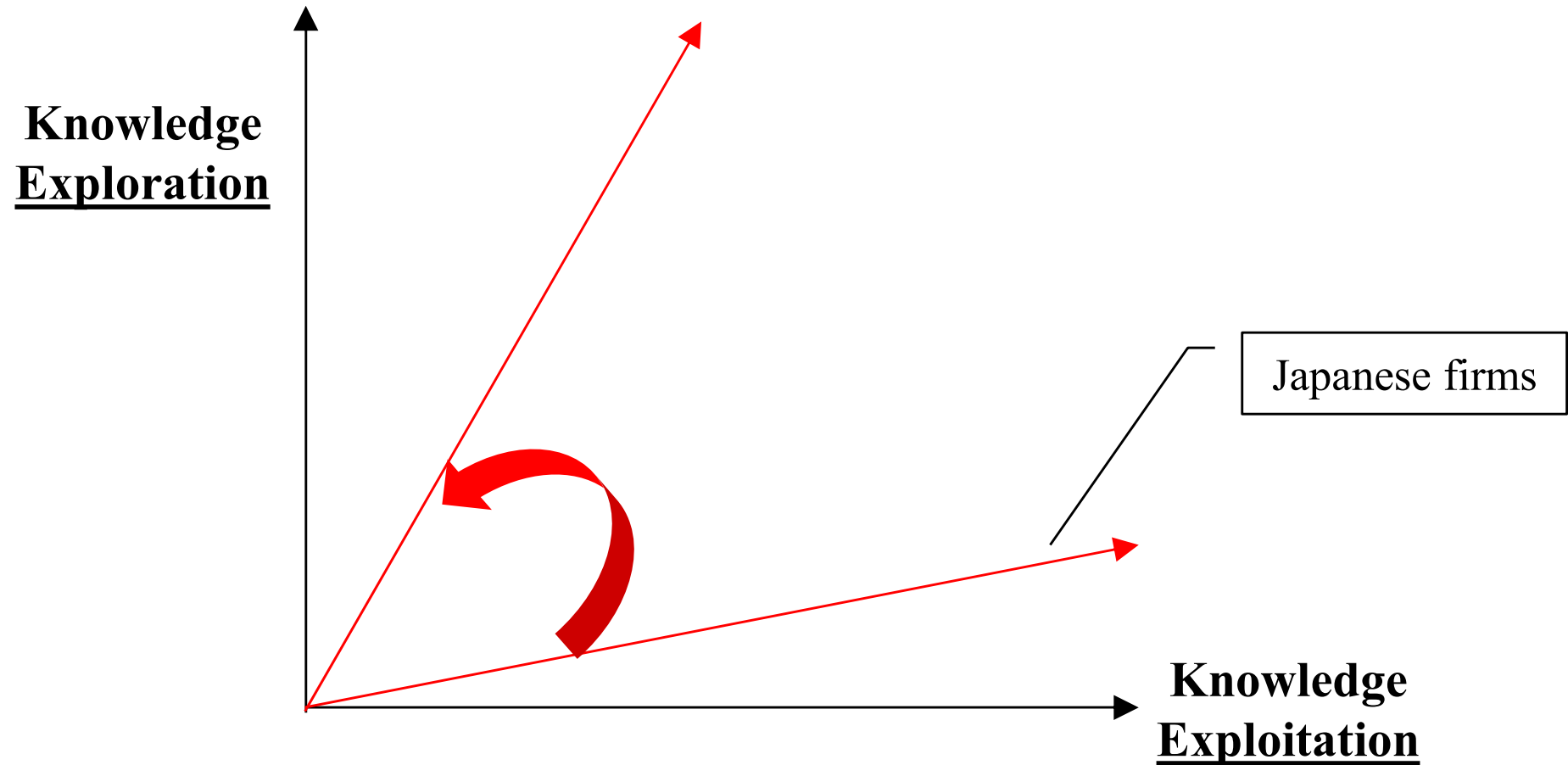


■ Examples of Functional Capabilities

1	Corporate Functions	<ul style="list-style-type: none">> Ability to attract & manage financial resources.> Exxon Mobil> Strategic innovation> Google> Strategic management of multiple businesses> GE, P&G
2	Research & Development	<ul style="list-style-type: none">> Design capabilities> Samsung> Innovative new product development> Apple, Sony> Fast-cycle new product development> Zara, Canon
3	Operations	<ul style="list-style-type: none">> Flexibility & speed of response> Zara> Continuous quality improvement in manufacturing> Toyota> Efficiency in volume manufacturing> Hon Hai
4	Marketing	<ul style="list-style-type: none">> Brand management> P&G> Reputation for quality> BMW> Responsiveness to market trends> L'Oreal
5	Sales & Distribution	<ul style="list-style-type: none">> Efficiency of order processing & distribution> Dell, Amazon> Effective distribution management> Walmart> Quality & effectiveness of customer service> SAP



■ Competency Trap = A Source of Poor Innovation



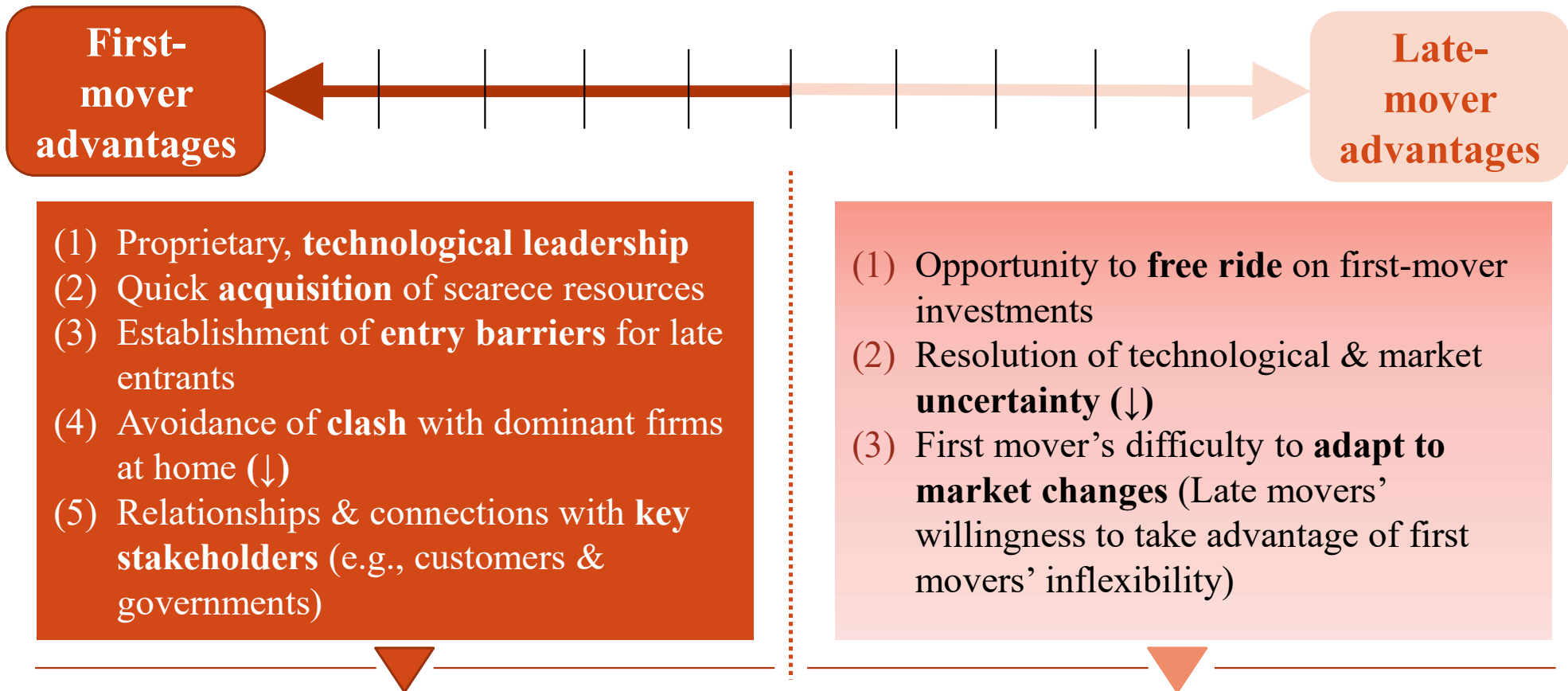


■ Questions

- ❖ Discuss the **originality & novelty** of this scholarly investigation.
- ❖ Explain the **strengths & drawbacks** of **first-mover advantages**.
- ❖ Provide **contextualized discussions** on how the availability of **supporting infrastructure** influences **technology transfer & the timing of entry**.
- ❖ Discuss the underlying logic behind the positive effect of **parent control** on **technology transfer**.
- ❖ Explain the **most responsible factor** for predicting **successful JV projects in practice** by extending the empirical results.
- ❖ Select **one Western MNC** operating successfully in **one of emerging economies & identify what made it successful**.



■ First-Mover Advantages & Late-Mover Advantages



*“Entry timing per se is not the sole determinant of success & failure of foreign entries. It is through interaction with other strategic factors that **entry timing affect performance**”.*



■ Technology Transfer is Difficult & Challenging !

1 Knowledge Retention

Challenges

Can the firm keep the knowledge it has accumulated?

Common obstacles

Employee turnover & knowledge leakage.

Challenges

Is knowledge communicated effectively between people & business units?

Common obstacles

Inappropriate channels, language barriers.

3 Knowledge Transmission

2 Knowledge Sharing

Challenges

Are people willing to share knowledge with others inside the firm?

Common obstacles

‘How does it help me?’ syndrome & ‘knowledge is power’ mentality.

Challenges

Do potential recipients appreciate & utilize knowledge available elsewhere in the organization?

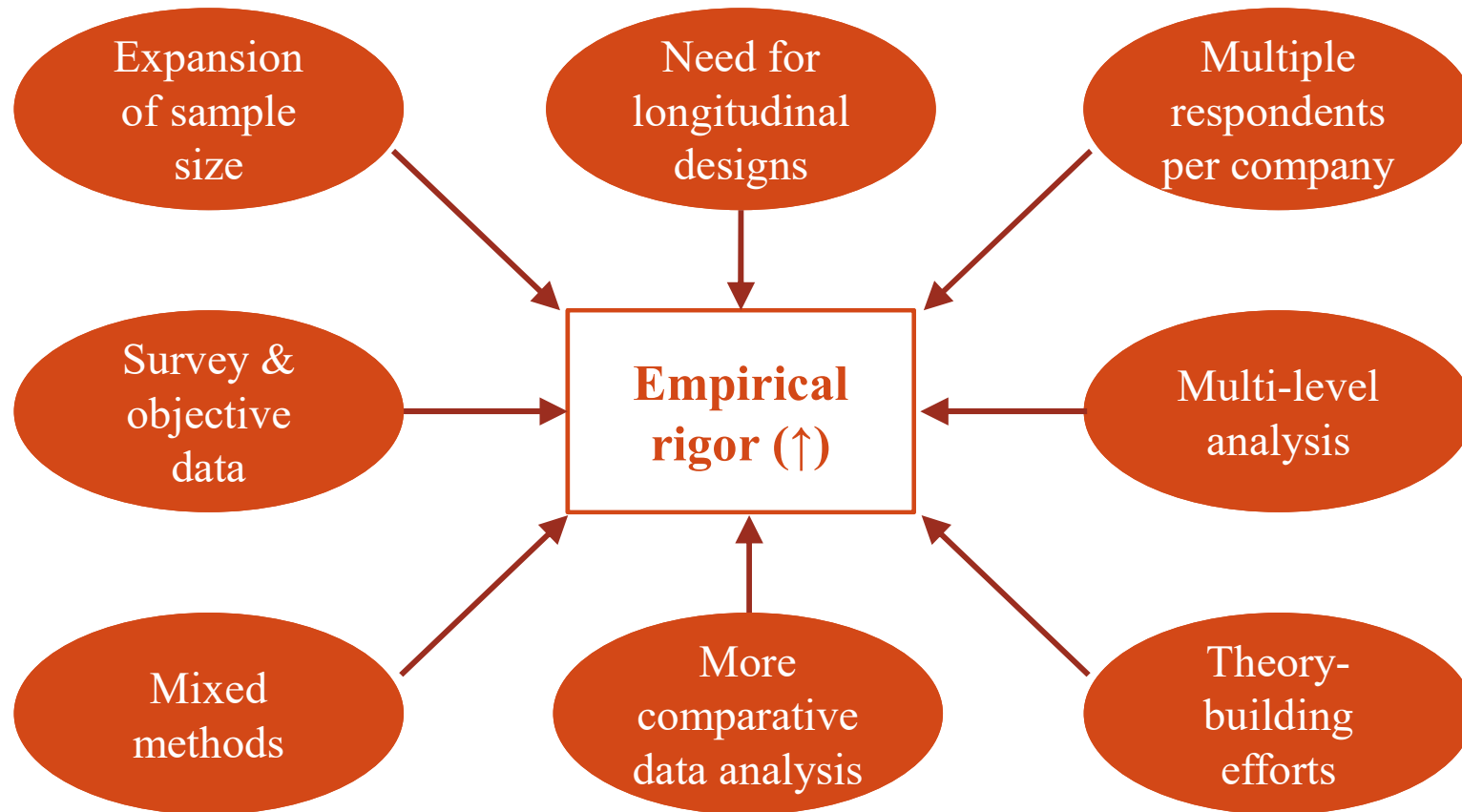
Common obstacles

Limited absorptive/learning capacity.

4 Knowledge Utilization



■ Critical Methodological Challenges



Making Your Contributions Visible

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Making Your Contributions Visible



■ Making a Pitch

- ▶ Discover one MNC subsidiary & detect why it succeeded or failed.
- ▶ You wish to pitch your chosen case using a one-page PPT (< 2 min)?
- ▶ Sara (C), Pablo, Elisa (C), Damiano, Federica (R), & Valeria (C)



■ Reading Assignments for 05.03.2025 (Wednesday)

❖ FDI Strategies - Entry Mode Selection.

- **Peng, M. W. (2000).** “Controlling the Foreign Agent: How Governments deal with Multinationals in a Transition Economy”, *Management International Review*, 141-165.
- **Meyer et al. (2009).** “Institutions, Resources, & Entry Strategies in Emerging Economies”, *Strategic Management Journal*, 30(1), 61-80.
- **Schwens et al. (2011).** “The Moderating Impact of Informal Institutional Distance & Formal Institutional Risk on SME Entry Mode Choice”, *Journal of Management Studies*, 48(2), 330-351.
- **Puck et al. (2009).** “Beyond Entry Mode Choice: Explaining the Conversion of Joint Ventures into Wholly Owned Subsidiaries in the People’s Republic of China”, *Journal of International Business Studies*, 40, 388-404.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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