

**The Strategic Development of Foreign Owned Subsidiaries of
German High-tech MNCs**

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Abstract

Foreign owned subsidiaries play an increasing role in the development of MNC's competitive advantages. This study tries to investigate how German medium-sized high-tech MNCs develop their subsidiaries in order to enhance their contributory role. The research is from the parent companies' perspective using a larger scale quantitative postal survey. Statistical analysis techniques will be used to test hypothesis, which will be derived from literature. The research tries to fill a gap in the literature by investigating the topic from the parent company perspective. Further, it tries to evaluate the impact of the level of subsidiary autonomy on subsidiary knowledge development.

Keywords: MNC, subsidiary role, autonomy, knowledge development

1. Introduction

Facing increased competition due to globalisation, a pivotal component of multinational companies' (MNCs) competitiveness is their ability to transfer and adopt values of their subsidiaries across geographic borders (Porter, 1986). However, organisations often use these pools of resources only partly or rarely (Bartlett and Ghoshal, 1986; Birkinshaw et al., 1998; Sumelius and Sarala, 2008). The reason for that lies in the role of subsidiaries, which is often not more than a sales and distribution outlet without entrepreneurial responsibilities (Bartlett and Ghoshal, 1986; Birkinshaw et al., 1998; Gammelgart et al, 2009). Literature suggests that the level of strategic autonomy granted to a subsidiary from headquarters managers is influencing the subsidiary knowledge development (Almeida, 1996; Birkinshaw, 1998; Foss and Pedersen, 2002). Hence, the focus of the research is on factors influencing subsidiaries' autonomy and knowledge development in order to outline how subsidiaries can improve a MNC's competitive advantage.

In current literature, there are surprisingly few studies, which gathered data from the parent companies of subsidiaries. Considering the importance of headquarter managers as the final decision maker in a subsidiary it appears that the parent company perspective needs to be included in research in order to get a better understanding of subsidiary value adding activities.

2. Research Objectives

- Investigate the subsidiary development strategies of German high-tech companies
- Examine the influence of host country factors on the subsidiary's autonomy
- Examine the relationship of subsidiary autonomy and knowledge development
- Outline if there is any backward transfer of values from subsidiary to parent company

3. Methodology

The selected paradigm of methodology adopted for this study is a quantitative research approach. According to Bryman (2004) it contains the collection of numerical data and illustrates a deductive relationship between theory and data. Hypothesis will be derived from literature and tested by the primary data gathered. Within this area of research the development and testing of hypothesis is an approved approach and is used in most publications. Birkinshaw et al. (2005; 1998) as key authors in this field tested hypothesis on subsidiary entrepreneurship and initiative, furthermore, recent studies about subsidiary roles and subsidiary knowledge development also used a quantitative approach testing hypothesis (Lin and Hsieh, 2010; Gammelgaard et. al, 2009; Sumelius and Sarala, 2008).

3.1 Sample

The target respondents for the questionnaire are directors of German high-tech MNCs. The database including the contact details can be accessed through "Branchenverbaende" which are federations of companies similar to inter-trade organizations. However, the database needs to be modified by excluding the firms which do not have a subsidiary abroad. Hence, the final number of MNCs in the database cannot be stated yet but it is assumed that it will contain around 2000 companies.

3.1.1 Sampling Strategy

This research will use a systematic sampling strategy, which is a type of probability sample. Systematic sampling selects units directly from the sampling frame (a numbered list of all units) with a random start within the first sampling fraction. The sampling fraction is calculated by the division of the sample size through the population size. Subsequently,

starting from the first unit chosen in the database other units are selected by adding the sampling fraction to the number of the former unit chosen (Bryman, 2004).

3.2 Data Collection

Data is gathered by a self-administered postal survey questionnaire. This type of data collection is quicker to administer and cheaper than telephone or face to face interviews (Oppenheim, 1992). Nevertheless, the researcher should keep in mind that it often takes several weeks until questionnaires finally are sent back (Bryman, 2004). Another advantage is that the role of the researcher is diminished so that there are little effects on the respondent. Questions are not asked in a different way or order which could influence interviewees. Finally, a self-completion is more convenient for the respondent (Bryman and Bell, 2007). However, the absence of an interviewer can also cause some disadvantages like a lack of support when respondents struggle during the completion process and a greater risk of unanswered questionnaires. A lower response rate can occur especially when there is an aversion of respondents to complete the questionnaire when it is not salient to them.

4. Data Analysis

In the research field of subsidiary strategy and development it is very common to use statistical analysis techniques like for example 'partial least square' (Gammelgaard et al., 2009), 'multiple regression analysis' (Sumelius and Sarala, 2008), or 'analysis of variance' (McDonald et al., 2005). Kerr et al. (2002) suggest that a multiple regression analysis is used when the research tries to figure out the linear relationship between several independent variables and one dependent variable. Structural equation modeling could be used when there are multiple relationships between several variables (Johnson and Wichern, 1997). Since the conceptual framework of this study is not established it is unfeasible to determine a specific technique yet.

4.1 Reliability and Validity

In quantitative research it is of significant importance that measures are reliable and valid because findings are often taken for granted and are used to represent a population (Easterby-Smith et al., 2002). Singleton and Straits (2005) suggest that reliability refers to consistency and stability of measures and that it is a precondition to validity. It questions if the answers of

respondents concerning a measure are consistent over time or if there is a variation. In order to measure the internal consistency and reliability of the items which represent each measure in this study, Cronbach's α will be used.

Validity challenges the eligibility and accuracy of a study. It checks if a measure reflects the asked question in a proper way (Bryman, 2004). When a researcher develops a new measure he/she needs to make sure that the measure has at least a face validity, which means that, the measure in fact reproduce the content of the concept in question (Bryman and Cramer, 2009). In order to avoid validity problems of measures many authors suggest to choose measures which were already used and verified in previous studies (Bryman and Bell, 2007; Creswell, 2003; Easterby-Smith et al., 2002). Creswell (2003) suggests that a validity problem of standard multiple regressions is the descriptive correlation coefficients showing that a variable should be excluded as its value is near zero. Another problem could arise on the other end of the spectrum when researchers do not proof data measurements in advance.

5. Conclusion

It was outlined that very little studies on MNC subsidiary development have been conducted from the parent company's perspective. The outcomes of this study are going to shed light on the subsidiary contributory role from a different angle and therefore help to get a deeper understanding of the research area. Findings can be compared to previous studies in order to critically analyse their outcomes and highlight areas for further research. Hence, the findings will contribute and extend existing literature about the international strategies of MNCs and help MNC headquarter managers, subsidiary managers as well as policy makers to understand better subsidiary's development and value adding activities in a global context. Nevertheless, a limitation of the study could be that parent companies cannot give accurate information on its subsidiary. However, it is felt that headquarters as the final decision maker within the MNC subsidiary relationship should have a substantiated knowledge of its subsidiary activities. Furthermore, as stated above is an investigation from the parent perspective a gap in the literature and therefore worth to research.

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