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Is There a General Explanation of the Performance Variations of Subsidiaries of Advanced and Emerging Market Multinationals?

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ABSTRACT

Since the seminal work of Dunning (1958) on the operations of subsidiaries of American multinational enterprises (MNEs) in the UK, the performance of subsidiaries has been central to understanding firms' internationalisation and evolution. After more than sixty years of research, we still have incomplete understanding of what determines subsidiary performance, especially when their parent MNEs are originated from economies of different developmental histories. Much of our current knowledge about subsidiaries has been established by studies of advanced market multinationals (AMNEs). To what extent this understanding can explain subsidiary performance of emerging market multinationals (EMNEs) remains both an empirical and a theoretical question. Using a sample of subsidiaries of EMNEs and AMNEs, we empirically test if there is a general explanation of the performance variations of subsidiaries of all MNEs. By examining (a) the extent to which all subsidiaries benefit from parent R&D intensity, (b) the extent to which host country intellectual property regimes (IPRs) moderate this relationship, and (c) how these effects differ for the cohort of EMNE subsidiaries as a result of EMNEs' learning, we contribute to the literature that seeks a general explanation of international activities of MNEs originating from distinct home environments.

Studying 2,736 overseas subsidiaries of MNEs from France, Germany, Italy, US, China and India during 2006-2014, we found that subsidiary performance overall benefits from parent R&D intensity while host country IPRs negatively moderate this relationship. We also found that EMNE subsidiaries are influenced differently by parent R&D intensity, while the moderating role of host IPRs remains the same for both cohorts of EMNE and AMNE subsidiaries. We further found that younger EMNE subsidiaries perform significantly better by utilizing parent R&D intensity. We consider this the evidence of a time-dilated learning process of EMNEs that has resulted in better geographic dispersion decisions and better integration of parent competence with subsidiary capabilities, leading to greater performance of younger subsidiaries.

Keywords: subsidiary performance, host country environment, R&D, emerging market, MNEs

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