Chapter 3

Role Typologies for Foreign Subsidiaries

Differentiated networks are made up of heterogeneous organisational units in different countries. Different subsidiaries can play different roles within the MNC network and numerous classifications of generic subsidiary strategies or roles are proposed. The aim of this Chapter is to give an overview of existing role typologies and discuss the strengths and weaknesses of the various role typologies for International Management.

Heterogeneous Roles of Subsidiaries

UN Model

Until the mid-1980s, as Bartlett/Ghoshal (1986) observed, many MNCs treated their foreign subsidiaries in a "remarkably uniform manner". In their critique, they labelled this the "United Nations Model", where the MNC applies its planning and control systems uniformly worldwide, involves each subsidiary's management equally (weakly) in the planning process, and evaluates them against standardised criteria. This uniformity can be partly explained by the fact that foreign subsidiaries were long (uniformly) seen as only "market access providers", without major autonomy and without their own contributions to the company strategy (see, e.g., Vernon 1966).

However, it became increasingly obvious that this symmetrical, uniform method of International Management did all exploit all the benefits of internationalisation (Bartlett/Beamish 2014, pp. 612-618). The conceptualisation of the MNC as a differentiated network (Ghoshal/Nohria 1989), in which different subsidiaries have individual tasks to fulfil and are assigned strategically important roles, is increasingly acknowledged as a better design to exploit the capabilities of the different subsidiaries and the advantages of their locations. As shown in Chapter 1, in network firms, competitive advantages do not solely stem from headquarters in the home country but can also be created by foreign subsidiaries and then transferred and exploited throughout the network. Instead of a "centre-periphery" view, this evokes a multi-centre perspective of the MNC with distributed resources, capabilities, functions and decision powers (Schmid 2004, p. 238).

Given the premise that each subsidiary has a unique role to play in the MNC (Birkinshaw/Morrison 1995, p. 732), one major objective of role typologies is to clarify those roles. This includes: identifying the different roles for subsidiaries; distinguishing them clearly; determining various antecedents and

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consequences, e.g., regarding the coordination of subsidiaries in different roles, and their relations with other actors in the MNC and in the host country.

Role Definition

First the concept of a *role* must be defined. A foreign subsidiary's role is closely related to its *task* within the company network (Andersson/Forsgren 1996, p. 489): most role typologies see roles as *alternative strategies* of foreign subsidiaries (Couto/Goncalves/Fortuna 2003, p. 3). A role can be understood as a *statement of purpose*. It includes the task, the market and the customer the division is concerned with (Galunic/Eisenhardt 1996, p. 256). It can be "defined as the business – or elements of the business – in which the subsidiary participates and for which it is recognized to have responsibility within the MNC" (Birkinshaw/Hood 1998, p. 782). Thus, a role is *the specific task of a subsidiary*, e.g., "to sell the MNE's products in Australia, or to manufacture a line of products for the European market" (Birkinshaw 2001, p. 389).

Roles as Subsidiary Strategies

Some authors distinguish between a *role* (which is assigned to the subsidiary) and a *subsidiary strategy* (which is seen as suggesting some level of self-determination) (Birkinshaw 2001, p. 389). Usually, the distinction is difficult and the specific task and activity of the subsidiary is partly assigned by the headquarters, partly self-determined and partly negotiated between the two. Thus, in this book, the word "role" is used synonymously with "subsidiary strategy".

Different Role Typologies

A large number of role typologies have been proposed in the literature, with several overviews available (e.g., Schmid 2004; Morschett 2007, pp. 210-254). In most cases, the roles are described along the following dimensions (Morschett 2007, pp. 250-254):

- the *external context* of the subsidiary, e.g. the relevance of the host country or the complexity of the environment
- the *internal context* of the subsidiary, e.g. the strategic orientation of the MNC or the level of local resources or competences of the subsidiary
- *coordination variables*, e.g. the level of autonomy
- the *strategy* or task of the subsidiary, e.g. the primary motives for its establishment, share of internal or external sales, knowledge in- and outflows, markets served, products offered or value-added activities carried out.

In addition, many typologies in the literature focus on specific value-added functions, e.g. on R&D or on manufacturing activities. Some of these typologies will be discussed in Chapters 19 and 20. This Chapter explains four typical examples of role typologies on the subsidiary level.

Selected Role Typologies

Role Typology by Bartlett/Ghoshal

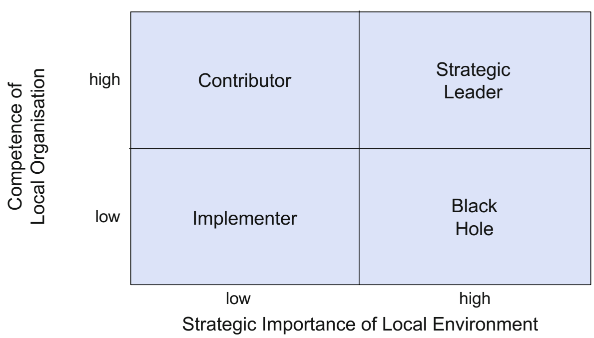
The most influential and best-known role typology is the one described by Bartlett/Ghoshal (1986) (Rugman/Verbeke/Yuan 2011, p. 254). They propose an organisational model with differentiated rather than homogeneous subsidiary roles and dispersed rather than concentrated responsibilities. More specifically, they suggest a role typology with the following two dimensions (Bartlett/Ghoshal 1986, p. 90):

Dimensions of Bartlett/Ghoshal

- The *strategic importance of the local environment* in the host country is the first dimension. Strategic importance can be assigned due to market size, but also for other reasons, for example a particularly sophisticated or technologically advanced market.
- The second dimension considers the subsidiary itself and captures the *level of internal competences* and capabilities.

Figure 3.1

Role Typology by Bartlett/Ghoshal



Source: Adapted from Bartlett/Ghoshal 1986, p. 90.

Four Roles of Bartlett/Ghoshal

In a typical process for role typologies, the authors assume two dichotomous scale values for each of the dimensions (high/low), for a possible *four roles* (see also Schmid/Bäurle/Kutschker 1998; Rugman/Verbeke 2003):

- If a highly competent national subsidiary is located in a strategically important market, it can serve as a *partner* to the headquarters in developing and implementing strategy. In the role of *strategic leader*, the subsidiary can take the lead within the MNC, e.g. for a certain product or value-added function. Other authors who identify this role use labels like "world product mandate", "active", "lead-country" and "centre of excellence" for similar roles. It is particularly relevant for MNCs with a "transnational orientation" (see Chapter 2).

- A *contributor* role can be filled by a subsidiary with distinctive capabilities that exceed those necessary in its small or generally less important market. This is particularly useful if the specialised and unique capabilities are used for (limited) projects with company-wide relevance.

Implementer as the Most Common Subsidiary Role

- A foreign subsidiary in a strategically less important market with just sufficient competence to maintain its local operation may be assigned the role of an *implementer*, which is the most common role for subsidiaries. These subsidiaries lack the potential to contribute to overall MNC strategy beyond their local function. Thus, such a subsidiary is given the task of efficiently and effectively exploiting the local market potential and *implementing the defined strategy*. This role type is also commonly considered in role typologies, with names like "local implementer", "miniature replica", "branch plant", "receptive subsidiaries", or as a similar role, "marketing satellite". This role typically results from an MNC with a "global orientation" (see Chapter 2).
- Some markets are so important they require a strong local presence to maintain the company's local and global position. If the local subsidiary lacks the capabilities to fulfil this requirement, this is called a *black hole.* The MNC must find a solution and "manage their way out of it" (Bartlett/Ghoshal 1986). One possible strategic move is to choose a strong local partner which helps to evolve the subsidiary's competences (Rugman/Verbeke 2003).

Roles and Coordination

Often, role typologies indicate which *coordination mechanisms* are appropriate for subsidiaries with different roles (see also Part III). For example, Bartlett/Ghoshal (1986) emphasise that roles are differentiated, the MNC must also differentiate the way it manages those subsidiaries, depending on their particular roles. For example, implementers can be managed via formalisation and similar mechanisms to ensure tight control. Contributors can be centrally coordinated, but the headquarters must be careful not to discourage and frustrate local management. For subsidiaries that act as strategic leaders, however, control should be quite loose and decentralised, and the main task of the headquarters (HQ) is to support the subsidiary with the necessary resources and freedom needed to play its entrepreneurial role.

Different Roles for Different Value Chain Activities

Recently, Rugman/Verbeke/Yuan (2011) extended this role typology by arguing that the model only acknowledges an aggregate role for the national subsidiary, even though foreign subsidiaries increasingly specialise in rather narrow activity sets in the value chain and may thus perform different roles in each value chain activity. As an example, they show that the subsidiaries of Japanese carmakers in the USA serve as strategic leaders in sales activities, as contributors for production function and as implementers in innovation activities. The authors argue that this extension is necessary due to changes in context (e.g. availability of ICT and better supply chains) over recent decades. "Hence, firms can now more easily fine-slice value chain activities, optimize the location of specific, narrow activity sets and coordinate these across borders" (Rugman/Verbeke/Yuan 2011, p. 255). In this argument, the "arbitrage" strategy dimension from the AAA-framework (see Chapter 2) is given more emphasis.

Role Typology by White/Poynter

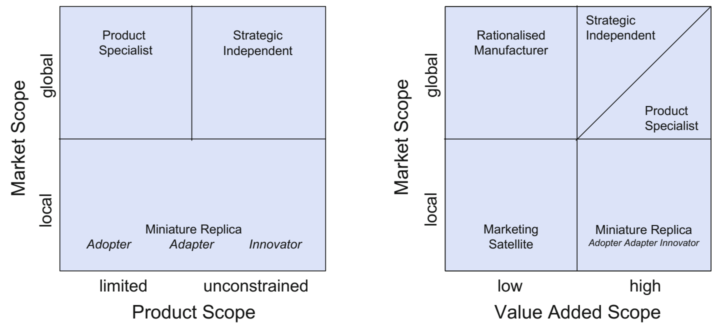
More complex is another role typology suggested by White/Poynter (1984; see also Schmid/Bäurle/Kutschker 1998, pp. 9-10). They describe the role of a subsidiary along *three dimensions*:

White/Poynter's Dimensions

- *Market scope* refers to the number of geographical markets in which the subsidiary is allowed to be active. The typology applies a dichotomy between "local" (i.e. focus on the host country) and "global".
- *Product scope* refers to the range of products a subsidiary manufactures or sells. Here, the distinction is between a limited scope with only single products and an unconstrained scope, where the subsidiary offers many product lines and is often even allowed to introduce product extensions autonomously.
- *Value-added scope* describes whether the foreign subsidiary only carries out single value-added functions (often marketing, production or R&D) or whether it realises a broad value-added spectrum, up to a full value chain in the host country.

White/Poynter (1984, pp. 59-60) explain that the dimensions are influenced, *inter alia*, by local and global competitive forces and the competence level of the subsidiary. The three dimensions are combined to establish five roles (see Figure 3.2):

Figure 3.2 Role Typology by White/Poynter



Source: Adapted from White/Poynter 1984, p. 60.

- A *miniature replica* serves the host country market via comprehensive value-added functions. The product scope can vary. Miniature replicas are, as the name suggests, *very similar* in their design *to their headquarters*. This role might be adopted due to high local demand preferences, high trade barriers, production subsidies in the host country, and/or relatively small scale effects in production in the industry which allow for distributed production. Miniature replica is considered a very common role. Depending on the product scope, its autonomy and its own creative activity, the miniature replica might *adopt*, *adapt* or *innovate*.
- A *marketing satellite* also exclusively serves the local market, but only focuses on a few value-added functions, mainly marketing & sales. The product scope can vary. Most frequently, products produced in the home country are imported and sold in the host country.
- *Rationalised manufacturers* are units responsible for a broad geographical area but only limited value-added functions. Often this is the manufacture of a few products (or even just product components) for the world market (or at least a larger number of countries).

World Product Mandates

- *Product specialists* have the worldwide responsibility for one product or one product line within the MNC and realise the full value-added chain for this product. The subsidiary has a so-called *world product mandate* for this product. This role is emphasised in many role typologies. It is considered to have high decision autonomy, but since there is a high interdependency with other units (who might buy and sell the products in their specific countries, or who might produce other product lines and sell them to the product specialist), this autonomy cannot be unlimited (Roth/Morrison 1992, p. 718). The empirical relevance of this role is the subject of controversy. Some authors argue that, for strategic reasons, many headquarters hesitate to assign their foreign subsidiaries such broad responsibilities and that – with some notable exceptions – this role is still mainly filled by the headquarters itself (D'Cruz 1986, pp. 84-86).

- *Strategic independents* also carry out many value-added activities, but they do this for a very large number of markets. The product scope is unconstrained. Here, the subsidiary is seen as only loosely coupled to headquarters, which in this situation acts more as a financial holding, giving very far-reaching autonomy to the subsidiary.

Role Typology by Gupta/Govindarajan

A very different role typology has been presented by Gupta/Govindarajan (1991). They understand the MNC as *"a network of capital, product, and knowledge transactions among units located in different countries"* (Gupta/Govindarajan 1991, p. 770), following the network perspective of authors like Bartlett/Ghoshal and others.

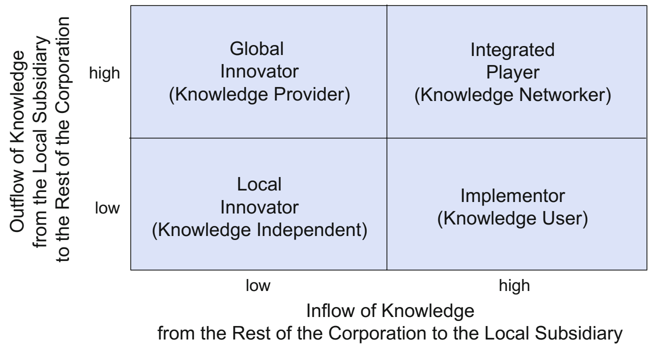
Knowledge Flows

To reduce complexity, they focus on knowledge flows for their typology. One reason for this choice is that the modern literature on MNCs has revealed an increasing number of complex, transnationally oriented MNCs (see Chapter 2), and for *transnational MNCs* knowledge flows across subsidiaries are particularly significant. Moreover, most modern economic theories about MNCs suggest that FDI occurs predominantly because of a desire to internalise knowledge flows. Thus an analysis of knowledge flows is an investigation of the core of the MNC (Gupta/Govindarajan 1991, p. 772).

Gupta/Govindarajan's Dimensions

Focusing on variations in knowledge flow patterns, the authors proposed that MNC subsidiaries can be categorised along *two dimensions*: Subsidiaries can engage in different levels of *knowledge outflow* and *knowledge inflow* from the rest of the MNC.

Figure 3.3 *Role Typology by Gupta/Govindarajan*



(The terminology of Randøy/Li (1998) is displayed in brackets.)

Source: Gupta/Govindarajan 1991.

Gupta/ Govindarajan's Four Roles

From these two dimensions they derive *four generic subsidiary roles* (Gupta/Govindarajan 1991, pp. 774-775). These are also used by Randøy/Li (1998), with slightly different terminology (see Figure 3.3):

- A *global innovator* (*knowledge provider*) is predominantly a source of knowledge for other subsidiaries and the headquarters. One example of such a subsidiary might be *SAP Labs US*, from which a significant portion of *SAP*'s technological innovations have originated. Located in Palo Alto, California, the subsidiary maintains strategic relationships with local organisations such as Stanford University, and its mission is to leverage the valuable assets within Silicon Valley to drive innovation (see the case study on SAP in Chapter 4).
- An *integrated player (knowledge networker*) is also responsible for creating knowledge that can be utilised by other subsidiaries. However, the knowledge networker must also rely on knowledge from others and thus receives and sends high levels of knowledge to and from the subsidiary. With this bi-directional integration in knowledge flows, it can be considered a "centre of excellence" that is tightly embedded in both the MNC and its local environment (Frost/Birkinshaw/Ensign 2002).
- The *implementor (knowledge user*) relies heavily on knowledge inflows from headquarters and from sister subsidiaries. It exploits the competitive advantages stemming from this knowledge in its host market without initiating high knowledge outflows to the rest of the corporation.

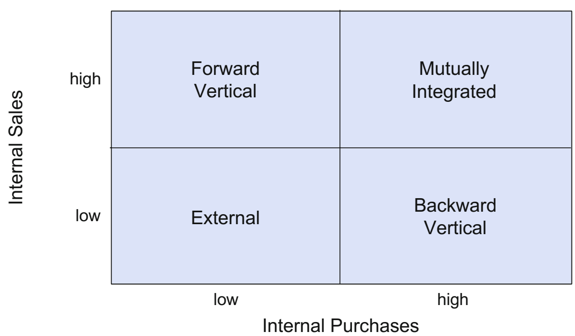
- Finally, the *local innovator (knowledge independent)* role implies that the subsidiary is isolated from knowledge flows within the MNC and has to take local responsibility for the creation of the necessary expertise itself. In terms of network models, companies with a *multinational orientation* (Bartlett/Ghoshal 1989) consist mainly of subsidiaries that can be considered knowledge independents.

Role Typology by Andersson/Forsgren

Like Gupta/Govindarajan (1991), Andersson/Forsgren (1994) consider transactions between the subsidiaries and the rest of the MNC as relevant dimensions, but they focus on *product flows* instead of knowledge flows.

Figure 3.4

Role Typology by Andersson/Forsgren



Source: Andersson/Forsgren 1994, p. 15.

Andersson/ Forsgren's Dimensions

Andersson/Forsgren (1994) characterise the role of the subsidiary along *two dimensions*:

- *internal sales*, i.e., the share of the foreign subsidiary's output sold headquarters or peer subsidiaries rather than external customers
- *internal purchases*, i.e., the share of inputs such as raw materials, components, semi-finished products and intangible goods delivered by headquarters and other units of the MNC rather than external suppliers.

Andersson/ Forsgren's Four Roles

Using these two dimensions and the dichotomous scale values high/low, *four roles* are distinguished (see Figure 3.4) (Andersson/Forsgren 1994, pp. 14-15):

- An *external subsidiary* receives and sends a low share of its inputs and outputs to the rest of the MNC. Thus, it produces with low integration with the MNC and sells its products to external customers. This subsidiary role is particularly common in MNCs with a *multinational orientation* (see Chapter 2).
- Conversely, a *mutually integrated subsidiary* is very tightly integrated within the MNC, on both the sales and supply sides.
- A *backward vertical subsidiary* receives a major part of its inputs from the MNC and sells its products to external customers. This is the traditional role for many subsidiaries acting as sales units in foreign markets (or units with a minor value-added of their own), in particular in MNCs with a *global orientation*.
- Conversely, a *forward vertical* is a foreign unit which buys its material, products, and components from external sources in the host country and delivers its products mainly to the rest of the MNC. Here, the dominant objective is *efficiency seeking* in production or *resource seeking* in the host country rather than sales (see Chapter 4).

Weaknesses and Deficits of Role Typologies

Arbitrariness

The large number of role typologies offered in the literature can be seen as proof of their relevance, but this could also be a weakness. New role typologies frequently propose new dimensions for categorising subsidiaries, but they seldom discuss how those new dimensions are superior to those used in earlier typologies. A theoretical foundation for the dimensions is often absent and the dimensions seem to be chosen for their plausibility, rather than through thorough analysis. A certain level of *arbitrariness in the selection of role dimensions* can be observed (see Schmid 2004, pp. 246-248 with a comprehensive critique). Consequently, publications and suggestions for role typologies are frequently non-cumulative, neglect prior research results and are not connected to each other (Hoffman 1994, p. 82). It remains unclear which of the various dimensions considered for role typologies are really crucial for International Management, e.g. for the coordination of the subsidiary or for its performance.

Over-simplification

Another major point of critique is the *over-simplification of subsidiary roles* that can emerge from the typologies. With mostly two dimensions and usually only two values per dimension, most typologies offer four different subsidiary roles. While the easy visualisation of four-role typologies is an advantage, nevertheless, this can obviously be seen as a defect, since four roles are unlikely to be sufficient to describe the great "heterogeneity of subsidiaries" which is the starting point of the models.

In particular, if at least some of the many typologies really have managed to describe subsidiaries along relevant dimensions, then clearly a large number of relevant subsidiary characteristics against which the role can be fixed, meaning multi-dimensional role typologies might be superior.

A more recent criticism comes from Rugman/Verbeke/Yuan (2011), who argue that subsidiary roles may differ for different value chain activities. While their argument was proposed based on the Bartlett/Ghoshal typology, it obviously holds true for all typologies presented here.

Benefits of Role Typologies

Despite their deficiencies, role typologies have shifted the focus of International Management research to the level of the subsidiary as research unit, to better understand the different strategic roles that a subsidiary can occupy. The typologies emphasise that MNCs consist of a large number of organisational units in different countries in the form of a differentiated network, all of which can take on particular roles within the MNC. Thus, role typologies have contributed to a change in perspective for International Management.

While the traditional perspective clearly saw the home country organisation as "central" and the subsidiary as "peripheral", new concepts of the MNC – and the related role typologies – emphasise that subsidiaries can take on highly relevant strategic tasks within the company network and develop into strategic decision centres. While it remains open whether the origin of these roles is still assignment from headquarters in a hierarchical manner or *subsidiary initiative* (Birkinshaw 1997), most typologies focus on the dimensions and characteristics through which subsidiaries can be distinguished. One clear benefit of typologies is to illustrate the vast array of possibilities.

Conclusion and Outlook

Role typologies are one way of analysing the heterogeneity of MNC networks. In doing so, all role typologies are based on similar assumptions (Schmid 2004, p. 244):

- Different subsidiaries can take on different roles.
- There are a limited number of roles for subsidiaries which can be used to describe the actual or intended behaviour of the subsidiary.

- The roles can be distinguished through a limited number of role dimensions.

While these assumptions obviously run the risk of adopting a simplified attitude toward a very complex problem, typologies have contributed to a better understanding of the "differentiated network" view of MNCs. Focusing on the role of the subsidiary makes it easier to decide other central questions of International Management, e.g. the coordination of subsidiaries. More generally, it helps determine appropriate headquarters-subsidiary relations, since a uniform treatment of heterogeneous subsidiaries is clearly inadequate.

The Blind Scholars and the Elephant

The criticism that role typologies are an oversimplification is reminiscent of the Indian tale of the six blind scholars and the elephant. In this story, six blind scholars attempt to understand and describe what an elephant is. The first blind man comes from the side and feels that it is sturdy, large and straight. He says that it's like a wall. The second feels the trunk in his hand, notes that it's round and flexible, and states that the elephant is like a snake. The third feels the leg and thinks the elephant is similar to a tall tree. The other three say the elephant is like a rope (based on the tail), a sharp spear (based on the ivory tusk) and a fan (based on the ear). Mintzberg, Ahlstrand and Lampel (2005) have taken this parable about *the many-sidedness of things* to explain *the many facets of corporate strategy*. All the scholars are right, but at the same time all of them are wrong, because they each only see part of the truth. The same holds true for the investigation and analysis of a complex organisation like an MNC. It makes sense to analyse a subsidiary from very different angles and through different lenses, provided one remembers that this is not the whole picture. Role typologies should be considered as lenses through which subsidiary strategies within an MNC can be viewed. Eventually, these lenses have to be combined into a more comprehensive analysis.

Further Reading

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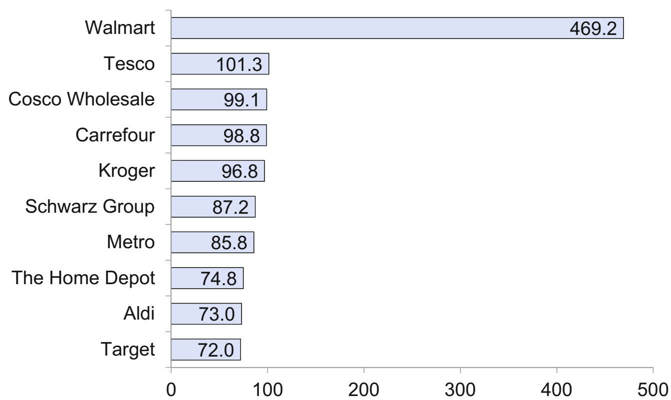
Case Study: Walmart*

Profile, History and Status Quo

Walmart, headquartered in Bentonville, Arkansas, is by far the largest retailer in the world. Figure 3.5 illustrates its dominance; it is larger than the next four competitors combined. The giant company has more than 2 million employees, making it the largest private employer in the world. It operates stores in 28 different countries. Still, approx. 70% of its sales come from the domestic USA market. A large share of domestic sales is not unusual for retailers from the USA, given the enormous size of their home market.

The Top-10 Retailers in the World by Retail Revenues 2012 (in billion USD)

Figure 3.5



Source: Deloitte 2014.

Sam Walton opened the first *Walmart* store in Rogers, Arkansas, in 1962. It was based on the principle of low prices and the company quickly expand-

* Sources used for this case study include corporate websites and various annual and interim reports, investor-relations presentations, information from the Lebensmittel Zeitung Internet portal and explicitly cited sources.

ed. Within less than a decade, *Walmart* reached sales of 78 million USD, had gone public and opened its first distribution centre. In 1980, *Walmart*'s sales exceeded 1 billion USD. In 1988, the first *Walmart* Supercentre was opened, combining general merchandise and a full-scale supermarket to provide one-stop shopping. From then on, the supercentre was responsible for *Walmart*'s growth.

Unlike manufacturers, internationalisation in retail started relatively late. *Walmart* took its first steps into foreign countries in the 1990s. In 1991, it entered into a joint venture with a Mexican retailer and opened its first store in Mexico. Many internationalisation steps followed, using joint ventures, greenfield investment and acquisitions. These are listed in Table 3.1. Thus, this table can also serve as a comprehensive example for the use of different foreign operation modes (see Chapter 14).

Table 3.1 *Internationalisation of Walmart*

Entry Year	Country	Retail Units (May 2014)	Form of Entry
1991	Mexico	2,207	50:50 joint venture with local retailer Cifra; acquisition of majority stake in 1997; extension to 60% in 2000
1994	Canada	390	acquisition of 122 stores of local retailer Woolco
1995	Brazil	556	acquisition of 118 stores of local retailer Bompreco
1995	Argentina	105	opening own stores
1996	China	402	joint venture; opening of own stores; 2006 major acquisition 108 stores from foreign retailer Trust-Mart (tripling Walmart's size); 2012 acquisition of a majority stake in online supermarket Yihoadian
1997	Germany	0	acquisition of 21 stores of local retailer Wertkauf; followed by acquisition of 74 stores of Intermarché in 1999; market exit in 2006 (by selling its then 85 stores to Metro) in 2006
1998	South Korea	0	acquisition of 4 stores (and 6 undeveloped sites); market exit in 2006 (by selling its then 16 stores to Shinsegae).
1999	UK	577	acquisition of local retail company ASDA with 229 stores
2002	Japan	439	acquisition of a 6.1% stake in local retail company Seiyu with 370 stores; acquisition of majority interest in 2005; turning Seiyu in a wholly-owned subsidiary in 2008
2005	Central America	668	acquisition of 33.3% of Central American Retail Holding Company with 363 stores in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, increased to 51% in 2006
2009	Chile	386	acquisition of local retail company D&S with 224 stores
2009	India	20	joint venture with local company Bharti Enterprises, complete take-over in 2014
2011	Africa	578	acquisition of majority stake in Massmart Holdings with 288 stores in 14 African countries (focus on South Africa)

Source: Gathered from diverse sources; Walmart 2014a; Walmart 2014b, p. 61.

Walmart does not report sales figures for individual country markets. The number of retail units can serve as a proxy for the relevance of each country, but different countries have different store sizes and strongly diverging purchasing power, leading to strongly diverging sales per store, thus making a comparison difficult.

Different Roles for Walmart's Foreign Subsidiaries

Different subsidiaries play different roles in their MNCs, as described earlier in this Chapter. These roles are usually categorised along important dimensions upon which the different role typologies build. The following section describes some of these dimensions in the context of *Walmart*'s subsidiaries.

Strategic Importance of Foreign Countries and Competence of Foreign Subsidiaries

Strategic Importance

The first dimension to investigate is the strategic importance of the foreign country in which a subsidiary is located. In retailing, the size or growth rate of the market (an indicator of future market potential), are aspects of the strategic importance of a market. For example, based on current retail volume, Germany, Japan and the UK are strategically relevant countries for a global retailer. Based on the growth rate and estimated long-term market potential, China has an enormous relevance. South Korea, relative to these other countries, is less relevant.

Competence of the Subsidiary

It is difficult to evaluate the competence of the foreign subsidiary from outside of a company. However, if performance in a country is taken as the ultimate sign of competence, *Walmart*'s subsidiaries in Japan, Germany and South Korea did not demonstrate a high level of competence (however this ignores the tough market conditions in some countries). On the other hand, *Walmart*'s subsidiary in the UK has been successful in a very competitive market, growing in size and improving its market position to be an eye-level competitor with *Sainsbury's* for the No. 2 position.

Walmart's subsidiaries in Germany and the UK were established at roughly the same time: 1997 in Germany and 1999 in the UK. The very different performance of the *Walmart* subsidiaries in Germany and the UK is clear from the relative sales levels, sales development and the profit situation (Dawson 2006):

- In 2005, *Asda* achieved sales of 21.6 billion EUR in the UK while *Walmart Germany* achieved only 2.04 billion EUR in Germany.
- Between 2000 and 2005, *Walmart UK* managed to increase its sales by 36%; *Walmart Germany's* sales decreased by 27%.

- Between 2000 and 2004, *Walmart UK* made annual profits between 400 and 880 million EUR, while *Walmart Germany* lost between 180 and 670 million EUR annually.

Black Hole

In the terminology of Bartlett/Ghoshal (see Figure 3.1), the combination of a strategically important country and a low competence subsidiary is a "black hole". This is not a role which an MNC can allow. In fact, *Walmart* has long attempted to improve the situation in Germany: It changed its management several times and tried new concepts. However, this did not improve the subsidiary's market performance; *Walmart* remained a secondary player. The market position in Germany was bad, with a market share of about 2%; the competition was superior to *Walmart* in its traditional USPs (particularly price), and there was no chance to undercut the top players in the country. So *Walmart* eventually decided to back out. *Walmart Germany's* stated goal was an eventual store network of 500 stores, but after 9 years in the country, their original acquisition of 95 stores had fallen to 85. In autumn 2006, *Walmart* sold its stores to *Metro*. Overall, based on the buying price of *Wertkauf* and *Intermarché* in Germany and the annual losses, *Walmart* sunk between 3 and 4 billion EUR into Germany.

Implementer

Walmart South Korea can be categorised as an "implementer", displaying comparatively low competence in a market of generally low strategic importance. The stated goal in Korea was more than 100 superstores; after seven years in the country, the subsidiary had only 16. The company was No. 5 in the country without hope of achieving a better position. However, categorising this as an "implementer" illustrates how the role typologies may not be sufficiently fine-grained, a previously noted weakness. In fact, the competence (or at least performance) was so low that *Walmart* decided to leave Korea. *Walmart* sold its stores in spring 2006, making South Korea the first country the company ever excited.

Walmart UK as Strategic Leader

Along the two dimensions of Bartlett/Ghoshals role typology, *Walmart* UK may be seen as a "strategic leader". The strategic importance of the British market is high. It is a very large and highly sophisticated retail market. Many retail innovations have their origins in the UK, and it is useful to gather experience in this country. *Asda* is still *Walmart's* largest subsidiary, and it is successful in the market. They have a high competence in several fields that will be valuable throughout the *Walmart* company, e.g. in e-commerce. They are also highly competent in the private label domain, which is more sophisticated in the UK than most other countries. For example, *Asda* has a well-known and successful store clothing brand, *George*. *Asda* also has competence in direct sourcing which is still surprisingly low in the parent company. Therefore, *Walmart* intends to leverage this competence worldwide (Supply Chain Digest 2010). Thus in private label, sourcing and e-commerce, Asda contributes to *Walmart's* global strategy and has an impact beyond the UK market.

Walmart Mexico as Strategic Leader

Similarly, *Walmart's* oldest international venture, *Walmart de México*, is located in an important country with approx. 120 million inhabitants and strong long-term growth prospects. The subsidiary has been very successful in the country, becoming market leader. It has market knowledge and cultural insights into the regional markets, giving it a high competence in this field. In 2009, *Walmart de México* acquired *Walmart Centroamérica* to form *Walmart de México y Centroamérica*. The subsidiary is now responsible for operations in Mexico and five more Central American countries. It has sales of over 30 billion USD. This is a clear illustration of a "strategic leader", assuming responsibility not only in the host country but also additional markets.

Walmart Canada

There is no clear threshold above which a country is strategically important or a subsidiary is competent. This can make categorisation difficult. For example, *Walmart Canada* has exhibited strong performance over recent decades. The retailer is the country's market leader and the store formats are constantly adjusted to the market. Sales exceed 20 billion USD. Whether the subsidiary should be labelled a "contributor" or a "strategic leader" depends on whether Canada is categorised as strategically important or not, something which only *Walmart* itself can answer.

Walmart Japan Escaping the Black Hole

Walmart Japan is located in one of the largest economies of the world and in the second-largest retail market. The strategic importance of the market is high. *Walmart Japan* had significant problems adapting to a different culture which has strong influences on buying behaviour (e.g. lower focus on price, less bulk purchasing, increased relevance of fresh food) and also in achieving the low-cost structure that *Walmart* has in other countries, due to the multi-level distribution system in Japan. *Walmart Japan* was unsuccessful for a long time, which, at the time, would have made it a "black hole" subsidiary. Over time, however, the situation improved and *Walmart Japan* has become more successful in catering to the needs of the Japanese. While critics argue that the company just waited for demand to change, the company itself developed competences to improve its position. For example, it created specific products to target the ageing population in Japan. It has also developed ways to circumvent the multi-level distribution system and buy a larger share of its products directly. After years of low growth, it now outpaces the market. *Carrefour* and *Tesco* have both exited Japan, while *Walmart* is starting to see success (Banjo 2012).

Knowledge Flows between Foreign Subsidiaries and the Rest of the MNC

Knowledge Users

Many *Walmart* subsidiaries around the world rely on the competence of their parent company in logistics, IT, the EDLP (Everyday Low Price) strategy and also its successful formats (supercentres, hypermarkets, but also wholesale clubs) and implement these in their host countries. In the terminology of Gupta/Govindarajan (1991) (see Figure 3.3), they could be labelled "implementors" or "knowledge users".

Knowledge Independents

Some subsidiaries operate in very distant markets, though, and accumulated a high level of knowledge before their acquisition by *Walmart*. *Massmart*, the subsidiary in South Africa, is an example. While, some knowledge flows from the new parent company to the subsidiary obviously occurred after the acquisition, the subsidiary had of the region which is rather location-bound; thus, it is not used by other subsidiaries. In this respect, *Massmart* could be categorised as a "knowledge independent" or "local innovator".

Knowledge Networker

Asda exchanges knowledge in both directions. It has a high level of unique knowledge due to the sophisticated retail market in the UK but it can also learn from the other *Walmart* subsidiaries and in particular from the parent company. It profited from *Walmart*'s expertise in logistics and IT, for example. E-commerce provides an example of knowledge flowing from *Asda* to *Walmart USA*, because the UK is the most advanced country in this field. *Asda* is recognised within *Walmart* for its so-called "omnichannel" competence, which includes sophisticated click-and-collect techniques linking the Internet to the store network. *Walmart UK* could, thus, be labelled a "knowledge networker". This is also appreciated by *Asda's* CEO *Andy Clarke*: "I have been aggressive in building even stronger relations with *Walmart* and sharing *Asda's* experience […]. In the last three years more than the previous seven years, the way in which *Asda* is working with *Walmart* on a collaborative basis has moved forward to product, process and merchandising" (Lawson 2013).

The term "knowledge transfer" is rather abstract. As a concrete example of a knowledge transfer mechanism from *Asda* to *Walmart*, the *Asda* e-commerce director (a very high level manager at *Asda*) was promoted in May 2014 to a position in the parent company *Walmart* in the USA, as VP Operations in e-commerce. Thus, he has transferred his knowledge from the UK market to the headquarters. Similarly, Judith McKenna, who was chief operating officer (COO) of *Asda* until 2012 and gathered experience at *Asda* for more than ten years prior to that, became executive VP of strategy and international development for *Walmart International* in January 2013. In this role she leads several areas, including international strategy, mergers and acquisitions, integration, global format development and purchase leverage. Also, the president and CEO of *Walmart International*, *David Cheesewright*, is a Briton who worked for *Asda* for five years before being promoted to other *Walmart* subsidiaries (e.g. as CEO of *Walmart Canada*) and eventually *Walmart International*. These examples clearly illustrate some *knowledge networking* mechanisms but also the role of *Asda* as a strategic leader within the *Walmart Corporation*.

Product Scope and Market Scope

Differing Product Scope

Some role typologies include the *product scope* as a relevant dimension. For a retailer, the product is its store format, i.e. a supermarket or a supercentre (Zentes/Morschett/Schramm-Klein 2011, p. 180). In the case of *Walmart*'s foreign subsidiaries, the scope differs considerably:

- Some subsidiaries only have one or a few store formats. For example, *Walmart Canada* only operates supercentres and discount stores; *Walmart India* currently only operates the wholesale club format.
- Other subsidiaries have a very broad product scope, i.e. many different store formats. For example, *Walmart Brazil* operates more than ten store formats, ranging from hypermarkets and supercentres to supermarkets and petrol stations.

Differing Market Scope

Furthermore, the *market scope* of the subsidiaries also differs:

- Most *Walmart* subsidiaries only have market responsibility for their own host country. This is true even for the largest subsidiaries such as Canada or the UK.
- However, some of the younger *Walmart* subsidiaries have a broader market scope and a mandate for several countries. *Walmart South Africa* is responsible for South Africa and 13 other countries in the region. As mentioned above, *Walmart de México y Centroamérica* has a market scope of six countries in the region.

Product Flows between Foreign Subsidiaries and the Rest of the MNC

Product flows between retailers' foreign subsidiaries are usually rather limited. Most country subsidiaries have a low level of internal sales and a low level of internal purchases.

But some subsidiaries rank higher on internal purchases. For example, as mentioned above, the Japanese market still has many levels of middlemen. This adds to the already high cost levels in the country. Recently, *Walmart* decided to use its international operations to help *Walmart Japan* buy directly through the *Walmart* network. It even added products from other subsidiaries, e.g. from the UK, to the merchandise mix in Japan.

Global Sourcing Office in China

On the other hand, *Walmart* in China is not only important as a sales market but also as a procurement location. *Walmart*'s *Global Sourcing Office* in China was opened in 2002. For general merchandise products, China is a major import source for *Walmart USA* but and also other *Walmart* subsidiaries. More than 10,000 suppliers in China work for *Walmart*. It has often been claimed that if *Walmart* were a country, it would be among China's top 10 trading partners. This shows the enormous volume that the procurement subsidiary in China buys and sells internally to its peer subsidiaries around the world – regardless of the exact for of contract applied.

Retail operations and procurement activities in China are structurally separated – it would be reasonable to talk about two different subsidiaries in this case. But ultimately this only adds to the complexity of the analysis of MNCs, since there may also be several distinct subsidiaries in a single host country.

Summary and Outlook

Walmart is a retail giant, with sales more than four times higher than the nearest competitor, a huge number of employees, and internationalisation to almost every major world region. However *Walmart* has demonstrated that internationalisation is not a one-way street. While it is very successful in many foreign markets, it faced negative consequences in markets where the outlook was poor, and ultimately exited Germany and South Korea.

It is almost certain that *Walmart's* international expansion will continue. With more countries in its portfolio, the heterogeneity of its subsidiaries and the roles they have to take over for *Walmart* will also increase.

Questions

1. *Walmart* internationalised very quickly over the last two decades. Considering the so-called "psychic distance chain" of the internationalisation process model, would you argue that *Walmart* follows this pattern, or is the company a counter-example? Analyse each internationalisation step.
2. Considering the product inflows and product outflows of foreign subsidiaries, try to categorise some of *Walmart*'s subsidiaries in this matrix. Discuss which problems arise when carrying out this categorisation.

3. This Chapter described selected role typologies and the general idea behind role typologies was explained. Which dimensions would you consider the most relevant for the categorisation of *Walmart*'s subsidiaries? Develop a role typology and use it to categorise *Walmart*'s subsidiaries.

Hints

1. See Chapter 6 for a description of the internationalisation process model.

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