Journal of Korea Trade, Vol.11, No.1
May 2007, pp.107-139

Received : May 1, 2007
Accepted : May 22, 2007

Subsidiary's External Networkability as a Source of Competitive Advantage

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Abstract

This article focuses on the influence of a subsidiary's capability to create and cultivate social capital in a host country or the external networkability of MNC's subsidiary. We first identify the external networkability which is critical to build up social capital with other parties in the relational network, shifting the point of view about social capital from network level to firm level. Then, based on the identification, we examine why and how an MNC's local subsidiary can successfully play their strategic roles by taking advantage of its external networkability. It is proposed that the differences between subsidiaries in the degree of gaining host country experience and technological learning can be explained by their different ability to create and manage the relationships with their external networks in that host country. This paper also explores how the types of MNCs moderate the relationships between the external networkability of its subsidiaries and organizational performances.

Key words: *External networkability, Social capital, MNC's subsidiary*

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Ⅰ. Introduction

It has been believed that the key challenge facing an MNC was its ability to maintain its independence by exploiting control over its activities, emphasizing the defensive value of making other entities dependent through capturing critical resources (Buckley & Casson., 1976; Dunning, 1988). However, the intensity to pursue multiple sources of competitive advantage simultaneously have led not only to the need for building interdependent and integrated network organizations within the company (i.e. managing international subsidiaries), but also to the need for building collaborative relationships externally, even with competitors (Gargiulo & Benassi, 2000). Thus, the increasing propensity of MNCs to form cooperative relationships with their global competitors or partners has been a topic of interest in the international business and strategic management literatures (Delios & Beamish, 1999; Steensma, Marino, Weaver, & Dickson, 2000; Zahra, Ireland, & Hitt, 2000).

One approach in this topic has considered foreign subsidiary longevity as its focus (Almeida & Phene, 2004; Birkinshaw, 2001). The central arguments in this longevity approach are that an MNC can overcome the competitive disadvantages it has compared to local competitors by participating in the local networks and learning more about host country conditions through the accumulation of investment experience in foreign markets (Steensma et al., 2000). Besides, institutional theory supports those arguments by indicating that an MNC's subsidiaries are most likely to attend to the demands of the host country environments and that their organizational practices will tend to become similar, or isomorphic, to the practices of local firms (DiMaggio & Powell, 1983; Zaheer, 1995). Researchers in network perspective also corroborate those arguments by providing the idea that participation in local net-

works can facilitate access to local information, resources and opportunities through which foreign firms can overcome the liability of foreignness.

Indeed, UNCTAD (2001) provides the evidence that foreign affiliates often take benefit from linkages with other parties in the host country as they can reduce costs and enhance access to local tangible and intangible assets. As a result, these discussions lead to an inference that the management team in a subsidiary has to play an important role for its organization's social networking to external interest groups (Ahuja, 2000; Nahapiet & Ghoshal, 1998; Rangan, 2000).

However, although the importance of subsidiaries' external networks has been increased as such, there have been a handful of studies about the activities of subsidiaries related with the external parties in host countries (Almeida & Phene, 2004; Chung & Song, 2004; D'Aveni, 1990). Moreover, little research has investigated the possibility that subsidiaries' ability to cultivate their social capital in the host country rather effectively could be its substantial competence or strategic asset (Bartlett & Ghoshal, 1986; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998).

Drawing on the social capital perspective, we make an attempt to identify the relationship between the external networkability of the MNCs' subsidiaries and organizational performance at both corporate and subsidiary levels in this study. We argue that a subsidiary's capability to create and exploit good relationships plays a critical role in both a subsidiary's market seeking activities and resource developing endeavours, which eventually contribute to its and the MNC's performance. This paper also explores how the types of MNCs moderate the relationship between the external networkability of its subsidiaries and organizational performances. Specifically, the following research questions would be addressed in this paper; (i) how and why subsidiaries'

capability to build up social capital in the host country help to enhance their performance? (ii) does the types of MNC proposed by Bartlett and Ghoshal (1989) affect the relationships between its capabilities to manage social capital and performance?

This study begins by identifying the concept of external networkability and pointing to its strategic importance based on social capital perspective. Next, the concept of external networkability in the world-wide business context would be applied to explanations of why and how the social capital built up in the local environment influences MNC's organizational performances. Then, how the types of an MNC influence the relationships between its subunit's networkability and performances will be suggested. Finally, we present a summary of these analyses followed by concluding remarks on the implications of this study.

Ⅱ. External Networkability

1. Social Capital and External Networkability

The central proposition of social capital theory applied to the strategy arena is that good relationships with others can be a valuable resource (Granovetter, 1985; Gulati, 1998). In terms of this theory, social networks are inevitably shaped between the parties under the condition of imperfect markets (Burt, 1992; Coleman, 1988) and social networks always matter going beyond the transaction-based price mechanism (Rangan, 2000).

Burt (1992) argued that organizations need three types of capitals (e.g. financial capital, human capital, and social capital) to obtain a competitive advantage in turbulent environments. He emphasized the importance of social

capital, which has been relatively neglected in the inquiry of economic approach. He defined social capital as "the network of relationships among purposeful social actors that were embedded in the social structure" (p. 62). Therefore, social capital refers to the resource of organizations which is obtained from "cooperative exchanges" between the parties in social networks (Coleman, 1988). While financial capital and human capital are invested in to create production capability, social capital helps transform financial capital and human capital to profit through the relationships with friends, other firms, and governments.

Adler and Kwon (2002) identified three distinct benefits of social capital: information, influence, and solidarity. Through social capital, the focal actors can obtain access to broader sources of information, build up leadership among members allowing the focal actor to get things done along with its purpose, and get to know the norms and customs in the society that help the actor to follow local rules and customs.

Meanwhile, it was maintained that there are two conditions for social capital to become a strategic resource (Gargiulo & Benassi, 2000). First, social capital should have the effects of network closure that differentiates some organizations from others or the cohesive ties that facilitates trust and cooperation between actors (Coleman, 1988). Second, the benefits of social capital should come from multilateral actors, not bilateral, in order to have better access to information and enjoy comparative advantages in negotiating relationships (Burt, 1992). Thus, there seems to exist trusting social networks at the bottom of the line with social capital. This is the point that differs from simple, market-based contracts. Consequently, an implication arises from this literature that a firm's external networks, based upon social capital, influence the economic action of organizations and eventually affect organizational

performance. So, a firm's external networkability, that is, the capability to build external networks which is based on social capital in a focal region, could make an impact on organization-wide effectiveness.

Despite such a widespread consensus that social networks are often utilized to support business activities (Burt, 1982; Coleman, 1990; Gargiulo & Benassi, 2000), researchers have not examined the possibility that a firm can have a different competency or capability in building up and using social capital. Burt (1992) argued that social capital is a collective good that all participants can share because it is located in the relations with other members in those external networks.

However, all firms do not have equal social capital nor have equal capability or resources to connect with the external network (Jarillo, 1988; Nahapiet & Ghoshal, 1998). For instance, a firm may have broader external networks than other competitors, which would provide more or faster information about the cutting edge technology that gives the focal firm a competitive advantage. Accordingly, at the firm level, it can be argued that firms have different social capitals on which they could potentially capitalize, because they have different memberships and different ways to reach or manage diverse external networks. In this study, "external networkability" refers to such a capability of a firm that builds up good relationships with external interest groups and networks and uses social capital effectively and efficiently. Thus, it can be argued that the characteristics of the abilities in external entities to which a focal firm reaches, how well a focal firm manages the relationships, and how fast a focal firm can reach the local networks, play a substantial role in exploiting and exploring its competitive advantage.

While internal networkability refers to the ability of a firm in managing the networks inside the organization itself, external networkability represents a

firm's competence to cultivate the direct or indirect relationships with dominant actors in the social community. For example, in the case that a firm has good relationships with external dominant parties, it is more likely that such relationships convey important information about the business environment and its changing contingencies. Therefore, it would be reasonable to maintain that the organization, well-equipped with social capital, might use their external networks more effectively to achieve economic and organizational objectives (Wernerfelt, 1984).

2. External Networkability of an MNC's Subsidiary

The idea discussed in the previous section can be broadened into the international context. When an MNC enters a host country by establishing a foreign subsidiary, that is, a subunit of the MNC, the subsidiary itself becomes the MNC's local agent for developing its competitive advantage. However, it often faces several difficulties called the 'liability of foreignness' that are mainly imposed by innate psychical distance, unfamiliarity with the host country, lack of legitimacy, and additional cost from location-specific restrictions (Buckley & Casson., 1976; Zaheer, 1995).

In those situations, the social capital which a subsidiary builds up in the host country would help it get over the imposed hurdles. In other words, if a subunit of the MNC has good relationships with external dominant parties in a host country, it will have more opportunities to overcome those difficulties by obtaining various and important information residing in that country as well as influencing the local interest groups as it wants (Adler & Kwon, 2002; Jarillo, 1988; Kostova & Roth, 2003). However, although every subsidiary from every MNC may have the potential to build access to and make use of the external networks in a host country, the extent to which it takes

advantage of the social capital in a host country varies across subsidiaries in the sense that not all subsidiaries have an equal external networkability to reach and manage external networks in the host country (Almeida & Phene, 2004). Yet, despite the importance of possible impacts of external networkability managed by the MNC's subunit on organizational performance, surprisingly little research has been conducted. Hence, this article focuses on the differences in external networkability between an MNC's local subsidiaries and considers its strategic meanings related with the roles of the MNC's subsidiary.

From the literature of international business, even if subsidiaries play various roles, the roles of a subsidiary can be broadly classified into two categories; (i) strategic positioning to expand an MNC's market share in a host country by exploiting its competitive advantages brought from the home country or MNC's headquarter and (ii) resource development to explore an MNC's new competitive advantage by gaining new expertises from the host country (Birkinshaw, 2001). Researchers in the traditional FDI theory argued that the critical role of an MNC's subsidiaries is market-positioning. In this view, subsidiaries can be seen as entities that sell the MNC's products in the local market, but they have considerable discretion in selecting and configuring the best way of selling their products in that host country. In doing so, the most useful way of selling might be developed from and applied to the competitive advantage sourced from the MNC's headquarters in order to overcome the liability of foreignness.

Alternatively, some scholars have recently emphasized the competence development role of subsidiaries (Bartlett & Ghoshal, 1986; Kuemmerle, 1999). The argument is that an MNC's subsidiaries have to search for and learn new expertise embedded in the host country and transfer this learning outputs to the MNC's headquarters and other subsidiaries. This stream of research

has particularly focused on technological learning sourced from the local market or clusters (Almeida & Phene, 2004; Benito, Groaard, & Narula, 2003). It suggests that the development of new technological knowledge is important for success in globalized markets and that an amount of an MNC's resources and capabilities should and could be developed at the MNC's subunit level.

Most of all, whether a subsidiary's external networkability plays a strategic role in competitive advantage or not could be determined by its *number*, *strength*, and *speediness*. First, the more the subsidiary builds relationships with external networks of intensive social capital, it could obtain more market experiences and technological information which is essential to success in the host country. In general, there is lots of exposure to external networks that are too ready to give the MNC's subsidiary considerable opportunities to face and manage diverse contingencies which MNC's headquarter has never experienced in home market.

Second, the stronger the subsidiary builds relationships with external networks of intensive social capital, the better it could obtain more market expertise and technological knowledge which is essential to success in the local market. Those subsidiaries located in the core of the external network in the host country, that is, subsidiaries with network centrality, could exploit more authority and power than general network participants in the host country because other participants have an inclination to be gathered and structurized around the entity with relational hegemony in a focal network.

Third, the more quickly the subsidiary builds good relationships with external networks of intensive social capital, the better it could obtain more business rules of the market and technological essence which are essential to the success in the local country. Taking liabilities of foreignness into account, an MNC's subsidiary ought to build, not so much bad as good, relationships

with external entities which belong to and comprise of social capital in the host country. However, if an MNC's subsidiary builds good relationships rather slower than its global competitors in spite of hyper-competition in the host country, it would be difficult to enhance the level of its interactions with dominant external entities which put down roots in the social capital of the local market.

Notwithstanding many studies have conducted the roles of subsidiaries in terms of both market facing side and competence developing side, little research has examined the possibility that the external networkability of an MNC's subsidiaries would influence those activities. In a related vein, this study would examine the relationships between the external networkability of an MNC's subsidiaries and the organizational performance of the MNC in terms of social capital perspective combining with institutional theory and technological learning theory.

Figure 1 Basic Conceptual Framework

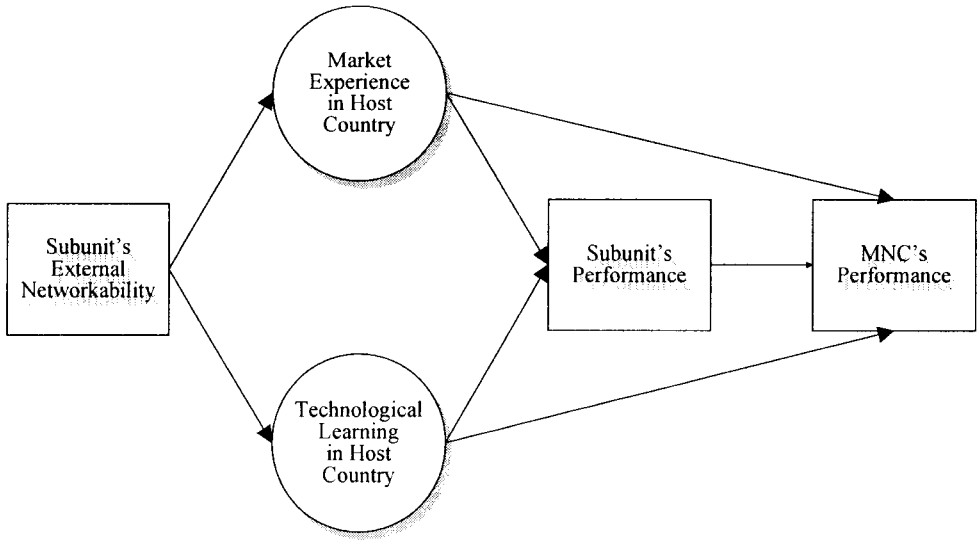


Figure 1 presents the basic conceptual framework of this study. As shown in the framework, the external networkability of an MNC's subunit in the local environment promotes its market experiences and technological learning in that host country, which in turn enhance both the subunit's and the whole MNC's performance. In the following, we will go further into and suggest several propositions regarding those relationships in terms of social capital concept combined with institutional theory on the market adaptation side and technological learning theory on the competence development side.

Ⅲ. Strategic Roles of Subsidiary's External Networkability

1. Host Country Experience and External Networkability

In order to play such roles as market positioning and resource development which were based upon the arguments of Hymer (1976) and Buckley and Casson (1976), existing studies in traditional FDI theory have focused on subsidiaries' unique assets that confer them advantages over local firms and seek additional profits in the world-wide business setting even in the confrontation of difficulties as a foreign and new comer. Accordingly, researchers have sought to explore what can be the source of competitive advantages of foreign firms. They have mainly focused on identifying different contents of organizational resources or strategy profiles created in a subsidiary's home country or headquarters, such issues as the source of competitive advantages of foreign firms to enter the foreign markets and the entry mode to match with their firm-specific resources (Barkema & Vermeulen, 1998; Hymer & Kindleberger, 1976; Johanson & Vahlne, 1977). Thus, the main assumption of that inquiry is that it is necessary for a subsidiary to have superior owner-

ship advantage so as to countervail the liability of foreignness.

However, scholars in institutional theory argued that an MNC's subsidiaries need to attend to the demands of their local environments (Benito, Groaard, & Narula, 2003). They argued that an MNC's subsidiaries often face a variety of competing pressures or isomorphic forces, and that they need to follow practices that are embedded in the host country. According to Zaheer (1995: p. 345), "mimetic isomorphism is likely to be more important in areas of free and unregulated economic competition, where firms will try to adopt the practices of others that appear to be the most successful and legitimate in a given local environment."

From combining these two perspectives, an implication can be drawn that an MNC's subsidiaries need to coordinate the tension between exploiting their unique advantages and follow the local rules of the game at the same time. In this context, it can be argued that external networkability can be a solution. Thus, subsidiaries might reduce the liability of foreignness and the cost of coordination by participating in local networks and then behaving like a local entity while they still deploy their own competitive advantage from their home country or headquarters. The rationale of this argument is as follows. Above all, a subsidiary's effective external networkability can facilitate access to local information, resources, and opportunities and make an improvement in terms of their quality, relevance, and timeliness (Almeida & Phene, 2004). For example, through obtaining better, more accurate, and sooner information, an MNC's local subsidiaries can easily adapt their competencies to market needs and rules, which would be impossible to achieve without external networks or could be achieved only at the expense of costs. Simiarly, UNCTAD (2001) shows that foreign affiliates could enjoy some benefits from interactions with local companies as they can reduce costs to find

local business opportunities in the host country.

Second, subsidiaries' political activity through leading an opinion among members in the local society can mitigate the strong effect of host government policy on subsidiaries' economic activities and performance. MNCs' political activity means foreign subsidiaries' efforts to change local environments by working proactively to ensure that issues, such as protective legislation for domestic companies, would be rejected and impacts of that protective legislation would be minimized in legislative bodies (Adler & Kwon, 2002; BarNir & Smith, 2002; Pfeffer & Salancik, 1978). Through his empirical findings, D'Aveni (1990) indicates that a firm with a cohesive network made up of political elites is more likely to survive in hard sitiations. Consequently, participating in the external networks would enhance subsidiary's understanding of local culture, political, and economic institutions, which enable the subsidiary to be committed to developing strong positions in the host country and lead to higher economic performance.

Finally, subsidiaries can enhance their legitimacy in the host country by cultivating a high degree of closure of the host country's social networks. Through exchanging information and sharing norms, subsidiaries can establish mutual trust with participants in the local networks which eventually help to reduce psychological animosity from the changing environment in the host country (BarNir & Smith, 2002; Burt, 1987; UNCTAD, 2001). From this reasoning, it could be posited that the external networkability of an MNC's subunit would better meet local demands by enhancing its understanding of the local market and obtaining social legitimacy, which leads to its higher performance.

Proposition 1. *The external networkability of an MNC's subsidiary is positively associated with its host country experience, like their understanding of the local market and following the local rules of the games in the host country.*

Proposition 1-1. *The number of relationships an MNC's subsidiary has with the local economic, political, and professional networks is positively associated with its host country experience.*

Proposition 1-2. *The strength of the relationships an MNC's subsidiary has with the local economic, political, and professional networks is positively associated with its host country experience.*

Proposition 1-3. *The speed of which an MNC's subsidiary builds good relationships with the local economic, political, and professional networks is positively associated with its host country experience.*

Proposition 2 *The host country experience obtained by a local subsidiary is positively associated with organizational performance at the MNC's subunit level.*

Additionally, as one subunit's host country experience generates general knowledges and capabilities applicable to the local environment, MNCs that have accumulated host country experience and information from local subsidiaries can reduce the scope of their competitive disadvantages and face fewer operational difficulties in other local markets (Johanson & Vahlne, 1977; Delios & Beamish, 2001; Zaheer, 1995). Hence, it could be posited that the subunit's host country experience, which would be accumulated and integrated in the MNC's headquarters, could have a substantial influence on the MNC's company-wide performance.

Proposition 3. Host country experienceobtained by a local subsidiary is positively associated with organizational performance at the MNC's corporate level.

2. Technological Learning and External Networkability

The importance of technological learning for an MNC's competitive advantage has been emphasized in the literature (Barkema & Vermeulen, 1998; Bartlett & Ghoshal, 1986; Zahra, Ireland, & Hitt, 2000). Even when an MNC has a product with technological superiority, it must learn other skills to position its product successfully and develop the competencies that are necessary for sustainable supernormal performance in competitive market (Steensma, Marino, Weaver, & Dickson, 2000). Most of all, Zahra, Ireland, & Hitt (2000) suggest that learning is an important goal for firms pursuing international expansion.

An MNC's quest for scope economies also induces technological learning through sharing the knowledge utilized to differentiate a product or by pooling the diverse knowledge developed in different markets. Countries vary in their cultures (Hofstede, 1980), technological development (Kogut & Singh, 1988), natural resource endowments and skills, innovativeness, and the organization of industries, markets, and distribution channels (Porter, 1990). It implies that information or knowledge from interactions with local external networks affects technological learning of a focal MNC (Johanson & Vahlne, 1977; Zahra, Ireland, & Hitt, 2000).

Most of all, Zahra, Ireland, & Hitt (2000) argued that the new knowledge through participating in external networks can promote the breadth, depth, and speed of technological learning. Thus, the knowledge from external network with social capital influences an MNC's ability to adapt its products to local market conditions, capitalize on market dynamism through rapid new

product developments and sequencing, and identify emerging technological changes that can influence organizational performances in hypercompetitive situation (Bartlett & Ghoshal, 1986; Steensma, Marino, Weaver, & Dickson, 2000; Zahra, Ireland, & Hitt, 2000).

In particular, MNC's subsidiary has the responsibility for exposuring itself to different systems of innovation and enhancing its technological knowledge stock through technological learning based on interactive relationships with local communities in host country. Even the subunit's access to social relationships made up of external parties can promote technological learning and product innovation. Participants in networks are more willing to exchange informations and know when they trust other partners and how they manage trust-based relationships with other players. This trust could be cultivated over time but rests upon transparency and openness that reduces the propensity of opportunism (Gultai, 1995; Zaheer, McEvily, & Perrone, 1998). This is important because some types of dominant knowledge that can fuel a subsidiary's learning are tacit in nature. The transfer of this tacit knowledge is difficult without performing intimate interactions among economic entities, without inducing fear that some parties would outsmart and outlearn other partners (Kale & Singh, 2000). So, mutual trust creates the basis for an enduring and effective relationships among members of external network in host country.

Therefore, if a subsidiary has a competency to build up various and good relationships with the local participants in a host country, it would be more likely to obtain opportunities to improve its technological learning through embedded social capital. In other words, the higher the focal firm's social capital, the more likely it will gain access to multiple and diverse sources of information, knowledge and know-how that will increase both the intensity

and innovativeness of its technological learning. Consequently, applying the external networkability of the MNC's subunit to technological learning and organizational performances leads to the following propositions.

> ***Proposition 4.*** *The external networkability of an MNC's subsidiary is positively associated with its technological learning, like exploiting dominant manufacturing skills and location-specific technologies.*
>
> ***Proposition 4-1.*** *The number of relationships an MNC's subsidiary has with the local economic, political, and professional networks is positively associated with its technological learning.*
>
> ***Proposition 4-2.*** *The strength of relationships a subsidiary has with the local economic, political, and professional networks is positively associated with its technological learning.*
>
> ***Proposition 4-3.*** *The speed of which an MNC's subsidiary builds good relationships with the local economic, political, and professional networks is positively associated with its technological learning.*
>
> ***Proposition 5.*** *Technological learning, obtained by a local subsidiary, is positively associated with its organizational performance at the MNC's subunit level.*

Moreover, as one subunit's technological learning in a host country makes a contribution to build general knowledge and capabilities applicable to the local environment, MNCs that have accumulated outcomes of technological learning from subsidiaries in each host country can reduce the scope of their competitive disadvantage and face fewer operational difficulties in diverse local markets (Steensma, Marino, Weaver, & Dickson, 2000; Zahra, Ireland, & Hitt, 2000). Hence, it could be posited that the subunit's outcomes of technological

learning, which would be accumulated and integrated in the MNC's headquarters, could have a substantial influence on the MNC's company-wide performance.

> ***Proposition 6.*** *Technological learning obtained bya local subsidiary is positively associated with organizational performance at the MNC's corporate level.*

Ⅳ. World-Wide Business Type and Its Moderating Effect

1. Types of World-wide Business

Most of the literatures on world-wide business and management either explicitly or implicitly assume the existence of different types of MNCs (Birkinshaw & Morrison, 1995). Terms such as international, global, multidomestic, and transnational often have been used to denote different types of world-wide business organizations or MNCs.[1)] This typology is useful because it can reduce the complexity of multinational organizations into a manageable category of related characteristics, making it easier to understand and explain the interactive functions of strategy, structure, and system in world-wide business organizations, and because if a meaningful typology of organizational forms has been discovered, it could then be used in a predictive way. Four types of world-wide business organizations, put forward by Bartlett and Ghoshal (1989), have been distinguished by nearly every study: international (combining low integration with low responsiveness), multidomestic (combining

1) The meaning of MNC is exactly discriminated from that of multidomestic. In other words, while a multidomestic corporation is a kind of world-wide business organization with strategic orientation of low integration and high responsiveness, an MNC is one of the representative business organizations with world-wide operations in production and marketing. So, MNC is used as an equivalent of general a world-wide business organization in this paper.

low integration with high responsiveness), global (combining high integration with low responsiveness) and transnational (combining high integration with high responsiveness).

Harzing (2000) shows that subsidiaries in the three types of world-wide business organizations (except international) differ significantly in aspects of managerial interdependence and local responsiveness. According to the past literature (Bartlett & Ghoshal, 1989; Bartlett, Ghoshal, & Birkinshaw, 2003), global corporations operate in industries with relatively standardized consumer needs that make the realization of economies of scale important. Subsidiaries typically fulfill roles as pipelines for headquarters and are usually very dependent on headquarters for their sales and purchases. Local production and R&D are less common than in subsidiaries of other types of world-wide business organizations (Harzing, 2000). In many respects, multidomestic corporations are the reverse of global corporations. Products or services are customized to meet sophisticated local demands and policies are differentiated to conform to demands of the local government and market situation (Bartlett & Ghoshal, 1989). Subsidiaries are responsive to the local context and adapt both products and promotions to circumstances in the host country. This adaptation would be made easier because products are often manufactured locally and contain a large proportion of local R&D investment (Harzing, 2000). In this vein, a transnational corporation combines characteristics of both global and multidomestic; it tries to simultaneously challenge the strategic needs of global efficiency and national flexibility (Bartlett, Ghoshal, & Birkinshaw, 2003). Subsidiaries can serve as strategic centers for a particular product-market combination. Moreover, subsidiaries usually are also responsive to the local customer needs. Products and marketing tactics are liable to be adapted for local markets and a higher proportion of local production and R&D activities

would be conducted (Harzing, 2000). By the way, the characteristics of international corporations can be detected in comparison with other types. By definition, international is similar to the meaning of exporting company. Because of this exporting-oriented nature, an international corporation has few subsidiaries and, if any, their role is relatively minimal compared to other types of world-wide business organizations.

From these arguments, it can be inferred that the effect of the external networkability of an MNC's subunit on organizational outcomes varies according to the type of the MNC. In a related vein, researchers studying world-wide business organizations with international strategy (Bartlett & Ghoshal, 1989) have suggested that the different types of MNCs might influence the extent of external networkability required from an MNC's subunit, which in turn could affect subunit's degree of host country experience and technological learning, such that ultimately influence both the subunit's and MNC's performances.

2. Moderating Effect of World-Wide Business Type

Since the importance of the external networkability of an MNC's subunit has been recognized recently, little attention has been given to the impact of the different types of MNCs on the relationship between external networkability and organizational performances (Barkema & Vermeulen, 1998; Gargiulo & Benassi, 2000; UNCTAD, 2001). So, this study would extend our understanding of the external networkability of an MNC's subsidiary by investigating whether the different types of MNCs could influence the extent of relationships between external networkability and organizational performances or not.

Under the type of multidomestic corporations, host country experience becomes more important, and environmental constraints become more significant

in influencing organizational performance (Finkelstein & Hambrick, 1990). This situation seems to increase the importance of local market information and demands (Zaheer, 1995) and lead an MNCs' affiliates to build on political relationships through a variety of informal channels (Peffer & Salancick, 1978). This suggests that the external networkability of the subsidiaries in multidomestic MNCs is more likely to focus on gathering host country experience, which has a stronger relationship with the subunit's performance rather than the MNC's performance compared with other types. In a similarity, subsidiaries in multidomestic companies are more likely to focus on obtaining technical knowledge from their external networks in order to perform the strategic adaptations that are required to successfully sell the product in the local markets.

By contrast, in the case of global corporations which try to sell rather standardized products in the world-wide market, we expect a much lower extent of external networking efforts for obtaining host country experience and technological learning. However, Zahra, Ireland, & Hitt (2000) suggested that learning is an important goal for even global corporations. According to their argument, learning derived from national differences could be a source of competitive advantage. Therefore, the external networkability of an MNC's subunit enhances its technological knowledge stock through learning-based interactions with diverse local companies and exposure to different systems of innovation. In this sense, subsidiaries in global corporations are more likely to focus on local information and knowledge that can be transformed into lucrative knowledge and capabilities applicable to world-wide context through a combination of functional coordination and local networks (Johanson & Vahlne, 1977; Delios & Beamish, 2001; Bartlett & Ghoshal, 1989). Consequently, the host country experience and technological learning of the subunit in MNCs

with global strategy are more strongly related with performance at the MNC's corporate level.

Since subsidiaries in transnational companies place a high importance on host country experience, like those in multidomestic companies (Bartlett & Ghoshal, 1989; Harzing, 2000), we expect that these subsidiaries would exert their external networkability to understand the host country's specific characteristics and obtain technical knowledge to meet local demands. However, since transnational companies also have to respond to the demand for global cost efficiency by focusing on coordinated reciprocal benefits across subsidiaries, "they are not so prone as multidomestic companies to duplicate value chain activities" (Harzing, 2000: p. 109). Subsidiaries of transnational companies are therefore expected to be less likely to focus on host country experience and technological knolwedge that are related with subunits' performance than those of multidomestic. Instead, they also focus on information and knowledge from external networks that can be diffused and utilized across subsidiaries (Bartlett & Ghoshal, 1986; Bartlett, Ghoshal, & Birkinshaw, 2003; Zahra et al., 2000).

When it comes to international companies, they feel less importance in accessing local information and knowledge through the external network. So, the external networkability of their subsidiaries is less required and the effects of external networkability on both performances are expected to be lowest among all types of MNCs. In sum, it is expected that the different types of MNCs have different expectations of their subsidiaries' external networks regarding organizational performance. Hence we propose that;

> ***Proposition 7.*** *The types of MNCs will moderate the relationship between the external networkability of the subunit's and MNC's performance.*

Proposition 7-1. *The effect of external networkability of subsidiaries on host country experience and technological learning will be high for multinational and transnational companies.*

Proposition 7-2. *The effects of host country experience and technological learning on performance at the MNC's subunit level will be highest for multinational companies.*

Proposition 7-3. *The effects of host country experience and technological learning on performance at the MNC's corporate level will be high for transnational and global companies.*

V. Discussion and Conclusion

In this paper, we propose that an extended understanding about the market position and resource development roles of an MNC's subsidiary can be obtained by examining the effects of its external networkability on competitive advantage. In so doing, we first identify the external networkability as a kind of organizational capability to build up social capital with other parties in the local network, shifting the point of view about social capital from the network level to the firm level. Then, based on the identification, we examine why and how an MNC's subsidiary can successfully execute its roles by taking advantage of its external networkability. We argue that the differences between subsidiaries in the degree of absorbing home country experience and technological learning can be explained by their different ability to create and manage relationships with their external networks in that host country.

The ability of a focal firm to have good relationships with outside dominant groups is often essential to maintain and enhance its value, but this topic has been relatively overlooked by researchers in world-wide business. Therefore,

this paper highlights the importance of a firm's external networkability. In other words, the effect of external networkability of an MNC's subsidiary on organizational performance at both the subsidiary and corporate level might be explained in terms of host country experience and technological learning. Additionally, the understanding about the moderating effect of the different types of MNCs on the relationship between network and performance is also noteworthy. As such, the social network perspective can explain organizational behaviors from other perspectives, like economic view, which can't be fully accounted for. For instance, a substantial portion of organizational performance may be ascribed to political features of an external network of an MNC's subsidiaries (Boddewyn & Brewer, 1994).

We hope that this paper makes two contributions to the literature. First, it explores the effect of the differences in the degree of making the strategic use of a firm's social capital, an issue that has received modest attention in the literature. Past research has explored the effect of network characteristics on new business creation, firm survival and financial performance (Eisenhardt & Schoonhoven, 1990; Reuer, 2000). Moreover, in spite of the fact that subsidiaries, as well as MNCs, struggle to promote and sustain organizational enhancements through capturing opportunities and generating innovations (Ambos, Ambos, & Schlegelmilch, 2006), far less attention has been paid to directly linking a subsidiary's activities for the management of social capital to its growth and learning (Adler & Kwon, 2002; Jarillo, 1988). Thus, this study adds a new insight to the literature on the antecedents of MNC's competitive advantage by examining a relatively unexplored construct, the local subsidiary's external networkability.

Second, this paper describes the distinctive characteristics of a subsidiary's roles. Of a subsidiary's activities, some are conducted to improve the market

share with competitive advantage; others are more related with sourcing new expertise for the future survival. The distinction between market positioning activities and resource developing ones, although theoretically and managerially important, has not been studied carefully in past researches.

Implications of this study for the theoretical improvement are twofold. First, this analysis focuses on the recognition of the socio-political processes associated with gaining knowledge and legitimacy from the external networks in a host country. We believe that those processes determine the development and evolution of a firm's activities and, therefore, that those processes can be understood as a concept of a firm's unique skill or basis of competitive advantage. Second, we need more theories that determine the types of knowledge being transferred among members of networks and how this knowledge is exploited and used. In this sense, it is possible that different types of networks can be useful in different types of firm's activities, such as market seeking or resource development.

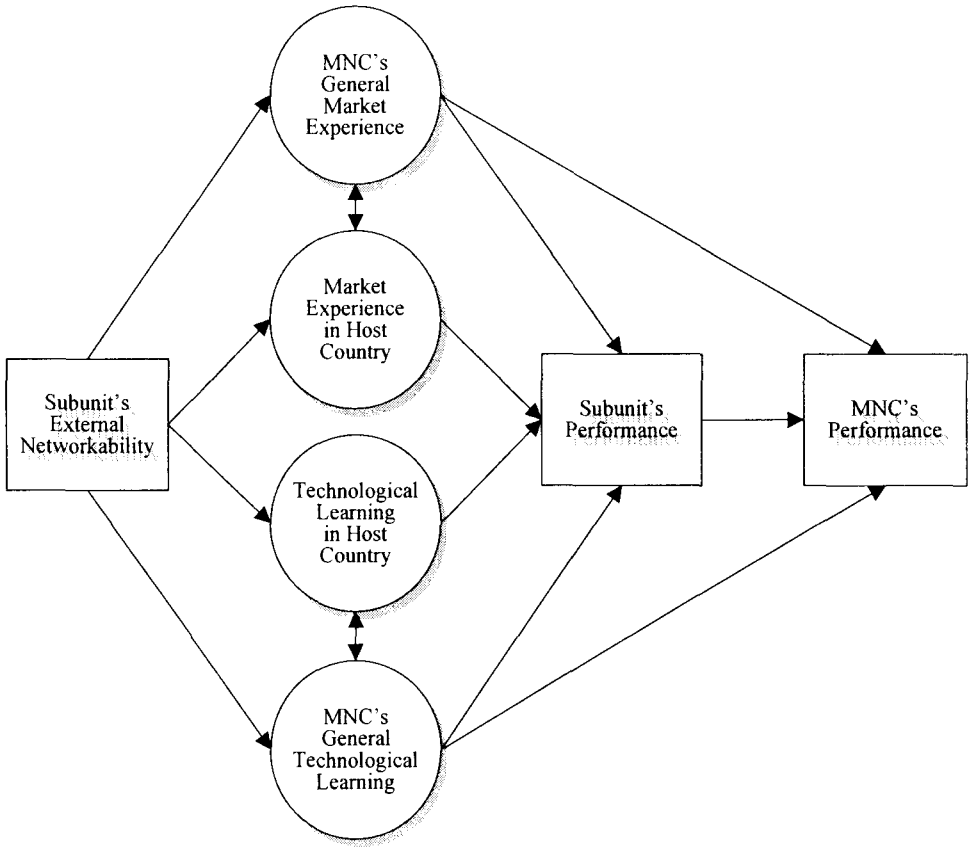
The analyses presented herein suggest several implications for managers in world-wide business organizations. Notably, managers need to recognize the importance of social networks when they manage world-wide business for overcoming the liability of foreignness and enhancing technological learning. While managers readily understand the importance of those networks for gaining resources and information, attention should be given to reaching and building networks of social capital to secure their position and stimulate innovation. Second, managers need to focus on integrating the knowledge gathered from their external networks in host countries. This knowledge might be contradictory and fragmented; integration makes this knowledge useful in stimulating and sustaining economic activities and competitive advantage. Third, attention should be given also to building firm's absorptive

capacity in order to allow the firm to obtain knowledge from its world-wide networks. Finally, managers need to pay attention to the ecology of their social networks so as to maintain a good position in those networks over time.

Despite the several contributions this study provides, this study also has several limitations. First, referring to external networkability, our analysis has focused on its benefits on the basis of positive impacts of social capital. However, we acknowledge that social capital has also negative effects. For example, it could be the case that the cost of managing social capital exceeds the benefits of gaining information or legitimacy. Thus, a firm's external networkability would be an effective one only if it can handle this trade-off (Adler & Kwon, 2002; Ahuja, 2000; BarNir & Smith, 2002; Liebeskind, Oliver, Zucker, & Brewer, 1996). Second, the contribution of the model presented here is somewhat limited because this study is based on a big assumption that subsidiaries within a focal MNC are homogenous, one that is quite distant from the reality of the business world. So, future research is necessary to solve this problem. Finally, this study would be more useful if it more analyzed the role of host country experience and technological learning at both the corporate and subsidiary levels in detail. For example, Figure 2 would be more useful and powerful to explain the effect of a subsidiary's external networkability.

As shown in Figure 2, the host country experience can be divided into two categories. One is the knowledge or information specific for a particular country, while the other category denotes the knowledge that can be generally applied across subsidiaries. Likewise, the technological learning also can be divided into the corporate level and subsidiary level. An extended model will also relax the strict assumptions in this study by allowing diverse forms of subsidiary, even within an MNC.

Figure 2 Extended Research Framework



The model presented in this paper, however, will provide a useful basis for further testing those propositions about a subsidiary's external networkability and its subsequent impacts. The model suggested in this paper might be tested empirically through a careful study that captures these relationships. All of variables we have specified in the model could be measured directly or by proxy as well as survey, although the search for empirical relationships between the external networkability of an MNC's subsidiary and organizational performance with the moderating effects of the different types of MNCs requires a systematic, multi-step process. Hence the future empirical analysis might use cluster analysis, structural equation modeling, and ANOVA to con-

vert a mass of data into useful argumentations (Hair, Anderson, & Tatham, 1987). It is also a very useful way to conduct a case study before testing the model with a large data set. Consequently, we believe that an empirical test on the extended model will provide useful information and be an effective tool to present and future managers who want to create and manage their sub-unit's social capital more effectively and successfully.

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