European Business Review

How does a foreign subsidiary's differentiation strategy fit competitive dynamics and mandate?

Anders Pehrsson

Received 11 August 2016
Revised 11 August 2016
Accepted 13 August 2016

How does a foreign subsidiary's differentiation strategy fit competitive dynamics and mandate?

Anders Pehrsson
Linnaeus University, Vaxjo, Sweden

Abstract

Purpose – Drawing on the contingency perspective of strategy, the purpose of this paper is to extend current understanding of fit between a differentiation strategy of the industrial firm's foreign subsidiary and key contextual boundaries.

Design/methodology/approach – A conceptual framework is developed in which a differentiation strategy involves the complementary approaches of innovativeness and customer responsiveness. The key boundaries consist of local competitive dynamics and the value-adding mandate assigned to the subsidiary. Detailed features of four types of differentiation strategies are identified by analysing strategies applied by subsidiaries of industrial firms operating on the US market.

Findings – Four propositions are developed regarding alignment between strategy types and the boundaries. Relationships are proposed regarding a strategy type and a context specified by rivalry/relational competitive dynamics, and a broad/narrow value-adding mandate.

Research limitations/implications – The conceptual framework and the propositions may be tested by analysing statistical data on industrial firms' subsidiaries operating in several host countries.

Practical implications – To increase a foreign subsidiary's contribution to the global competitiveness of an industrial firm, an awareness of the boundaries to the subsidiary's strategy of differentiation that may hamper the subsidiary's performance is essential.

Originality/value – The conceptual framework, and the propositions, contributes to literature on the industrial firm's global strategy because it focuses on subsidiary strategy and extends present understanding of the mechanisms that drive the effectiveness of a foreign subsidiary's differentiation strategy.

Keywords Differentiation, Subsidiary, Strategy, Fit, Competitive dynamics, Value-adding

Paper type Conceptual paper

Introduction

Global competitiveness of the industrial firm has been a popular research topic for a long time (Hult, 2012). Although, for example, Katsikeas *et al.* (2006) underscore that competitiveness relies on a strategy fit with local environmental contexts, previous

Earlier versions of this manuscript were presented at the 43rd Academy of International Business Conference (UK, Ireland Chapter), London, 7-9 April 2016, and the Strategic Management Society Special Conference, Rome, 5-7 June 2016. The author is thankful for valuable comments received from conference participants and reviewers. Miralem Helmefalk and Clarinda Rodrigues also delivered important comments. Tobias Pehrsson and Daniel Svanberg Nilsson collected data on the subsidiary cases.

European Business Review
Vol. 28 No. 6, 2016
pp. 690-708

0955-534X
DOI 10.1108/EBR-08-2016-0107

research, however, largely overlooks how the industrial firm's foreign subsidiary may contribute. Drawing on the contingency perspective of strategy (Boyd *et al.*, 2012), the purpose of this article is to extend current understanding of fit between a differentiation strategy of the industrial firm's foreign subsidiary and key contextual boundaries.

An industrial firm's subsidiary that operates in a dynamic local environment that exerts great competitive pressure generally benefits from developing a differentiation strategy. That strategy emphasizes competitive attributes other than those being emphasized by the strategies of rivals, and brings a local competitive advantage. In turn, it may also strengthen the firm's global competitiveness (Figueiredo, 2011; Porter, 1980; Sousa *et al.*, 2010).

The article answers the question "how does a foreign subsidiary's differentiation strategy fit competitive dynamics and mandate?" by developing a conceptual framework, including proposed relationships among types of strategies and contextual boundaries. The framework contributes to literature on the industrial firm's global strategy because it focuses on subsidiary strategy and extends present understanding of the mechanisms that drive the effectiveness of a foreign subsidiary's differentiation strategy.

Provided that the subsidiary possesses sufficient knowledge of its customers and competitors, innovativeness and customer responsiveness are central and complementary ingredients of a differentiation strategy (Hult and Ketchen, 2001). Innovativeness manifests a market-driving and entrepreneurial behaviour of the firm that results in the introduction of product or marketing innovations (Covin and Lumpkin, 2011; Lumpkin and Dess, 1996). On the other hand, customer responsiveness is a market-oriented and market-driven behaviour of the firm. For example, by customizing products or services, and building relationships with customers, the subsidiary will be able to respond to the needs of target customers in established markets (Kohli and Jaworski, 1990; Kirca *et al.*, 2005; Qu, 2012).

However, there is an incomplete understanding of boundaries to the effectiveness of innovativeness/responsiveness on the analysis level of the foreign subsidiary. Although positive direct relationships with performance have been detected (Figueiredo, 2011; Kim *et al.*, 2011; Sousa *et al.*, 2010), there is a need to extend the knowledge of limitations that may obstruct the subsidiary's ability to effectively carry out its strategies. This article sheds light on two important contextual factors that have been overlooked in previous research, namely, competitive dynamics and the scope of the value-adding mandate assigned to the subsidiary. Competitive dynamics comprise the competitive actions and reactions of competing firms (Chen and Miller, 2012). The scope of the mandate specifies crucial value-adding activities of the subsidiary (Pehrsson and Pehrsson, 2014). Both factors may seriously restrict strategy feasibility as either competition or too few resources for value-adding may make it difficult to implement an intended strategy.

A lack of understanding of the impact of competitive dynamics is a significant gap, as the purpose of a differentiation strategy is to emphasize sustainable uniqueness in relation to the strategies and actions of major competitors (Chen and Miller, 2012). Extended knowledge of competitive dynamics would go beyond familiarity with external boundaries in foreign markets, such as general environmental dynamism (Dimitratos *et al.*, 2004; Sundqvist *et al.*, 2012; Zahra and Garvis, 2000) and static competitive intensity (Boso *et al.*, 2012; Cadogan *et al.*, 2003; Katsikeas *et al.*, 2006; Qu and Zhang, 2015).

Various scholars have studied the impact of internal contingency factors, including product type, firm size and firm age (Kirca *et al.*, 2005; Grinstein, 2008; Frishammar and Andersson, 2009; Pehrsson, 2014). However, existing research has underestimated the impact of the subsidiary's value-adding mandate. Such knowledge is crucial; for example, a subsidiary that is involved in a firm's product development generally possesses a greater range of differentiation opportunities than a subsidiary with no influence at all.

The next section presents a review of relevant literature. The subsequent section develops the framework. Propositions regarding fit among strategies and contexts are then formulated based on analyses of cases of subsidiaries operating in the USA. Finally, conclusions, contributions and implications are discussed.

Literature review

This section initially discusses direct relationships between differentiation strategies relying on innovativeness/responsiveness and performance of a foreign subsidiary. It is then clarified that effectiveness of a strategy may be contingent on the context, but there is a limited understanding of boundaries to the effectiveness. The character of the external contingency factor of competitive dynamics is, thus, discussed and rivalry dynamics and relational dynamics are singled out as important. The internal factor of a foreign subsidiary's value-adding mandate is discussed as well, and a mandate is characterized by upstream and downstream activities. In summary, there is a need for more knowledge regarding fit between a differentiation strategy and both factors on the subsidiary level.

Generally, a direct relationship between a strategy and performance may be contingent on external and internal contexts. The contingency perspective means a questioning of universal direct relationships, and a contingency effect means that a direct relationship is strengthened or weakened by presence of a contingency factor (Boyd *et al.*, 2012). Managerially, a contingency effect means that the firm benefits from aligning its strategy with the context (Venkatraman, 1989).

Effectiveness of foreign subsidiary's differentiation strategy

Innovativeness and customer responsiveness are complementary differentiation strategies, as both rely on knowledge of the market. Innovativeness represents a way to create a market and differentiate from competitors once the firm identifies a market opportunity (Boso *et al.*, 2012; Covin and Lumpkin, 2011). Customer responsiveness essentially relies on the generation and dissemination of market intelligence across the units of the firm. Efficient handling of market information will result in an appropriate responsiveness to customers' established needs and, thus, a differentiation advantage (Kirca *et al.*, 2005).

Studies report direct and positive relationships between innovativeness and performance on foreign markets (Figueiredo, 2011; Kim *et al.*, 2011). For example, Kim *et al.* (2011) found that the innovativeness of a firm operating globally from inception has a positive effect on the firm's performance. Furthermore, Figueiredo (2011) underscores that it is crucial for a foreign subsidiary to be able to develop co-operation with internal and external actors to achieve effective innovativeness. Hence, it seems to be essential for a subsidiary to learn from other actors (Birkinshaw *et al.*, 2005; Cantwell and Mudambi, 2005).

Similar reasons are probably also relevant in explaining the direct and positive relationship between customer responsiveness and export performance detected by, for example, Sousa *et al.* (2010). In addition, effective collection and analysis of information on customers' needs are major explanations of these direct relationships (Cadogan *et al.*, 2003; Qu and Zhang, 2015).

To be effective in a changing local environment, it is crucial that innovativeness and customer responsiveness rest on dynamic capabilities, that is on the firm's capability to integrate, build and reconfigure its competencies in changing contexts (Teece *et al.*, 1997). The dynamic capability view (Eisenhardt and Martin, 2000; Teece, 2014) is an extension of the resource-based view (Penrose, 1959), as the precursor is not viewed as a suitable ground for developing strategies in dynamic settings. Hence, the dynamic capability view is a theory that explains performance differences among firms operating in environments where changes may be regular and may exhibit varying magnitudes (Eisenhardt *et al.*, 2010; Frasquet *et al.*, 2013, Pitelis and Teece, 2010; Teece, 2014).

Essentially, dynamic capabilities enable the creation and handling of the market knowledge that is necessary for differentiation strategies. In particular, dynamic capabilities facilitate the search for market opportunities and the identification of the needs of target customers, which are essential for developing effective strategies. Thus, well-developed routines are necessary for innovativeness, which may lead to a first-mover advantage (Lieberman and Montgomery, 1988), and for successful customer responsiveness, which requires the capability to detect changing preferences among established customers. Routines for gathering and analysing market information may be relevant for the entire firm, or for one foreign unit if the character of markets diverges (Pehrsson *et al.*, 2015).

Pehrsson *et al.* (2015) and Pehrsson and Pehrsson (2014) argue that explicit market knowledge may be transferred from other corporate units and that the foreign unit may build knowledge itself. Thus, the foreign subsidiary's knowledge stock is continuously created through a dialogue between explicit and tacit knowledge (Nonaka, 1994). Furthermore, the transfer of knowledge is facilitated if the products and markets of the transferring unit and of the subsidiary are related (Pehrsson, 2010), as relatedness enables the subsidiary's assimilation of knowledge. In addition, the subsidiary needs to adapt this knowledge to its local market context. Furthermore, informal and continuous work-related relationships between individuals in the firm as a whole facilitate interpersonal discussions and knowledge transfer (Hansen and Lövås, 2004). Regarding tacit knowledge, the foreign subsidiary needs to recognize the breadth of its product/market scope, as a broad scope brings heterogeneity and difficulties in carrying out analyses. Therefore, the subsidiary must be able to fully exploit its dynamic analysing capability to seize the market opportunities that are relevant for a broad scope.

External boundaries to strategy effectiveness

Not all scholars agree that a foreign subsidiary's differentiation strategy is always effective. Rather, several scholars show that the effectiveness may be contingent on the external context. Dimitratos *et al.* (2004), Sundqvist *et al.* (2012) and Zahra and Garvis (2000) examine external contingency factors that influence direct relationships between innovativeness as part of entrepreneurial orientation and foreign unit performance.

Here, contingency factors are manifested by general variability and uncertainty in the environment. The common finding is that the factors reinforce the direct relationship. However, Zahra and Garvis (2000) underscore that too much entrepreneurial orientation results in weak performance due to costly re-configurations of capabilities.

Other scholars pay attention to moderations of the relationships between customer responsiveness as part of market orientation and foreign unit performance (Boso *et al.*, 2012; Cadogan *et al.*, 2003; Qu and Zhang, 2015). Contingency factors originate from static markets and include competitive intensity and market heterogeneity.

However, research on relationships between differentiation strategy and performance of foreign units does not pay attention to contingency effects based on competitive dynamics. This is surprising, as a firm needs to evaluate its competition when trying to find a sustainable strategy (Porter, 1980). For example, Chen and Miller (2012) show that research is oriented more towards static patterns than towards capturing competitive dynamics in terms of inter-firm rivalry based on the competitive actions and reactions of competing firms.

The seminal work of Schumpeter (1950) was a starting point for competitive dynamics research, and he underscores that a firm acts and a rival responds. The character of that dynamic process decides which firm will survive and perform well in the long run. For example, a proactive action may bring a first-mover advantage (Lieberman and Montgomery, 1988) and market evolution (Soberman and Gatignon, 2005), while competitors react to the changes. Initial proactive actions may consist of new product introductions, market entry and initiatives regarding advertising and pricing.

Several authors (Chen, 1996; Chen and Miller, 2012; Williams, 2007; Yu and Cannella, 2007) apply the awareness–motivation–capability perspective and show that actions and reactions are shaped by a firm's awareness of actions, its motivation to react and its capability of reacting in a relevant way. Furthermore, Chen and Miller (2012) argue that the multidimensionality and context of broader competitive repertoires need greater attention. Similarly, greater attention should be paid to the necessity of not viewing competitive moves in isolation, but as outgrowths of a firm's overall competitive strategy (Hitt *et al.*, 2004).

The awareness–motivation–capability perspective builds on the notion that competitive actions manifest rivalry among competitors. Williams (2007) summarizes studies that apply the rivalry-based view on competitive dynamics, and concludes that the performance outcome of the actions of a firm will be weaker the stronger the responses of competitors. In particular, a great number of responses and quick responses will diminish the outcome. Therefore, the firm gains from designing complex actions that competitors find difficult to predict. Instruments for designing multidimensional actions include the type of action, issues of timing, number of competitors that may be threatened and visibility and frequency of actions (Williams, 2007).

Some situations are particularly important for competitive dynamics. First, firms that meet in more than one product category or market may have to face multipoint competition, which shapes the action and reaction patterns (Ketchen *et al.*, 2004) or results in mutual forbearance. Yu *et al.* (2009) found support for the mutual forbearance hypothesis and show that the competitive aggressiveness of a multinational corporation's foreign subsidiary declines when the number of market contacts with competitors increases.

Second, competitive dynamics is commonly considered to be an important feature of a strategic group of firms (Ketchen *et al.*, 2004). Such a group consists of firms that are similar along central strategic dimensions such as products or markets (Porter, 1980) and, therefore, that tend to act and react in the same way. Third, groups including competitors and other firms may also be specified by geographic proximity, which fosters competitive dynamics and relationship building among firms (Tallman *et al.*, 2004).

The existence of strategic groups and geographic groups of firms triggers imitation among firms due to closeness (Porac and Thomas, 1990). A firm's conscious or unconscious imitation of its main competitor is facilitated when there is no geographic barrier between the firms. The firm may, for example, imitate its role model's way of responding to customers' needs along some attributes. However, learning through imitation tends to reduce strategic differences among firms, and the imitating firm will encounter difficulties in preserving a sustainable differentiation advantage (Hamel, 2002; Pehrsson, 2014).

In addition to learning due to firm closeness, co-operative arrangements between competing firms may reduce the impact of reactions. Chen and Miller (2015) take it one step further and challenge the views of competitive dynamics that have been discussed so far in this article. They argue that the views of rivalry and co-operation need to be complemented by the relational view which, essentially, stretches the co-operation view. Each view is multidimensional because it assumes certain values regarding aim, actors, mode of action, time horizon and possible actions.

The relational view means that the firm aims to create value not just for itself but for many actors. Due to a competitor's reaction, the same act may simultaneously contain competition and co-operation and may involve both short-term and long-term activities. Also, the action repertoire is broad and does not just consist of competitive moves. Chen and Miller (2015) argue that the repertoire also consists of, for example, social moves that may strengthen the firm's competitive position and social reputation. However, it is important to underscore that a firm that wishes to shift from one view to another will face challenges, such as striving for an optimum relationship with a competitor that includes co-operation (Bengtsson and Johansson, 2011).

In summary, there is a need for more knowledge regarding the impact of boundaries due to competitive dynamics on the effectiveness of a foreign subsidiary's differentiation strategy. Furthermore, the contingency effect may vary depending on whether competitive dynamics is based on rivalry or relations among actors.

Internal boundaries to strategy effectiveness

Some scholars examine the impacts of internal contingency factors that impact direct relationships between differentiation strategies and performance. These include product type (Kirca *et al.*, 2005), firm size (Grinstein, 2008; Frishammar and Andersson, 2009) and firm age (Pehrsson, 2014). However, no study considers the internal boundary to strategy effectiveness stemming from the scope of a foreign subsidiary's value-adding mandate. For a foreign subsidiary of an industrial firm, this would be an important contingency factor, as it sets a boundary on the subsidiary's number of degrees of freedom when it comes to the execution of a differentiation strategy. In principle, the firm assigns a mandate to the subsidiary that may consist of permission to be engaged in crucial value-adding activities such as product development, production, sales or after-sales services (Figueiredo, 2011; Hewett *et al.*, 2003; Pehrsson, 2009).

A foreign subsidiary that takes part in a value chain's upstream activities and creates value by developing physical products frequently engages engineers that are involved in product innovations. Engineers may also take part in upstream value creation through production activities. Furthermore, having responsibility for sales and services means that the subsidiary is involved in downstream activities that support transmission of values to customers. To some degree, the subsidiary may replicate the value-adding activities of the parent firm or of other corporate units (Pehrsson and Pehrsson, 2014; White and Poynter, 1984), and get corporate support (Luo and Zhao, 2004). In other words, the subsidiary may adopt upstream and downstream activities that take place elsewhere in the corporation. It is also possible that the subsidiary supports other corporate units in their efforts to add value (Achcaoucaou *et al.*, 2014; Andersson *et al.*, 2002), a process that frequently requires extensive co-ordination (Yeniyurt *et al.*, 2005).

The value-adding mandate of a foreign subsidiary often develops over time and may be either extended or restricted (Achcaoucaou *et al.*, 2014; Egelhoff *et al.*, 1998; White and Poynter, 1984). Major drivers of the development of a mandate include corporate strategy (Dörrenbächer and Gammelgaard, 2006; Forsgren and Holm, 2010), subsidiary capabilities and initiatives (Birkinshaw, 1996; Cantwell and Mudambi, 2005; Dörrenbächer and Gammelgaard, 2006; Pananond, 2013) and localization advantages or local institutional characteristics (Birkinshaw and Hood, 1997; Dunning, 1988; Egelhoff *et al.*, 1998).

However, despite the importance of the internal contingency factor of value-adding mandate, there is just limited understanding of mechanisms behind its indirect impact on the effectiveness of a foreign subsidiary's innovativeness/responsiveness. In particular, any differences between boundaries due to upstream and downstream value-adding activities need to be explored.

Framework for types of differentiation strategies

Table I presents the framework for classification of types of differentiation strategies applied by foreign subsidiaries. Each type involves variants of innovativeness or customer responsiveness. It is assumed that there is a positive relationship between each type and performance of a foreign subsidiary provided that the strategy is aligned with the external and internal context specified by characteristics of competitive dynamics and the value-adding mandate, respectively.

An optimum application of the first strategy type means that the subsidiary is able to avoid competitive rivalry in terms of, for example, intensive price competition. At the same time, the subsidiary is able to fully exploit the broad range of upstream and

Table I.
Framework for types of foreign subsidiaries' differentiation strategies

Character of competitive dynamics	Character of the value-adding mandate: Upstream and downstream activities	Character of the value-adding mandate: Downstream activities
Rivalry dynamics	Differentiation strategy Type 1	Differentiation strategy Type 2
Relational dynamics	Differentiation strategy Type 3	Differentiation strategy Type 4

downstream value-adding activities specified by the mandate from headquarters. The second type is also aligned with rivalry competitive dynamics, but the subsidiary is bounded by a limited mandate consisting of just downstream activities.

The third type of differentiation strategy fits a competition context characterized by rather strong relationships among competitors. In addition, there are several freedom degrees, as the foreign subsidiary has the possibility to exploit an extensive value-adding mandate. Finally, the fourth strategy type suits relational competitive dynamics and a mandate limited to downstream activities.

Cases of foreign subsidiaries' differentiation strategies

Four cases of differentiation strategies of foreign subsidiaries were analysed to identify more precise features of the strategy types. Subsidiaries A–D described below operate in the USA and illustrate the fit between the strategies and the contexts.

It was appropriate to analyse cases, as there was limited prior knowledge of the issue (Eisenhardt, 1989). Thus, four subsidiaries belonging to Swedish industrial firms operating in the USA were chosen, as they were accessible. The USA was chosen because it is a very important market of Swedish industrial firms in general, implying that high performance of the subsidiaries would be a major concern of these firms. The four subsidiaries performed well in the USA according to average sales growth from 2010-2013, so these subsidiaries had achieved an excellent fit between their strategies and contexts. Examining these cases would therefore make it possible to clarify features of the strategies specified by the framework.

In accordance with convenience sampling, a large number of Swedish subsidiaries were contacted (Pehrsson and Pehrsson, 2014, 2015). Four high-performing subsidiaries operating in the Chicago region were willing to take part in the study. Subsidiary A primarily offers products for connecting hydraulic components based on residual pressure. Subsidiary B offers personal strength-training equipment. Subsidiary C is engaged in products for indoor air purification, while Subsidiary D mainly offers ground-engaging tools for construction, mining and dredging. In addition to a responsibility for sales, the subsidiaries are responsible for varying upstream and downstream value-adding activities.

Information from the firm's annual reports was analysed, and face-to-face interviews were carried out in 2013 with the well-informed presidents of the US subsidiaries. A semi-structured approach (Yin, 2003) was applied at the interviews, and questions were asked regarding the differentiation strategies, competition, value-adding mandate and performance. Each interview lasted between 60 and 90 min. The understandability of the questions was tested in advance to increase validity. In addition, the interview answers' validity was extended through a comparison of the answers with information gathered from annual reports. These sources were used in a few cases of disparity. Finally, the respondents were given the opportunity to read the case descriptions and adjust any misunderstandings.

Propositions regarding strategy fit

Based on identification of features of the type of differentiation strategy applied by each subsidiary case, literature and logical reasoning, general propositions regarding relationships are formulated in this section. These propositions, thus, concern fit between a strategy type and the character of competitive dynamics and the value-adding mandate assigned to a foreign subsidiary (Table II).

Product innovativeness

The average yearly sales of *Subsidiary A* in the USA grew by 10 per cent during 2010-2013. This subsidiary is responsible for upstream product development and production, and for downstream sales of products for connecting hydraulic components with residual pressure. Its differentiation strategy is characterized by incremental product innovations that suit the US market and are based on quality. The innovations often require that the subsidiary develops its production equipment which is allowed by headquarters. In addition, as a foundation for the innovative steps, the subsidiary continuously monitors customers and competitors. Furthermore, in analysing information, extensive communication occurs between different corporate functions and departments.

The competitive setting is dominated by rivalry-based dynamics, as most customers are very sensitive to prices and competitors react quickly to price changes. The product innovations are a way of broadening the subsidiary's market in a proactive manner and reducing the impact of price competition. Thus, initially, *Subsidiary A* tries to identify market niches that are price-driven or quality-driven. If a niche presents an opportunity for the subsidiary to benefit from quality while avoiding price competition, it is attractive to the subsidiary. However, the subsidiary avoids quality niches that involve very big customers that require both high quality and low prices.

Rivalry competitive dynamics are characterized by competitive actions and reactions of competing firms (Chen and Miller, 2012). In principle, the performance outcome of the subsidiary's actions is weaker, the stronger and quicker the responses of its competitors (Williams, 2007). From this premise, it follows that *Subsidiary A* will benefit from designing complicated actions that competitors have difficulty recognizing and evaluating. In particular, multidimensional actions are beneficial, as they have less visibility.

The case shows that innovativeness is a suitable differentiation strategy in a situation where there is extensive competitive dynamics based on rivalry. Innovativeness involves complex actions such as the introduction of new products that create new markets, and these actions may be troublesome for competitors to anticipate. An emphasis on innovativeness merely ensures that the subsidiary may take undetected steps without retaliation; this characterizes an entrepreneurial orientation (Katila *et al.*, 2012). Thus, innovativeness is probably a suitable ground for maintaining uniqueness when under the influence of a rivalry competition. The uniqueness associated with innovativeness may remain even if the principal competitors differentiate to a large extent, provided that the subsidiary continues to improve its

Table II.
Proposed fit between a foreign subsidiary's differentiation strategy and boundaries

Type of competitive dynamics	Characteristics of the value-adding mandate: Upstream and downstream activities	Downstream activities
Rivalry dynamics	*P1.* Product innovativeness	*P2.* Marketing innovativeness
Relational dynamics	*P3.* Product responsiveness	*P4.* Marketing responsiveness

capability to innovate. In this way, the subsidiary may keep its position as a first-mover and as an industry leader that will be a role model for other firms (Ketchen *et al.*, 2004).

In searching for uniqueness, the subsidiary needs to reflect upon the advantages of following its own path versus imitating attributes of its competitors' strategies, other than those that the competitors primarily emphasize (Greve, 1998; Porac and Thomas, 1990). There is, however, a latent risk that competitive imitation will lead to strategy convergence and that the uniqueness will deteriorate over time (Hamel, 2002; Pehrsson, 2014).

The dynamic behaviour of the main competitors may lead to barriers that the foreign subsidiary must face if it tries to modify its differentiation strategy to avoid strategy convergence. Such mobility barriers generally add to the subsidiary's costs and make it difficult for the subsidiary to achieve high performance (Caves and Ghemawat, 1992). In principle, a barrier may affect all the actors competing in an industry, or it may only affect the actors in a particular local market.

If the main competitor of a foreign subsidiary is globally dominant, it will, most probably, rely on a low-cost strategy (Porter, 1980). This means that the subsidiary has to handle a mobility barrier due to a need for scale (Gable *et al.*, 1995). On the other hand, if the main competitor tries to build close local customer relationships, major barriers include customers' costs when switching to other suppliers and loyalty to suppliers, and the availability of distribution channels (Brusk *et al.*, 2012; Karakaya and Parayitam, 2013; Gable *et al.*, 1995).

Based on the preceding discussion, this article proposes (*P1*) that a differentiation strategy of product innovativeness fits boundaries due to competitive dynamics based on rivalry and a broad value-adding mandate:

P1. Product innovativeness is central to the differentiation strategy of a foreign subsidiary bounded by rivalry-based competitive dynamics and a value-adding mandate that includes upstream and downstream activities.

Marketing innovativeness

On average, the sales of *Subsidiary B* grew by 25 per cent per year during 2010-2013. A major reason for this growth is the subsidiary's innovative approach to marketing, which combines a Web shop and specialized retailers with direct sales to universities and colleges throughout the USA. These constitute the principal target group to which this sales and service subsidiary offers equipment for personal strength-training.

The parent firm initially delivered the products to the US subsidiary, which in turn sold them through retailers. Later, when sales increased, the subsidiary started to sell directly to universities and colleges, and set up its own Web shop and retailers. Marketing innovations might generally involve designing new ways to access potential customers in established markets or new markets built by a firm (Ozkaya *et al.*, 2015; Zhou *et al.*, 2005). This is confirmed by *Subsidiary B* that accesses potential customers through innovative design of distribution and communications channels.

The subsidiary's differentiation strategy focuses on local sales and services and deviates from the firm's strategies in other markets. Due to limited business relatedness (Pehrsson, 2010), the subsidiary in principle has been forced to develop its own experience without much help from other corporate units that is generally important (Luo and Zhao, 2004). Furthermore, a responsibility for sales and services means that the subsidiary is involved in downstream activities that support transmission of values to customers. To some degree, the subsidiary may learn from replicating aspects of sales and services activities of the parent firm or of other corporate units (Pehrsson and Pehrsson, 2014; White and Poynter, 1984).

The innovative marketing approach of *Subsidiary B* provides it with a way to differentiate from the dominant competitors, which to a high degree compete on price, carefully monitoring each other and reacting to moves made by rivals in accordance with rivalry-based competitive dynamics (Williams, 2007). The subsidiary predominantly competes against a few global and large competitors that emphasize high quality and low prices. There are also numerous domestic competitors, including several low-quality producers with low prices:

P2. Marketing innovativeness is central to the differentiation strategy of a foreign subsidiary bounded by rivalry-based competitive dynamics and a value-adding mandate that includes just downstream activities.

Product responsiveness

Air-purification products for indoor use constitute the major products of *Subsidiary C*, and its main target groups comprise individual consumers, hospitals and government authorities. Its yearly average sales grew by 20 per cent during 2010-2013. This subsidiary systematically analyses information and feedback received from local customers and delivers monthly reports on market changes to the parent firm as a basis for regular meetings. The detailed information about customer needs enables responsiveness and makes it possible to customize products. This strategy of differentiation is supported by the broad value-adding mandate assigned to the subsidiary, which consists of upstream production and downstream sales. Thus, *Subsidiary C* takes care of the assembly of components delivered by the parent firm and turns them into complete products in response to the needs of individual customers.

The product responsiveness strategy by means of product customization is driven by competitive dynamics, which to a large extent assumes the relational character discussed by Chen and Miller (2015). Hence, the subsidiary encounters great difficulties in building sustainable co-operation with retailers, as the retailers often tend to be strongly linked to competitors of the subsidiary. This is a problematic issue because a well-functioning mix of retailers and direct sales facilitates access to end customers.

Danneels (2012) shows that market knowledge positively affects firms' performance when competitive conditions are relatively stable. An implication would be that a market-oriented strategy such as product responsiveness functions well when there is not too much unpredictable competition based on rivalry. Rather, stable conditions correspond to relational competitive dynamics where the subsidiary's identification of target customers and other major actors takes place under the influence of established relationships between competitors.

Also, stability makes it easier for the subsidiary itself to arrange long-term co-operation with competitors. Co-operation with local competitors particularly makes it easier for the subsidiary to access market knowledge, which strengthens the effectiveness of its customer responsiveness strategy (Dahms, 2015; Rugman and Verbeke, 2001). Such co-operation may take place in parallel not only to competitive actions and reactions, but also to social moves that are intended to attract target groups other than customers (Chen and Miller, 2015). Pehrsson *et al.* (2015) contribute by showing that some degree of stability also favours the development of foreign units' dynamic capabilities, which are a foundation of customer responsiveness. For example, the transfer of relevant capabilities from other corporate units to the subsidiary requires stable links:

P3. Product responsiveness is central to the differentiation strategy of a foreign subsidiary bounded by relational-based competitive dynamics and a value-adding mandate that includes upstream and downstream activities.

Marketing responsiveness

Subsidiary D accounted for an average sales growth of 20 per cent per year during 2010-2013. It is responsible for the sales of ground-engaging tools for construction, mining and dredging in the USA. This subsidiary emphasizes a marketing responsiveness strategy in which the customization of sales and services is central. Thus, the subsidiary focuses on individual customers that demand high quality and quick and safe deliveries. As a basis for the identification of target customers, the subsidiary takes part in building a corporate-wide database that contains information and analyses of market demands. The information is regularly discussed at meetings involving representatives of different functions of the firm as a whole.

Because it also has a large number of end customers, the subsidiary co-operates with distributors and supports them with customized sales and service activities directed to end customers. However, the subsidiary often encounters difficulties finding distributors that want to invest enough to increase sales of the subsidiary's products. A major reason for these difficulties is that relations among dominating competitors constitute a high barrier that makes it difficult for the subsidiary to get attention on the market. In addition, strong ties among the dominating competitors and the most attractive distributors shape the setting, which is thus characterized by relational competitive dynamics (Chen and Miller, 2015).

The narrow mandate without upstream activities means that the subsidiary will find it difficult to influence corporate decisions regarding products. Although such influence may be crucial to the way local differentiation should be conducted, the subsidiary experiences too few degrees of freedom. The narrow mandate will, hence, limit the possibilities to offer customized products that suit the preferences of end customers.

A mandate involving downstream value-adding activities generally fits a differentiation strategy of marketing responsiveness that particularly relies on closeness and long-term relationships with individual customers (Kirca *et al.*, 2005). The case of *Subsidiary D* shows that responsiveness manifested by adaptation of sales and services to end customers without product customization is associated with such customer relations. The final proposition expresses the contextual boundaries of marketing responsiveness:

P4. Marketing responsiveness is central to the differentiation strategy of a foreign subsidiary bounded by relational-based competitive dynamics and a value-adding mandate that includes just downstream activities.

Discussion

Conclusions and theoretical contributions

The conceptual framework and the propositions developed in this article extend current understanding of fit between a differentiation strategy of the industrial firm's foreign subsidiary and crucial contextual boundaries. The results show how a foreign subsidiary's differentiation strategy is bounded by competitive dynamics and the value-adding mandate assigned to the subsidiary.

In particular, a strategic fit is achieved if the subsidiary applies a strategy of innovativeness in situations where there is extensive rivalry among competitors manifested by, for example, severe low price competition. However, to achieve competitiveness, there should also be a fit between the strategy and the subsidiary's value-adding mandate. A focus on product innovativeness needs to be matched with a value-adding mandate that incorporates both upstream activities such as product development and downstream activities such as sales and services. Otherwise, the subsidiary will be hampered by restrictions on its freedom to act, resulting in low performance. On the other hand, a strategy that emphasizes marketing innovations must primarily be supported by downstream activities that facilitate the transfer of value to customers.

When it comes to a local competitive environment characterized by strong relations among competitors and other actors, a responsiveness strategy is a suitable choice because there is less competition based on rivalry and accompanying unpredictability. Yet, even in such an environment, the value-adding mandate is a crucial contingency factor because a focus on product-based responsiveness requires a broad value-adding scope. Conversely, a mandate that only consists of downstream activities would be appropriate for marketing-based responsiveness.

The conceptual framework and the propositions developed in this article contribute to theory on the industrial firm's global strategy in a number of ways. First, the results particularly contribute to the understanding of the mechanisms that drive the effectiveness of a foreign subsidiary's differentiation strategy. Second, the results more precisely illuminate that such a strategy needs to be aligned with the context and this goes beyond contributions of previous studies showing positive direct relationships between the strategy and performance (Figueiredo, 2011; Sousa *et al.*, 2010). Third, the results of this article underline that the strategy needs to be aligned with the character of the competitive dynamics being manifested by the mutual behaviour among major competitors. This contribution adds to the previous knowledge that external contingencies consist of static competition (Boso *et al.*, 2012; Qu and Zhang, 2015) or to environmental dynamism in general (Sundqvist *et al.*, 2012).

Fourth, the framework also emphasizes the importance of the internal contingency factor of the subsidiary's value-adding mandate. Without relevant influence on decisions regarding upstream activities such as product development and production, or downstream activities such as sales and service, the subsidiary will encounter difficulties related to the execution of a certain type of differentiation strategy. This emphasis contributes because it goes beyond previous contributions that reflect on the importance of other internal contingency factors such as product type, firm size and age (Kirca *et al.*, 2005; Grinstein, 2008; Frishammar and Andersson, 2009; Pehrsson, 2014).

Managerial implications and further research

The corporate management of an industrial firm and the management of a foreign subsidiary operating in a competitive environment are advised to base a local differentiation strategy on the results presented in this article. In particular, efficient routines for collecting, analysing and disseminating market information will facilitate efforts to develop innovations that may drive the market, and will improve the effectiveness of responsiveness to the established needs of local customers.

To achieve global competitiveness, corporate management need to pay attention to its foreign subsidiary's strategy and its effects on performance, and encourage alignment between the strategy and the contextual boundaries. However, a dynamic competitive setting in a foreign market means that the subsidiary's differentiation strategy may have to deviate from the corporate strategy. In addition to the difficulties following a deviation that prevent the subsidiary from enjoying the benefits of business relatedness (Pehrsson, 2010), and along with the other costs of a limited integration, the subsidiary's execution of a differentiation strategy may be hindered by a value-adding mandate that does not fit the local strategy. Hence, a local strategy's reinforcement of corporate strategy and global competitiveness should be balanced against the costs due to contextual boundaries.

In addition to paying attention to the strategy effectiveness of individual foreign subsidiaries, corporate management needs to co-ordinate its creation of values for the global market. Thus, value-chain co-ordination and the exploitation of country-specific advantages are crucial to global competitiveness (Yeniyurt *et al.*, 2005). Learning from efficient local routines for handling market information and learning from local experiences in executing differentiation strategies are essential inputs into the corporation's overall creation of competitiveness.

There are limitations to generalizations of the results presented in the article. First, there may be other relevant aspects of the differentiation strategies and boundaries than those discussed here. Second, the subsidiary cases operate in the same host country and they belong to firms from just one country. Third, no time-dependent changes were observed. The conceptual framework and propositions developed here may, therefore, be statistically tested in future studies. Tests may, for example, incorporate analyses of developments of differentiation strategies of foreign subsidiaries and contextual boundaries. Contingency effects of competitive dynamics and value-adding mandates may be analysed over time and could also concern subsidiaries operating in several host countries to examine host market effects. Also, variation of firms' home countries would be pertinent. The examination of event histories would probably be an interesting ingredient of a statistical study.

References

Achcaoucaou, F., Miravitlles, P. and León-Darder, F. (2014), "Knowledge sharing and subsidiary R&D mandate development: a matter of dual embeddedness", *International Business Review*, Vol. 23, pp. 76-90.

Andersson, U., Forsgren, M. and Holm, U. (2002), "The strategic impact of external networks: subsidiary performance and competence development in the multinational corporation", *Strategic Management Journal*, Vol. 23 No. 9, pp. 979-996.

Bengtsson, M. and Johansson, M. (2011), "Clashes between contending market regimes: a challenge for firms in converging industries", *European Business Review*, Vol. 23 No. 5, pp. 454-476.

Birkinshaw, J. (1996), "How multinational subsidiary mandates are gained and lost", *Journal of International Business Studies*, Vol. 27 No. 3, pp. 467-495.

Birkinshaw, J. and Hood, N. (1997), "An empirical study of development processes in foreign-owned subsidiaries in Canada and Scotland", *Management International Review*, Vol. 37 No. 4, pp. 339-364.

Birkinshaw, J., Hood, N. and Young, S. (2005), "Subsidiary entrepreneurship, internal and external competitive forces, and subsidiary performance", *International Business Review*, Vol. 14, pp. 227-248.

Boso, N., Cadogan, J.W. and Story, V.M. (2012), "Complementary effect of entrepreneurial and market orientations on export new product success under differing levels of competitive intensity and financial capital", *International Business Review*, Vol. 21, pp. 667-681.

Boyd, B.K., Haynes, K.T., Hitt, M.A., Bergh, D.D. and Ketchen, D.J. Jr. (2012), "Contingency hypotheses in strategic management research: use, disuse, or misuse?", *Journal of Management*, Vol. 38 No. 1, pp. 278-313.

Brusk, T.H., Dangol, R. and O'Brien, J.P. (2012), "Customer capabilities, switching costs, and bank performance", *Strategic Management Journal*, Vol. 33 No. 13, pp. 1499-1515.

Cadogan, J.W., Cui, C.C. and Li, E.K.Y. (2003), "Export market-oriented behavior and export performance: the moderating roles of competitive intensity and technological turbulence", *International Marketing Review*, Vol. 20 No. 5, pp. 493-513.

Cantwell, J.A. and Mudambi, R. (2005), "MNE competence creating subsidiary mandates", *Strategic Management Journal*, Vol. 26 No. 12, pp. 1109-1128.

Caves, R.E. and Ghemawat, P. (1992), "Identifying mobility barriers", *Strategic Management Journal*, Vol. 13 No. 1, pp. 1-12.

Chen, M.J. (1996), "Competitor analysis and inter-firm rivalry: towards a theoretical integration", *Academy of Management Review*, Vol. 21 No. 1, pp. 100-134.

Chen, M.J. and Miller, D. (2012), "Competitive dynamics: themes, trends, and a prospective research platform", *The Academy of Management Annals*, Vol. 6 No. 1, pp. 135-210.

Chen, M.J. and Miller, D. (2015), "Reconceptualizing competitive dynamics: a multidimensional framework", *Strategic Management Journal*, Vol. 36 No. 5, pp. 758-775.

Covin, J.G. and Lumpkin, G.T. (2011), "Entrepreneurial orientation theory and research: reflections on a needed construct", *Entrepreneurship Theory and Practice*, Vol. 35 No. 5, pp. 855-872.

Dahms, S. (2015), "The effects of institutions and subsidiary competence on the international market orientation in foreign-owned subsidiaries", *Management Research Review*, Vol. 38 No. 12, pp. 1285-1305.

Danneels, E. (2012), "Second-order competences and Schumpeterian rents", *Strategic Entrepreneurship Journal*, Vol. 6 No. 1, pp. 42-58.

Dimitratos, P., Lioukas, S. and Carter, S. (2004), "The relationship between entrepreneurship and international performance: the importance of domestic environment", *International Business Review*, Vol. 13 No. 1, pp. 19-41.

Dörrenbächer, C. and Gammelgaard, J. (2006), "Subsidiary role development: the effect of micro-political headquarters-subsidiary negotiations on the product, market and value-added scope of foreign-owned subsidiaries", *Journal of International Management*, Vol. 12 No. 3, pp. 266-283.

Dunning, J.H. (1988), *Explaining International Production*, Unwin Hyman, London.

Egelhoff, W.G., Gorman, L. and McCormick, S. (1998), "Using technology as a path to subsidiary development", in Birkinshaw, J. and Hood, N. (Eds), *Multinational Corporate Evolution and Subsidiary Development*, MacMillan Press, Houndmills, Basingstoke, pp. 213-238.

Eisenhardt, K. (1989), "Building theories from case study research", *Academy of Management Review*, Vol. 14 No. 4, pp. 532-551.

Eisenhardt, K.M., Furr, N.R. and Bingham, C.B. (2010), "Microfoundations of performance: balancing efficiency and flexibility in dynamic environments", *Organization Science*, Vol. 21 No. 6, pp. 1263-1273.

Eisenhardt, K.M. and Martin, J. (2000), "Dynamic capabilities: what are they?", *Strategic Management Journal*, Vol. 21 Nos 10/11, pp. 1105-1121.

Figueiredo, P.N. (2011), "The role dual embeddedness in the innovative performance of MNE subsidiaries: evidence from Brazil", *Journal of Management Studies*, Vol. 48 No. 2, pp. 417-440.

Forsgren, M. and Holm, U. (2010), "MNC headquarters' role in subsidiaries' value-creating activities: a problem of rationality and radical uncertainty", *Scandinavian Journal of Management*, Vol. 26 No. 4, pp. 421-430.

Frasquet, M., Dawson, J. and Mollá, A. (2013), "Post-entry internationalization of retailers: an assessment of dynamic capabilities", *Management Decision*, Vol. 51 No. 7, pp. 1510-1527.

Frishammar, J. and Andersson, S. (2009), "The overestimated role of strategic orientations for international performance in smaller firms", *Journal of International Entrepreneurship*, Vol. 7 No. 1, pp. 57-77.

Gable, M., Topol, M.T., Mathis, S. and Fisher, M.E. (1995), "Entry barriers in retailing", *Journal of Retailing and Consumer Services*, Vol. 2 No. 4, pp. 211-221.

Greve, H.R. (1998), "Managerial cognition and the mimetic adoption of market positions: what you see is what you do", *Strategic Management Journal*, Vol. 19 No. 10, pp. 967-988.

Grinstein, A. (2008), "The effect of market orientation and its components on innovation consequences: a meta-analysis", *Journal of the Academy of Marketing Science*, Vol. 36, pp. 166-173.

Hamel, G. (2002), *Leading the Revolution*, Penguin Books, New York, NY.

Hansen, M. and Lövås, B. (2004), "How do multinational companies leverage technological competencies? Moving from single to interdependent explanations", *Strategic Management Journal*, Vol. 25 Nos 8/9, pp. 801-822.

Hewett, K., Roth, M.S. and Roth, K. (2003), "Conditions influencing headquarters and foreign subsidiary roles in marketing activities and their effects on performance", *Journal of International Business Studies*, Vol. 34 No. 6, pp. 567-585.

Hitt, M.A., Boyd, B. and Li, D. (2004), "The state of strategic management research and vision of the future", in Ketchen, D.J. and Bergh, D.D. (Eds), *Research Methodology in Strategy and Management*, JAI Press, Greenwich, CT.

Hult, G.T.M. (2012), "A focus on international competitiveness", *Journal of the Academy of Marketing Science*, Vol. 40 No. 2, pp. 195-201.

Hult, G.T.M. and Ketchen, D.J. (2001), "Does market orientation matter? A test of the relationship between positional advantage and performance", *Strategic Management Journal*, Vol. 22 No. 9, pp. 899-906.

Karakaya, F. and Parayitam, S. (2013), "Barriers to entry and firm performance: a proposed model and curvilinear relationship", *Journal of Strategic Marketing*, Vol. 21 No. 1, pp. 25-47.

Katila, R., Chen, E.L. and Piezunka, H. (2012), "All the right moves: how entrepreneurial firms compete effectively", *Strategic Entrepreneurship Journal*, Vol. 6, pp. 116-132.

Katsikeas, C.S., Samiee, S. and Theodosiou, M. (2006), "Strategy fit and performance consequences of international marketing standardization", *Strategic Management Journal*, Vol. 27 No. 9, pp. 867-890.

Ketchen, D.J., Snow, C.C. and Hoover, V.L. (2004), "Research on competitive dynamics: recent accomplishments and future challenges", *Journal of Management*, Vol. 30 No. 6, pp. 779-804.

Kim, D., Basu, C., Naidu, G.M. and Cavusgil, E. (2011), "The innovativeness of born-globals and customer orientation: learning from Indian born-globals", *Journal of Business Research*, Vol. 64 No. 8, pp. 879-886.

Kirca, A.H., Jayachandran, S. and Bearden, W.O. (2005), "Market orientation: a meta- analytic review and assessment of its antecedents and impact on performance", *Journal of Marketing*, Vol. 69 No. 2, pp. 24-41.

Kohli, A.K. and Jaworski, B.J. (1990), "Market orientation: the construct, research propositions and managerial implications", *Journal of Marketing*, Vol. 54 No. 2, pp. 1-18.

Lieberman, M.B. and Montgomery, D.B. (1988), "First-mover advantages", *Strategic Management Journal*, Vol. 9, pp. 41-58.

Lumpkin, G.T. and Dess, G.G. (1996), "Clarifying the entrepreneurial orientation construct and linking it to performance", *Academy of Management Review*, Vol. 21, pp. 135-172.

Luo, Y. and Zhao, H. (2004), "Corporate link and competitive strategy in multinational enterprises: a perspective from subsidiaries seeking host market penetration", *Journal of International Management*, Vol. 10 No. 1, pp. 77-105.

Nonaka, I. (1994), "A dynamic theory of organizational knowledge creation", *Organization Science*, Vol. 5 No. 1, pp. 14-37.

Ozkaya, H.E., Droge, C., Hult, G.T.M., Calantone, R. and Ozkaya, E. (2015), "Market orientation, knowledge competence, and innovation", *International Journal of Research in Marketing*, Vol. 32 No. 3, pp. 309-318.

Pananond, P. (2013), "Where do we go from here? Globalizing subsidiaries moving up the value chain", *Journal of International Management*, Vol. 19, pp. 207-219.

Pehrsson, A. (2009), "Marketing strategy antecedents of value adding by foreign subsidiaries", *International Marketing Review*, Vol. 26 No. 2, pp. 151-171.

Pehrsson, A. (2010), "Business-relatedness and strategy moderations: impacts on foreign subsidiary performance", *Journal of Strategy and Management*, Vol. 3 No. 2, pp. 110-133.

Pehrsson, A. (2014), "Firms' customer responsiveness and performance: the moderating roles of dyadic competition and firm's age", *Journal of Business & Industrial Marketing*, Vol. 29 No. 1, pp. 34-44.

Pehrsson, A. and Pehrsson, T. (2014), "Consistent resource base of a foreign subsidiary's greenfield expansion: a conceptual framework and propositions", *European Business Review*, Vol. 26 No. 1, pp. 64-78.

Pehrsson, A. and Pehrsson, T. (2015), "Competition barriers and foreign subsidiary performance: propositions on the contextual role of strategic orientation", *International Journal of Business Competition and Growth*, Vol. 4 Nos 1/2, pp. 3-23.

Pehrsson, T., Ghannad, N., Pehrsson, A., Abt, T., Chen, S., Erath, F. and Hammarstig, T. (2015), "Dynamic capabilities and performance in foreign markets: developments within international new ventures", *Journal of International Entrepreneurship*, Vol. 13 No. 1, pp. 28-48.

Penrose, E. (1959), *The Theory of the Growth of the Firm*, Blackwell, Oxford.

Pitelis, C.N. and Teece, D.J. (2010), "Cross-border market co-creation, dynamic capabilities and the entrepreneurial theory of the multinational enterprise", *Industrial and Corporate Change*, Vol. 19 No. 4, pp. 1247-1270.

Porac, J.F. and Thomas, H. (1990), "Taxonomic mental models in competitor definition", *Academy of Management Review*, Vol. 15 No. 2, pp. 224-240.

Porter, M.E. (1980), *Competitive Strategy*, The Free Press, New York, NY.

Qu, R. (2012), "The impact of integration and responsiveness on MNC subsidiaries' market orientation", *Journal of Global Marketing*, Vol. 25 No. 3, pp. 127-140.

Qu, R. and Zhang, Z. (2015), "Market orientation and business performance in MNC foreign subsidiaries: moderating effects of integration and responsiveness", *Journal of Business Research*, Vol. 68, pp. 919-924.

Rugman, A.M. and Verbeke, A. (2001), "Subsidiary-specific advantages in multinational enterprises", *Strategic Management Journal*, Vol. 22 No. 3, pp. 237-250.

Schumpeter, J.A. (1950), *Capitalism, Socialism, and Democracy*, 3rd ed., Harper, New York, NY.

Soberman, D. and Gatignon, H. (2005), "Research issues at the boundary of competitive dynamics and market evolution", *Marketing Science*, Vol. 24 No. 1, pp. 165-174.

Sousa, C.M.P., Ruzo, E. and Losada, F. (2010), "The key role of managers' values in exporting: influence on customer responsiveness and export performance", *Journal of International Marketing*, Vol. 18 No. 2, pp. 1-19.

Sundqvist, S., Kyläheiko, K., Kuivalainen, O. and Cadogan, J.W. (2012), "Kirznerian and Schumpeterian entrepreneurial-oriented behavior in turbulent export markets", *International Marketing Review*, Vol. 29 No. 2, pp. 203-219.

Tallman, S., Jenkins, M., Henry, N. and Pinch, S. (2004), "Knowledge, clusters, and competitive advantage", *Academy of Management Review*, Vol. 29 No. 2, pp. 258-271.

Teece, D., Pisano, G. and Shuen, A. (1997), "Dynamic capabilities and strategic management", *Strategic Management Journal*, Vol. 17, pp. 509-533.

Teece, D.J. (2014), "A dynamic capabilities-based entrepreneurial theory of the multinational enterprise", *Journal of International Business Studies*, Vol. 45, pp. 8-37.

Venkatraman, N. (1989), "The concept of fit in strategy research: toward verbal and statistical correspondence", *Academy of Management Review*, Vol. 14 No. 3, pp. 423-444.

White, R. and Poynter, T. (1984), "Strategies for foreign-owned subsidiaries in Canada", *Business Quarterly*, Vol. 48 No. 4, pp. 59-69.

Williams, S.D. (2007), "Gaining and losing market share and returns: a competitive dynamics model", *Journal of Strategic Marketing*, Vol. 15 No. 2, pp. 139-148.

Yeniyurt, S., Cavusgil, S.T. and Hult, G.T.M. (2005), "A global market advantage framework: the role of global market knowledge competencies", *International Business Review*, Vol. 14, pp. 1-19.

Yin, R. (2003), *Case Study Research: Design and Methods*, Sage, Thousand Oaks, CA.

Yu, T. and Cannella, A. (2007), "Rivalry between multinational enterprises: an event history approach", *Academy of Management Journal*, Vol. 50 No. 3, pp. 663-684.

Yu, T., Subramaniam, M. and Cannella, A. (2009), "Rivalry deterrence in international markets: contingencies governing the mutual forbearance hypothesis", *Academy of Management Journal*, Vol. 52 No. 1, pp. 127-147.

Zahra, G.M. and Garvis, D.M. (2000), "International corporate entrepreneurship and firm performance: the moderating effect of international environmental hostility", *Journal of Business Venturing*, Vol. 15 No. 5, pp. 469-492.

Zhou, K.Z., Yim, C.K. and Tse, D.K. (2005), "The effects of strategic orientations on technology- and market-based breakthrough innovations", *Journal of Marketing*, Vol. 69, pp. 42-60.

Further reading

Hobday, M. and Rush, H. (2007), "Upgrading the technological capabilities of foreign subsidiaries in developing countries: the case of electronics in Thailand", *Research Policy*, Vol. 36 No. 9, pp. 1335-1356.

Luo, Y. (2001), "Determinants of local responsiveness: perspectives from foreign subsidiaries in an emerging market", *Journal of Management*, Vol. 27, pp. 451-477.

About the author

Anders Pehrsson is a Professor of Business Administration at the School of Business and Economics, Linnaeus University, Sweden. He received his PhD in industrial marketing from Linköping University, Sweden, in 1986. Dr Pehrsson focuses on the international strategies of industrial firms, and his work has been published in journals such as *European Business Review*, *Global Strategy Journal*, *International Marketing Review*, *Journal of Business Research* and *Strategic Management Journal*. He has also published several books in the field of international strategy. Anders Pehrsson can be contacted at: Anders.Pehrsson@lnu.se