Balancing Integration and Responsiveness in Case of the Sales Function within the FMCG Industry:

A Study of Foreign Subsidiaries in Germany

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<tr>
<td>COO</td>
<td>Chief Operations Officer</td>
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<tr>
<td>CRM</td>
<td>customer relationship management</td>
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<tr>
<td>FMCG</td>
<td>fast-moving-consumer-goods</td>
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<tr>
<td>GAM</td>
<td>global account management</td>
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<tr>
<td>HQ</td>
<td>headquarters</td>
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<tr>
<td>IB</td>
<td>international business</td>
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<tr>
<td>I/R</td>
<td>Integration/Responsiveness</td>
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<tr>
<td>KAM</td>
<td>key account management</td>
</tr>
<tr>
<td>KPI</td>
<td>key performance indicator</td>
</tr>
<tr>
<td>LV</td>
<td>latent variable</td>
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<tr>
<td>MNE</td>
<td>multinational enterprise</td>
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<tr>
<td>POS</td>
<td>point of sale</td>
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<tr>
<td>RHQ</td>
<td>regional headquarters</td>
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<tr>
<td>ROI</td>
<td>return on investment</td>
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<tr>
<td>TNC</td>
<td>transnational company</td>
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<tr>
<td>TTC</td>
<td>trade terms and conditions</td>
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Abstract
The University of Manchester
Harriet A. Reichstein-Scholz
Degree of Doctor of Philosophy – PhD

Balancing Integration and Responsiveness in Case of the Sales Function within the FMCG Industry:
A Study of Foreign Subsidiaries in Germany
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Significant structural changes in the retail sector, due to retailer consolidation within and across countries as well as retailer internationalisation, lead to significant changes of the sales function within the FMCG industry. Whilst formally sales functions acted traditionally predominantly locally, manufacturers are recently pressured to act more integrated, i.e. centrally, regarding its sales function.

From an IB perspective this study strives to investigate into the result of the competing forces for integration and responsiveness at the manufacturers side in the special context of Germany, being a pivotal market for this industry. Identifying the potential division of strategic sales activities between subsidiary and HQ, the study investigates into how such division impacts on the subsidiary market performance. Using the I/R framework as a starting point, network theory and the concept of subsidiary importance are utilized to understand the interrelationships a subsidiary is embedded in and its potential strategic importance to the wider MNE. The framework connects the antecedents of the division of strategic sales activities between HQ and subsidiary, to subsidiary market performance.

The research follows a mixed-method approach using contextualising interviews and a quantitative survey. The data analysis has been conducted with PLS SEM reflecting both the more explorative character of the study and the relatively small sample size. Empirical evidence showed that most strategic sales decisions are still made at subsidiary level, pointing at a low level of division between HQ and subsidiary. The results show that strong customer relationships as well as the positive impact of a formalised sales strategy, which ideally follows a global strategic framework, seem to be the main contributors to subsidiary market performance. Unexpectedly, subsidiary importance, the visibility and relevance of sales capabilities to other subsidiaries, fails to be a driver for the subsidiary strategic role within the MNE, mainly due to the functional (sales competencies stay rather local) and country (sheer importance of the German market) context of the study.

The key contributions of this study are related to the area of IB and the sales literature. This study adds to the extant IB literature from a downstream value chain perspective supporting existing findings regarding the network theory and subsidiary market performance. The irrelevance of the concept of subsidiary importance highlights the importance of the empirical context in IB research. Finally, the study sheds light on the sales function from a strategic perspective in the IB context and thus adds to the sparse literature regarding the sales strategy as well as it starts bridging both fields.
Declaration

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What a wonderful journey, what a great learning experience! Even if writing a thesis can be a real challenge at times, especially as a part-time student, juggling work – especially with the pace of constant changes demanding full attentiveness –, family and study, it is worth every minute I have spent on it. I am grateful to be given the opportunity to have taken this path.

This journey would clearly have been impossible without the continuous support of my two wonderful supervisors Prof. Mo Yamin and Prof. Axéle Giroud and their unwavering belief in me. We shared long and very fruitful, inspirational discussions either remotely or at the University in Manchester. They both provided me with constant critical but excellent feedback on earlier drafts or papers to hand in, which helped me in getting to the next levels of thinking during the PhD process as well as both also supporting me through the certainly hard times that such a process entails. I am extremely thankful to you both – you encouraged me to never be too exhausted to continuously work on my thesis!

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In addition, my gratitude goes to Bruno Eigenmann, Christian Haensch and Dr. Frank Claassen for providing me with flexibility at work and the 14 months sabbatical granted without which the project would not have been possible! Thank you for all your support which was very much appreciated!

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Preface

Harriet A. Reichstein-Scholz, born in Germany, studied for her Bachelor and Master programmes at the Management School of Bradford University (1998-2001) and at the Manchester Business School (2001-2002) respectively. Both degrees have been achieved with distinction and were accompanied by exchange programmes to Umeå Universitet and the Stockholm School of Economics in the respective BSc and MSc programmes. Since 2002 she has worked for a large multinational enterprise, the Beiersdorf AG, in various management positions in sales, marketing and finance in Germany and Russia, at HQ and subsidiary levels, with a strong foothold in the sales function. The deep interest in MNEs, as well as the sales function and the experience over her professional career so far, served as the largest motivation for this research project.

Harriet has participated at several conferences during the PhD phase. She has visited dedicated doctoral programmes and tutorials, such as the European International Business Academy (EIBA) 2014, the 13th Vaasa conference 2015 and the UK/I Academy of International Business (AIB) 2015 and presented her papers respectively. Furthermore, only recently, she has presented a paper for the EIBA conference 2016 co-authored with Mo Yamin and Axèle Giroud.

Since 2015 Harriet has also become a guest lecturer at the Hamburg School of Business Administration (HSBA) in the field of marketing management and strategy.
1. Introduction

Manufacturers in the fast-moving-consumer-goods sector (FMCG) are under high pressure to change their approach to customer management in the light of the accelerating speed of internationalisation and consolidation of its customers – the retailers. The sales function, which will be the focal unit of this study, is in the process of changing dramatically from a predominantly isolated, local customer management perspective into a much more strategic and global part of an MNE’s value chain. Such change involves both subsidiaries and headquarters (HQ) to balance local market needs with global demands for integration, which essentially leads to a decision-making dilemma between the two forces.

This study investigates from an international business (IB) perspective the possible outcomes of balancing global integration and local responsiveness on the manufacturer’s side. The sales function at subsidiary level in the special context of Germany, being a pivotal market for this industry, will be the focus of this research.

The aim of this introductory chapter is to provide the background of the study by identifying the research problems. The following sections will present the research questions, the aims and objectives of this research. Furthermore, a brief overview on the research methodology will be provided and the main findings and contributions to existing knowledge will be outlined. Finally, the structure of the thesis will be set out.

1.1 Research Problems

The sales function within the FMCG industry is undergoing significant changes predominantly because of pressures exercised by large retailers. Ongoing structural changes within the retail sector (Tordjman, 1995, Gilbert, 1999), such as retailer consolidation on a national level, consolidation across borders and internationalisation of retailers, as well as the ever-growing buying groups or corporations, create a strong pressure for integrating the sales function on the manufacturer’s side. Customers, i.e. retailers, are striving for transparency (especially cross-border) and centralisation in regards to purchasing activities, which traditionally have been decentralised at local levels. Correspondingly, the sales function within manufacturers, for most of the time being likewise a predominantly local operational activity, is thus under pressure to change towards a more centralised strategic function with the higher levels of
complexity it faces. Such development towards a centralised sales strategy, or at least the decision-making on strategic sales activities at central or local levels, is the key challenge MNEs in the FMCG sector are facing within the sales function.

A further upcoming challenge for sales functions within the FMCG sector is the occurrence of e-commerce as an additional channel to be served. However, it has been deliberately decided to not discuss e-commerce as a separate and still comparatively very small ‘competitive’ channel in this sector – about 0.4% of total FMCG sales in Germany vs. 4.4% in the UK ¹.

Building upon the widely-known integration/responsiveness framework (Prahalad and Doz, 1987, Bartlett and Ghoshal, 1989), numerous studies have investigated the impact of integration or local responsiveness on MNEs in various functional activities (e.g. Swoboda et al., 2014, Meyer and Estrin, 2014, Kim et al., 2003). Research has long concentrated on upstream functional areas such as R&D, purchasing or production as these functions are regarded as “primary sources of global transfer and integration for achieving scale, scope and learning economies” (Kim et al., 2003, p.328, Yip, 2003). However, to date, IB research has rarely considered the sales function; mostly because in downstream functions such as sales, the benefits of operating locally responsive customer management were for a long time regarded as outweighing the benefits of global integration, as highlighted by Arnold et al. (1999). In fact, the sales function has only recently been recognised as a strategic function – on a par with marketing, which has long attracted attention. In line with Panagopoulos et al. (2011), there is also a need to better understand the sales function in the IB context.

Since it is not yet known how the sales function at subsidiary level is coping with both pressures from a strategic point of view, the study investigates subsidiaries’ relationships with external customers and the broader MNE itself, to understand whether the sales function is driven more centrally or decentrally and hence gain knowledge relating to the role of and the potential importance of the subsidiaries vis-à-vis the sales function. The study uses the network perspective to understand the developing role of a subsidiary in such a drastic change process (Birkinshaw and

Pedersen, 2009) viewing the environment as a market the MNE is operating in (Forsgren, 2008).

Subsidiaries are part of a wider business network, where both internal and external relationships are vital for a subsidiary’s strategic role development (Andersson et al., 2001a, Yamin, 2005). In particular, a subsidiary being able to make its special competencies visible within the MNE, especially those capabilities nurtured through interactions with external partners, may be able to influence the MNE’s strategy (Yamin and Andersson, 2011). Literature in this field traditionally focused on the industrial manufacturing sector, typically concentrating on upstream functions at MNE level. Although a degree of strategic influence by subsidiaries can be beneficial for the MNE, the level of investigation into subsidiaries and their potential strategic roles still seems insufficient. In particular, little is known about the sales function at HQ and subsidiary levels and in particular in the FMCG environment.

Regarding the sales strategy, sales-related literature (e.g. Ingram, 2004, Homburg et al., 2008b, Panagopoulos and Avlonitis, 2010) so far has only started to investigate the field, recognising the need to deepen the understanding of the functional role of sales as a separate value-adding entity (Winkelmann, 2013). To account for the increasingly competitive pressure lying on the sales function, traditional sales literature focussing on personal-selling needs to shift its focus more onto sales strategy and strategic sales management (Williams and Plouffe, 2007). As Piercy and Lane (2011, p.25) pointed out: “Not only has the sales task become much more complex, the stakes are much higher.” Thus, in addition to the increased complexity due to structural changes in the FMCG environment, which necessitates a more strategic approach, the importance of customer orientation also reinforces the importance of the sales function from a competitive perspective. It is therefore crucial to know the elements of a sales strategy (which are the key and hence strategic elements of sales functions); it is also important to investigate such elements in terms of levels of decision-making, i.e. to have a global or a local sales strategy or adopt a ‘mixed’ approach, as well as its potential impacts on a subsidiary’s market performance.

Empirically, little, mostly cross-sectional research is available (Panagopoulos et al., 2011) and to the author’s best knowledge, this research has so far not been explicitly linked to the IB environment. To be able to understand the importance of strategic
decision-making at subsidiary or HQ level, the elements, i.e. the strategic sales activities, need to be investigated within such settings.

1.2 Research Questions

Based on the research problems outlined above and the deficiencies in literature identified, this research addresses two main research questions and corresponding sub-questions:

1. To what extent are strategic sales activities divided between HQ and subsidiary in the FMCG industry?
   a. Which strategic sales activities are carried out by the MNE HQ and/or subsidiaries in the FMCG sector?
   b. Does the overall MNE strategic orientation have an impact on the division of strategic sales activities and, if so, how does the overall strategy impact the division of sales activities?
   c. Does subsidiary embeddedness in internal and external networks influence the division of strategic sales activities between HQ and subsidiary?

2. How does the division of the strategic sales activities between HQ and subsidiary affect subsidiary market performance in Germany?

1.3 Research Aim and Objectives

Following the research gaps and consequently the research questions presented, the aim of this research is to investigate deeply into the subsidiary and functional (sales) perspective in the FMCG industry in Germany, to both complement and extend the still limited empirical research on the decision-making dilemma MNEs are typically facing, in particular in the light of the I/R framework. Furthermore, this research project also aims at building bridges between current IB literature on business networks, subsidiary roles and subsidiary performance and the so far more personal-selling-process-related and rather stand-alone sales literature, developing the sales function into a vital, competitive building block of an MNE value chain. The following objectives of the research are defined to achieve such aims.

The first objective is to investigate deeply current procedures on how subsidiaries, operating in the German market, as well as compared with selected HQ perspectives, are managing the conflicting pressures in regards to the sales function. The objective is
to assess the current level of strategic decision-making between central (at HQ) or decentralised (on subsidiary level) instances and its influencing factors.

The second objective is to concentrate and focus on the sales function, by evaluating strategic sales activities per se and investigating the relationship to subsidiary market performance depending on where decisions are predominantly taken and performed. The objective is to also assess factors such as the specific sector (food, near- and non-food), firm size, and existence of regional HQs, which may lead to high subsidiary market performance levels.

1.3.1 Research Setting
The author conducts a single industry study at subsidiary and functional level, i.e. the FMCG sector and the sales function, due to the interesting structural changes, the professional and academic necessity to shed light on this challenge as well as the author’s long-term experience in the field. Germany has been chosen as the market under study, due to its peculiarities considering the history of the FMCG industry (high levels of sophistication in sales), the special retailer market situation (high levels of consolidation) and the size of the economy, being one of the most important markets for all FMCG manufacturers.

1.4 Research Methodology
The research follows a mixed-method approach, where quantitative and qualitative research methods are seen as complementary rather than mutually exclusive (Creswell, 2009, Saunders et al., 2012). Using qualitative interviews (contextualising the research through rather explorative questions) and quantitative questionnaires (using detailed questions following the interview results for a broader population) accounts for both the context and the population to be investigated in this study (Michailova, 2011). Through these methods, the country context of Germany as well as the particularities of the sales function could be captured, especially knowing that sales shows a traditional resistance to transparency (Binckebanck and Hölter, 2012). The approach is also increasingly used by IB researchers (Hummerinta-Pelomäki and Nummela, 2006) and in strategic management (Molina-Azorín, 2012). In particular, this research is leaning on the sequential exploratory mixed-method strategy as defined in Creswell (2009), where qualitative studies are followed by quantitative methods utilising the results of the first phase. As interviews have been conducted along the research field
phase, the study provides a more continuous approach rather than a strict sequential method, which supports understanding the particularities of the context involved (Michailova, 2011).

Semi-structured in-depth interviews have been conducted face-to-face with eight senior managers within subsidiaries as well as HQs in Germany, explaining their current situation regarding the sales strategy at global level and its decision-making difficulty in the HQ-subsidiary dichotomy. The analysis through coding supported the survey development and allowed for richer data interpretation after the analysis of the quantitative data. A standardised, self-administered questionnaire has been developed and sent out, both as an online link as well as physical mail to a sample of 253 predominantly senior subsidiary sales managers and a further 22 senior (sales) managers at HQs in Germany. Sampling took place through a stepwise process involving a reworked list of appropriate members of the Markenverband, complemented by the AMADEUS database and “wer-zu-wem” (“who-to-whom”) firm database. The reputable GfK (Gesellschaft für Konsumforschung) and Markenverband (Germany’s brands’ association) kindly supported the survey field phase, to account for the otherwise expectedly rather low response rates due to the generally more reluctant sales community (Binckebanck and Hölter, 2012). The overall effective response rate is 20.6% (52 surveys), whereas 30.6% (30 out of 98) accounting for online surveys and 14.2% (22 out of 155) being mail surveys. The HQ online surveys achieved a very high (59%) response rate. Non-response bias has been analysed though t-tests, showing no significant differences between the early and late respondents. Common method bias has been analysed and it can be concluded that sources of common method bias have been accounted for and that this bias is therefore likely to be minimised. Additionally, also statistically by using the Harman’s single factor test (Podsakoff et al., 2003), common method can be assumed to be rather low.

Data analysis has been carried out using PLS SEM due to the rather exploratory character of the study and the relative sample size. Regarding the exploratory character, the aim is to test existing theoretical concepts in the specific case of functional sales, which so far has not been focused on in the IB literature. The second rationale for using PLS as an analytical SEM technique is the possibility to operate with smaller sample sizes respecting the minimum requirements regarding the determination of the statistical power (Cohen, 1992, Henseler et al., 2014, Hair et al.,
2014) and respecting the rigorous application of the assessment procedure suggested by Henseler et al. (2009) and later Hair et al. (2014). Various steps in the analysis were adopted, starting with the measurement of the outer model, assessment of the model’s reliability and validity, actual structural (inner) model, collinearity analysis, path coefficients, coefficients determination and the model’s predictive relevance.

1.5 Key Findings of the Study

The study offers three overall key findings and sheds light on the existing sales strategy literature as it supports key findings in this regard. First, strategic sales activities are found to be taking place at predominantly local levels, pointing to a lower level of division of these activities between HQ and subsidiary. In addition, it supports current findings regarding the strategic elements per se and brings the strategic elements into relation with the need to balance forces for integration and responsiveness.

Second, the research results show a strong relationship between deep customer relationships and the perceived subsidiary market performance, while internal embeddedness seems to be at a relatively low level. However, in the few cases of having a more global strategic orientation both internal and external relationships are at increased levels of depth, leading to a similar level of local decision-making, however increased subsidiary market performance. This finding highlights the potential importance of dual embeddedness. The relationship strengthens with the advent of a global strategic sales framework, ready to be detailed locally, which increases internal transparency and, in combination with a formalisation of such sales strategy, leading to even deeper customer relationships and ultimately increased subsidiary market performance.

Third, most unexpectedly, subsidiary importance does not play a role in the strategic decision-making and seemingly broader subsidiary role within the MNE. The context of this research seems to be the largest factor contributing to this finding, both at functional and country levels. The research highlights the depth of external relationships in relation to high level of sales competencies, which however stay local. The country context – Germany in the present case – seems to be another reason for the lack of subsidiary importance due to the sheer size of the German economy. It may lead to a subsidiary’s role potentially not being derived from its organisational
performance but its role may be driven by the importance of and relationships within the German market predominantly.

1.6 Research Contributions

This research aims to serve both academic and professional shortcomings with knowledge in the area of the sales function, more specifically in terms of the sales strategy within the IB context.

From a theoretical point of view this research contributes both to the fields of IB and the sales literature. It adds to the existing literature through the rarely empirically investigated downstream value chain activity – the sales function at subsidiary level, by confirming findings from the network perspective as well as contributing empirically to the broader I/R literature. The research results point to the importance of the context within IB, where the German market environment as such may be the source of strategic influence. In particular the strong customer relationships (external embeddedness) built by the subsidiaries, rather than the competencies typically influencing strategic decisions.

From a market performance research perspective, this study adds to previous findings with the specific industry and functional setting, finding a positive relationship between standardised functional strategies and the subsidiary’s market performance. Regarding the extant sales literature, this research contributes to the field of strategic sales management, in particular the sales strategy, which is currently under-researched and so far hardly connected to the field of IB. The strategic elements have been investigated and confirmed as well as the awareness sharpened that the sales function may be another value adding strategic function in its own right, rather than being simply an appendix to marketing.

From a managerial point of view, this research contributes to the intensively discussed field of strategic sales management, bringing forward three recommendations: one is a clearly structured, defendable sales strategy which seems to be the prerequisite for a successful market performance with enhanced levels of customer relationships; two is the finding that a global sales strategy may be at most a framework provided by HQ or RHQ to be locally adapted to a high degree, ensuring transparency and higher levels of standardisation; finally, it may be beneficial to the FMCG MNE to implement RHQs
being able to absorb these local market differences more readily, especially in regards to the customer structure.

1.7 Thesis Structure

The thesis is structured into two main parts, with ten chapters overall. The first part is dedicated to the theoretical and empirical background as well as the hypotheses and the conceptual model underlying the research. In the second part, the empirical research methodology, data analysis, discussion and final conclusion will be presented.

Part I. Chapter 1 introduces the topic, followed by chapters 2 to 4, which set the theoretical and empirical background by reviewing relevant literature in the field and identifying existing insufficiencies in research. Chapter 2 reviews the Integration/Responsiveness framework, discussing and reviewing relevant literature regarding the drivers to global integration and local responsiveness and the respective strategic choices.

Chapter 3 discusses the network perspective including the aspects of dual network embeddedness, subsidiary roles within the wider MNE network including its relationship towards HQ as well as subsidiary importance. The chapter closes with a brief discussion on market performance measurement at subsidiary level.

Chapter 4 analyses the sales function, presents an overview of the FMCG industry as well as the driving forces for integration and local responsiveness within the sector. Furthermore, a deeper review is provided on what a sales strategy entails, building the centrepiece of this research project.

Subsequently, chapter 5 synthesises the identified literature streams relevant to this study, points to the insufficiencies and gaps in the literature to date regarding the research field and depicts the conceptual framework. The chapter then provides the hypotheses development.

Part II. The methodology used for the empirical study – a mixed-method approach – is discussed in chapter 6. Both the qualitative and quantitative approaches, the sample and the process of the data collection as well as the data analysis method are described. The chapter closes with a descriptive analysis on the respondents to the survey.

Chapter 7 focuses on the tests for potential biases, the definition of the constructs and variables utilised as well as the descriptive data analysis on interesting findings.
| Chapter 1 | Introduction | - Research problems, research questions  
- Research aims and objectives  
- Research methodology  
- Main findings and contributions |
| --- | --- | --- |
| Chapter 2 | The Integration/Responsiveness Framework | - The I/R framework  
- The drivers to integration and responsiveness  
- Strategic choices |
| Chapter 3 | The Network Approach and Subsidiary Literature | - Literature review on network perspective  
- Review on subsidiary roles and subsidiary importance  
- Investigation on market performance measurement |
| Chapter 4 | The Sales Function and the FMCG Sector | - Discussion on sales function  
- Description of the FMCG sector including the particular drivers to I/R  
- Review and discussion on sales strategy and its elements – the strategic activities |
| Chapter 5 | Conceptual Framework and Hypothesis Development | - Summary of literature review including identified insufficiencies and gaps in literature  
- Development of the hypotheses |
| Chapter 6 | Research Methodology | - Discussion and justification of the mixed-method approach  
- Description of the interview process and data evaluation  
- Description of the survey method  
- Discussion and justification for PLS-SEM as data analysis method  
- Data collection and respondents |
| Chapter 7 | Measures and Descriptive Data Analysis | - Providing results of bias tests  
- Discussing construct and indicators used  
- Presentation of descriptive data |
| Chapter 8 | Research Findings and Struct. Model Analysis | - Evaluation of the model and its modifications |
| Chapter 9 | Discussion | - Reviewing the findings and interpreting the outcomes  
- Discussion on theoretical contributions |
| Chapter 10 | Conclusion | - Revisiting the research questions  
- Implication of the results  
- Limitations & recommendations for future research |

Chapter 8 then follows the PLS-SEM data analysis assessment procedure to evaluate the structural model. The analysis chapter also includes results from the interviews conducted during the research process and an evaluation on potential heterogeneity in the corresponding sample.
Subsequently, chapter 9 is dedicated to discussing the findings from the analysis, interpreting the results in line with the aims and objectives of this research study. Chapter 10 then concludes the thesis by revisiting the research questions, presenting theoretical and managerial implications, limitations to this study as well as recommendations for potential future research.
PART I - Theoretical Background

Introduction to Part I

The following chapters in Part I depict the underlying theories and key concepts used in the present thesis. The integration-responsiveness framework (Prahalad and Doz, 1987, Bartlett and Ghoshal, 1989) constitutes the starting point, serving to achieve the descriptive research objectives, setting the scene and helping to analyse and understand the MNE’s overall strategy. The author will first provide a descriptive section towards the framework itself, to then discuss the key issues relevant for this research and point to its limitations in the first chapter. The following theoretical framework (Figure 0-1) serves as an orientation throughout the first three chapters.

![Diagram of Theoretical Framework]

Figure 0-1 - Theoretical Framework

Having recognised the limitations of the I/R framework and the necessity to investigate more deeply the subsidiary’s perspective, the author uses the business network perspective to point to the subsidiary’s business ties, which is seen as a critical factor in reacting to changing forces with corresponding strategic shifts. Furthermore subsidiaries are increasingly important for the development of competencies (Cantwell and Mudambi, 2005, Rugman and Verbeke, 2001) with varying degrees, depending on the subsidiary’s network and in particular how it is able to balance internal and external embeddedness (Meyer et al., 2011, Narula, 2014). Being focused on the sales
function, the role of external business networks – in particular the business partners in the retail sector – is considered to be highly relevant for a subsidiary’s strategic development as such and in the wider MNE network. Chapter 3 will therefore be dedicated to network theory and discusses further relevant aspects from the vast but specific literature on subsidiaries and their relationship towards the MNE/HQ. Aspects of subsidiary roles and importance will be evaluated and finally subsidiary performance will be discussed, allowing for a more normative approach, being able to potentially bring forward useful recommendations for management from the empirical data.

In chapter 4 attention will then be brought to the centre of this research, which is the strategic sales function in the FMCG sector in Germany. After discussing the sales function, the FMCG sector as well as the specific forces to integrate or to being locally responsive will be presented. In introducing the functional, i.e. sales, perspective to the I/R framework in one industry (FMCG), to the authors’ best knowledge, no research has yet been conducted in this area.

Finally, in chapter 5, the author develops hypotheses that are fundamental to the quantitative empirical investigation. Part I closes with the conceptual research model, which subsequently will be empirically tested.
2. The Integration Responsiveness Framework

2.1 Introduction

The purpose of this chapter is to provide an overview of the starting point of discussion for the current research project, namely the I/R framework. After a recap of the framework provided in section 2.2, the following sections will discuss the drivers more deeply, i.e. the pressures to integration versus local responsiveness and in respect of the strategic choices to be taken (sections 2.3 and 2.4). The author will outline the limitations of the current research being executed in relation to the I/R framework, identifying the potential areas of contributions this research could deliver.

2.2 The I/R Framework

The I/R framework is a dominant framework and conceptualisation “for examining strategy in the international context” (Roth and Morrison, 1990, p.541) “at all levels of the MNE” (Meyer and Estrin, 2014, p. 1). The framework has originally been developed by Prahalad and Doz (1987) who partly based it on the early work of Lawrence and Lorsch (1967), who discussed the concepts of integration and responsiveness from an organisational theory perspective. The I/R framework reflects one of an MNE’s major dilemmas, which is the strategic decision to globally integrate or to act locally responsive as a result of mostly conflicting pressures. The framework has been discussed extensively and from several perspectives in the IB literature over decades, which will be demonstrated below. First the original framework will be explained.

According to Prahalad and Doz (1987) global organisations need to have the ability to gain competitive advantage but also to maintain or retain such advantage by the ability to utilize and redeploy the resources available. Such ability is strongly dependent on managers’ understanding of the forces underlying and affecting their respective business. In establishing the framework, Prahalad and Doz (1987, p.14-15) discuss the sometimes conflicting pressures leading to either global integration – “the centralized management of geographically dispersed activities” striving for economies of scale and cost reduction – or local responsiveness where the “resource commitment decision [is] taken autonomously by a subsidiary in response to primarily local competitive or customer demands” striving for local adaptation. Table 2-1 outlines the pressures
identified by the authors, which have been discussed as well as extended by several other authors over the years (e.g. Venaik et al., 2004).

<table>
<thead>
<tr>
<th>Pressures for global integration</th>
<th>Pressures for local responsiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of multinational customers (CUST)</td>
<td>Differences in customer needs (CUST)</td>
</tr>
<tr>
<td>Presence of multinational competitors (COMP)</td>
<td>Differences in distribution channels (CUST)</td>
</tr>
<tr>
<td>Investment intensity (ECO)</td>
<td>Availability of substitutes and the need to adapt (COMP)</td>
</tr>
<tr>
<td>Technology intensity (TECH)</td>
<td>Market structure (COMP)</td>
</tr>
<tr>
<td>Pressure for cost reduction (ECO)</td>
<td>Host government demands (GOV)</td>
</tr>
<tr>
<td>Universal needs (consumer needs) (CONS)</td>
<td></td>
</tr>
<tr>
<td>Access to raw materials and energy (INFR)</td>
<td></td>
</tr>
</tbody>
</table>

Table 2-1 – Pressures for I/R

Source: Prahalad and Doz (1987, p.18-21); (letters in brackets refer to section 2.3)

It is important to recognise that these pressures are not opposite forces but should rather be seen as separate “correlated dimensions requiring simultaneous attention” (Murtha et al., 1998, p.98), which enables the I/R framework to be used as a matrix (Ghoshal and Nohria, 1993, Morschett, 2007). Correspondently, the authors developed typologies of organisations, shown in Figures 2-1 and 2-2. The first original grid by Prahalad and Doz (1987) identifies three types of strategic organisations. Bartlett and Ghoshal (1998) further developed the international strategic direction an MNE can take in the second grid (Fig. 2-2) by adding the intensively discussed “transnational organisation”. This second 2x2 matrix is predominantly referred to in the international business strategy literature and has been empirically validated by later studies, such as Harzing (2000).

![Figure 2-1 – Original I/R Framework by Prahalad and Doz (1987, p.24)](image1)

![Figure 2-2 – Adapted from the Bartlett & Ghoshal (1998) I/R Framework](image2)
In the context of this thesis, the terms global, multinational and transnational organisations will be used to describe strategic orientations of respective MNEs. Therefore a brief characterisation of the three strategic orientations will be provided. *Global organisations* refer to MNEs striving for efficiency, aiming at economies of scale and cost minimisation through standardisation of their products, services and processes. Strategic decisions are taken at HQ level and subsidiaries are dependent on and serving as a pipeline for their HQ (Harzing, 2000, Bartlett and Ghoshal, 1989). *Multinational organisations*, in contrast, focus on serving local/national market needs/differences, thereby adapting products, services and processes to local demands. Subsidiaries typically take strategic decisions autonomously and operate as rather decentralised and independent from HQ (Bartlett and Ghoshal, 1989, Harzing, 2000). Finally, the *transnational organisation* (TNC) has been extensively discussed previously as being an ideal state rather than a workable strategy (Meyer and Su, 2015, Birkinshaw and Morrison, 1995), and moves beyond the multifocal business organisation of Prahalad and Doz (1987). The TNC tries to achieve the advantages of both global integration and local responsiveness at the same time. Strategic decisions and functions are thus located at subsidiary and HQ level and both sides operate as an integrated interdependent network (Morschett, 2007, Harzing, 2000).

The overall typology of MNEs delivers a framework for analysis of multinational organisations, where according to contingency theory, environment, strategy and structure demonstrate a neat fit (Harzing, 2000, Ghoshal and Nohria, 1989). According to the pressures perceived in the markets, firms build highly centralised or decentralised organisational structures (Kasper et al., 2009, Brock and Birkinshaw, 2004).

Furthermore, the I/R framework is not meant to be static but is proposed as a framework to analyse the dynamics of a business (Prahalad and Doz, 1987). As the authors discuss, there are several factors which may lead to a change of the current ‘position’ on the grid. These factors can be economic (e.g. changes in industry economics, such as increasing capacity productions); governmental impacts (e.g. changing regulations for drug manufacturers); shifts of competitive focus within the value chain, i.e. of customers (e.g. customers integrate operations, currently locally operated, necessitating suppliers to react respectively); business re-segmentation (e.g. observing differences in diversified firms, comparing overall integrated business
strategy with a segment’s strategy, which might be locally responsive) or being faced with a ‘game-changer’ of industry ‘rules’ (e.g. operating differently to competitors and thereby changing the industry’s predominant structure – towards successfully operating as more globally integrated).

Additionally, it is important to acknowledge, as stressed by Prahalad and Doz (1987) that business functions might have a different position on the I/R grid, although research on this issue has been limited, particularly in the context of MNE strategy (Bartlett and Ghoshal, 1998, e.g. Kim et al., 2003).

Consequently, the I/R framework enables researchers to analyse both the actual drivers to global integration or local responsiveness and the corresponding choices firms are making regarding their general strategic orientation. The next sections will therefore discuss these two aspects and identify the position of this research as well as the limitations identified in the literature.

2.3 The Drivers of I/R

An important rationale for the present research project is the presence of drivers forcing MNEs particularly in the FMCG sector to potentially change their current strategic approaches. Venaik et al. (2004) criticise the sparse research on the pressures utilized as concepts to see their impact on strategic managerial decisions. The authors criticise the tendency to research organisational responses to the pressures faced rather than the pressures themselves. While the strategic literature, e.g. Bartlett and Ghoshal (1989), suggests that firms respond differently to similar external pressures and thereby creating heterogeneity among firms in terms of their strategic choices, it is typically observed from the responses only. An evaluation of the relationship between the actual pressures and the resulting pressures may lead to additional factors, alongside external pressures, potentially impacting on the managerial choices taken, which in turn creates heterogeneity (Venaik et al., 2004). Therefore Venaik et al. (2004) suggest to also investigate deeper into the pressures themselves.

A good understanding of the drivers of global integration and/or local responsiveness is therefore a starting point for this current research project, being aware of the pressures and able to evaluate these without further empirically investigating these in the actual study. An overview of the current relevant literature regarding pressures to I/R will be provided, as a support to structuring the identification of the respective
industry pressures relevant to this study (see chapter 4.3.1). A more detailed review summary on the I/R literature used for this study is provided in Appendix 12-1.

Referring to Venaik et al. (2004), from a vast amount of literature, containing discussions of some relevance to the pressures firms are facing but not in the explicit context of the I/R framework, literature explicitly referring to the I/R framework has been chosen to focus on the key findings. To be able to relate the current research setting to the existing literature regarding the pressures MNEs maybe facing, a categorisation of these was established throughout the identified literature.

A summary of the proxies capturing I/R pressures employed in these studies is provided in Table 2-2 and already visualises a diversity in measuring both pressures as criticised by Venaik et al. (2004). The items, including those pressures originally discussed by Prahalad and Doz (1987) (see Table 2-1 above) are further categorised by the author providing a structure to both pressures. These categories show the recurrence of several pressure types, both to integrating and responsiveness pressures alongside which will be discussed the FMCG industry pressures in chapter 4.3.1. The categories are coded as follows. CUST relates to the customers (business-to-business), whereas CONS is concerned with the consumer involved. Both CUST and CONS are counted most frequently in forces for local responsiveness, where customer demands and consumer needs are distinct according to the different markets. One of the major forces for integration is the need to achieve economies of scale, referred to as ECO, which also reflects collective investments to be made. Competition (COMP) is another important factor to consider both locally and globally, being relatively equally weighted in the studies referred to. Depending on the industry and set of countries firms are operating in, competition can either lead to higher local responsiveness or in case of apparent global competitors to integration efforts. Issues related to the infrastructure (INFR) of an organisation are typically found to be forces for responsiveness, as these may be locally dependent or specialised in nature. TECH are forces related to technology issues and finally government infused issues, such as trade barriers, legislations, etc. are summed in GOV.
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Pressures to Integrate/to be Locally Responsive</th>
<th>Pressures</th>
<th>Cat.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Roth and Morrison (1990, p.554)</strong></td>
<td>Integration and Responsiveness (the authors did not categorize or post hoc discussed the groups) 14 items</td>
<td>Customer needs are standardized worldwide Standardized purchasing practices exist worldwide Competitors exist with a presence in all key markets Domestic competition is intense International competition is intense Distribution channels are concentrated worldwide Business activities are susceptible to scale economies Product awareness exists worldwide International activities are restrained by governments Standardized product technology exists worldwide Transportation cost is important element in final cost Local customer service is required in all markets Competitors market a standardized product worldwide Factor costs differ from country to country</td>
<td>CUST ECO COMP COMP COMP CUST ECO CONS GOV TECH ECO CUST COMP ECO</td>
</tr>
<tr>
<td><strong>Birkinshaw et al. (1995, p.645)</strong></td>
<td>Integration (S = structural determinants; C = competitive factors) 4 items</td>
<td>Economies of scale (S) Differences in comparative advantage acr. countries (S) Standardized market demands (S) Competitive actions within industry (C)</td>
<td>ECO INFRA* CONS COMP</td>
</tr>
<tr>
<td><strong>Johansson and Yip (1994, p.585)</strong></td>
<td>Integration (only market and cost drivers were used in their model, due to low factor loadings on the other) 4 items</td>
<td>Overall market drivers (related to product category) Overall cost drivers (economies of scale) Overall government drivers Overall competitive drivers</td>
<td>CONS ECO GOV COMP</td>
</tr>
<tr>
<td><strong>Johnson (1995)</strong></td>
<td>Integration and Responsiveness The author uses the same undifferentiated variables as Roth and Morrison (1990)</td>
<td>See Roth and Morrison (1990)</td>
<td></td>
</tr>
</tbody>
</table>
The most comprehensive study on pressures (Venaik et al., 2004), besides a discussion of the actual measurement method (formative vs. reflective – with no definite answer provided), concluded that potentially two dimensions (integration/responsiveness) may not be enough to capture the domain adequately, as will be further discussed in the following section.

The authors indicated in Table 2-2 treat pressures differently in their research and a development of the literature is clearly to be seen. Roth and Morrison (1990) was the earliest article to conclude, as well as Johnson (1995) later in a single industry context, measuring the pressures to I/R, with a supporting statement to the original model, where contextual requirements demand certain strategic moves. From a normative perspective Roth and Morrison (1990) found all types to be almost equally successful.

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Pressures to Integrate/to be Locally Responsive</th>
<th>Pressures</th>
<th>Cat.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venaik et al. (2004, p.27)</td>
<td>Integration 9 items</td>
<td>R&amp;D investment required</td>
<td>ECO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production investment required</td>
<td>ECO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rate of product innovation</td>
<td>ECO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rate of process innovation</td>
<td>ECO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Technological complexity</td>
<td>TECH</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rate of technological change</td>
<td>TECH</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Competitors are mostly global</td>
<td>COMP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Competitors sell globally standardized products</td>
<td>COMP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The nature of competition is global</td>
<td>COMP</td>
</tr>
<tr>
<td></td>
<td>Responsiveness 14 items</td>
<td>Advertising investment required</td>
<td>CONS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Extent of global dispersion of production facilities</td>
<td>INFR</td>
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<tr>
<td></td>
<td></td>
<td>Extent of production cost diff. between countries</td>
<td>ECO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Degree of competition in local markets</td>
<td>COMP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Number of competitors in local markets</td>
<td>COMP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer needs vary across countries</td>
<td>CUST</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demand in the local market is expanding</td>
<td>CONS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality of local infrastructure: logistics</td>
<td>INFR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality of local infrastructure: channels</td>
<td>INFR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality of local infrastructure: advertising</td>
<td>INFR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality of local infrastructure: personnel</td>
<td>INFR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality of local infrastructure: suppliers</td>
<td>INFR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Level of tariff barriers against importing</td>
<td>GOV</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Level of non-tariff barriers against importing</td>
<td>GOV</td>
</tr>
</tbody>
</table>

Table 2-2 – Measures of Forces to Integration/Responsiveness

Source: own development; INFR* in a broad sense – different capabilities/constitutions locally
independent of their strategic orientation. However, the authors did not differentiate between or discuss the forces for integration or responsiveness as two “groups”.

Birkinshaw et al. (1995) and Johansson and Yip (1994) both measuring one dimension only – integration – found support in the pressures being strongly associated with the strategic directions of the firms investigated. Johansson and Yip (1994) in addition measured the role of nationality, which also led to the expected outcomes in that nationality may influence responses to the pressures perceived (comparing Japanese to US firms).

Whereas, in general, earlier literature was predominantly aiming to empirically test the actual forces for integration/responsiveness, later authors (e.g. Harzing, 2000, Swoboda et al., 2014, Leong and Tan, 1993) emphasised the combination of the measurement of forces with the respective responses. Leong and Tan (1993) tested the original framework through a self-assessment of firms’ international management structure (reflecting the four types) followed by 12-item statements assessing the firms’ characteristics. Harzing (2000) aimed at large scale testing the original typologies as resulting from both pressures, whereas Swoboda et al. (2014) empirically confirmed the typologies for the retailing industry.

Being exemplary for a much broader literature base, these later authors used a more simplified but holistic measurement to the pressures at hand as measuring the response at the same time – the resulting corporate strategy. In contrast to this simplification, Venaik et al. (2004) used overall 23 proxies to capture the pressures accordingly (9 towards integration, 14 for responsiveness), as the authors emphasised explicitly both the pressures themselves and the responses in their research. So authors like Harzing (2000) relied on the most commonly used proxies and thereby reduced it to four proxies focussing her research on the strategic responses in combination with these forces. Harzing (2000) used four measurement statements for global integration (the definition of the company’s worldwide competitive position/global competition and achieving economies of scale through concentrating activities at a limited number of locations) and local responsiveness (national differences in tastes and values/adapting products and policies to local markets and competition at domestic level) as shown in Table 2-2. These measures are widely used in current research (e.g. Scott-Kennel and Giroud, 2015, Swoboda et al., 2014) and are accompanied by several corresponding subsidiary characteristics (rather than pressures) indicating local responsiveness or
global integration. For global integration, which Harzing (2000) termed interdependence, she is asking for the percentage of purchases made from HQ and other group subsidiaries vs. a subsidiary’s total purchases and the percentage of output delivered to the HQ and group. Local responsiveness asks for the degree of adaptation of products and product marketing as well as the level of R&D and manufacturing conducted by the subsidiary itself.

The key findings of these studies were in most cases differentiated (clustered) results confirming hypothesised assumptions regarding the three/four strategy types (Harzing/Swoboda), also suggesting the validity of the measures used. The original framework has thus been supported again in both cases. Leong and Tan (1993) in contrast only partly confirmed the typology as in Bartlett and Ghoshal (1989) and in hindsight at the variation in managerial perception on the international management structure chosen in the questionnaire, a topic covered in the next section.

Although Venaik et al. (2004) criticise the comparably low number of studies investigating the pressures themselves in relation to the managerial choices, i.e. the responses to those pressures, most – in particular more recent – I/R studies increasingly used simplified proxies to measure pressures to integration and responsiveness. Therefore, the simplified measures reflecting the currently known categories of potential pressures to global integration or local responsiveness are utilized for the analysis of the FMCG sector’s pressures in chapter 4.3.1. The most important pressures in the FMCG industry are CUST, COMP, ECO/INFR for integration and CUST and COMP for responsiveness.

2.4 Strategic Choices

Strategic choices can be defined as a conscious decision made by management on a firm’s strategic direction based on contextual information internal and external to the organisation (Zeithaml et al., 1988).

Balancing the pressures depicted above, i.e. making decisions accounting for the maximum outcome driven by those pressures, is one of the most challenging tasks to MNE managers. The I/R framework attempts to support these decisions providing four broad types of strategies as a potential guide. However, these suggestions may be too generic for managers in individual industries, potentially neglecting certain aspects important to the industry (Venaik et al., 2004). In the case of the FMCG industry,
managers are faced with an as yet over proportional reliance on customers in the two-tier FMCG industry (selling products predominantly through retailers) having to cope with two opposite pressures: global standardisation of customer management vs. local customer demands at the same time. The subsequent sections will discuss two perspectives identified in prior literature that are relevant for the present research project: first, literature on the industry perspective will be investigated; second, the level of investigation (HQ, subsidiary, firm) typically found in literature will be discussed.

2.4.1 The Industry Perspective

The industry perspective is in particular interesting, as there may be different aspects to be considered regarding strategic choices being made in response to the potentially particular pressure perceived (Fan et al., 2012). The single industry approach is, however, applied rather sparsely in the I/R related research, where predominantly cross-sector research is taking place. From a contingency perspective, by conducting a single industry study, the problem of heterogeneity (Venaik et al., 2004) of strategic management choices can be partly reduced. The pressures are mainly the same for all firms operating in the respective sector, so strategic choices will be to a large extent determined or at least can be referred back to environmental pressures. Factors, such as firm size, age, external contractual relationships, internal network positions, the breadth of international presence, etc, will potentially influence decisions and therefore will be addressed in the empirical study.

A more recent article by Fan et al. (2012, p.15), based on a qualitative study of nine industries, found that industry differences do “play a significant role in managers’ perception on factors affecting the I-R framework”. The authors see the effect of the I/R dimensions on the four strategic options (see Bartlett and Ghoshal (1998) depending on the three groups of contingencies they have identified, i.e. organisational (e.g. centralisation, technology intensity, market orientation, regional HQ’s role), industrial (e.g. standardisation, cost pressure, competitor’s action) and environmental (e.g. local trade barriers, domestic competition, cultural distance) (Fan et al., 2012). Thus, industries being affected by, for example, local trade barriers (such as country specific product certifications needed), will perhaps most likely perceive related environmental factors to be stronger than cost pressure. So clearly it remains
challenging to study strategic decisions of firms, yet understanding successful strategies is essential for both research and management.

Apart from the heterogeneity issue discussed above, other arguments support the single-industry approach. Notably, Porter (1986, p.29) points to the value of an industry perspective as: “… the appropriate unit of analysis in setting international strategy is the industry, because the industry is the arena in which competitive advantage is won or lost”. Industry specifics are vital to recognise in order to be able to draw compatible and most importantly sustainable decisions, especially when one industry is also dependent upon another industry’s strategic moves, as in FMCG. Retailers change their international strategies, consolidate and grow considerably in sales, affecting consumer goods manufacturers’ international strategies at least in some parts of the value chain – predominantly sales, as retailers are the predominant distribution channel. A more generic cross-sector approach would be imprecise in providing strategic suggestions.

Most relevant to the current research, from the literature reviewed, are the following authors focussing on peculiarities in the respective industries investigated. Grein et al. (2001), Johnson (1995) and Swoboda et al. (2014) are studies referring to the I/R dilemma, focusing on a single industry, namely automobiles, construction equipment and retail. In the construction equipment industry, Johnson (1995) found all four strategy types identified in Bartlett and Ghoshal (1989). Johnson (1995) measured performance outcomes related to these four strategy types not finding a superior strategic orientation within the industry. It may be questionable, whether this finding can be generalised throughout different industries.

Grein et al. (2001) investigate the automotive sector in an attempt to show how European and Japanese firms react to the pressures of integration and responsiveness based on their marketing strategies, i.e. at functional level, which will be discussed further below. The authors add value investigating in the different approaches between European (not being sufficiently locally oriented but integration minded) and Japanese (following standardisation strategies and only selectively respond to differences in markets) companies and thereby building a fundamental pillar for potential further research in this sector more deeply reflecting the I/R theme. Clearly, geography seems to play a decisive role, as the responses to pressures were perceived being different in Europe and Japan.
Finally, Swoboda et al. (2014), who are empirically researching the up until now rather sparsely considered retail industry, mentioned in the example above, investigating the strategy types prevailing in the industry as a base for deeper comparable research in retailing. All strategy types have been found, although retailers typically have to adapt to their local demands, i.e. typically are plunged into the multinational type (Swoboda et al., 2014). In contrast to Johnson (1995), the authors found particular preferences within the industry, where the non-food sector differs from the food sector in their strategic orientations also regarding performance outcomes. Food retailers are found to be more transnational and multinational, whereas non-food retailers are more transnational and global in their strategic orientations. By investigating deeper into an industry sector, researchers can gain more fine-grained knowledge into the strategic responses to the pressures at hand. Clearly, the authors provided a starting point to insights into the retail industry.

2.4.2 The Levels of Investigation

The I/R research rarely covers the explicit functional level, but rather uses different perspectives. Three perspectives can be identified in the literature: the subsidiary perspective (e.g. Harzing, 2000, Lin and Hsieh, 2010, Luo, 2001, Meyer and Su, 2015); the HQ perspective (e.g. Swoboda et al., 2014, Kim et al., 2003, Birkinshaw et al., 1995); and the overall firm perspective (e.g. Grein et al., 2001, Oh and Rugman, 2012, Leong and Tan, 1993). The original I/R framework has been established from an HQ level perspective and did not refer to subsidiary strategy (Taggart, 1998b). A related major criticism that Morschett (2007, p.66) points to is the neglect of the subsidiary perspective in most cases, in particular the existing diversity of the degree MNE strategic orientations within the subsidiary. The subsidiary perspective to date is still growing, however, especially the business functional perspective at subsidiary level offers great investigative potential (Rugman et al., 2011).

Considering the value chain, i.e. the functional perspective, Devinney et al. (2000) point to an interesting aspect to be discussed, leading to the necessity to also consider the value chain activities. In a critical review of the I/R framework, Devinney et al. (2000) point to missing aspects in the original model, such as the actual organisational set-up as a distinctive factor. The argument is grounded in the difference between complex organisations, such as selling special services, needing to tightly control all value chain activities (i.e. having all activities bundled ‘in-house’) and those
organisations, selling commodities, where it is potentially easier to outsource certain value chain activities. Devinney et al. (2000) therefore added a third dimension to the I/R grid, which is *transactional completeness*, aiming to cover this aspect neither a country-to-country perspective (local responsiveness) nor a global market demand (global integration) view is able to, but seeing the organisational form as a separate factor. The authors account for the diversity of both the organisational form and the strategic choices as factors for configuring the relevant strategy outside the prescribed four strategy types (Bartlett and Ghoshal, 1989). Such ‘organisational form’ can be related to a firm’s value chain, where “transactional pressures encourage firms to focus on that part of the value chain where they have the most to gain” (Devinney et al., 2000, p.682). While the current research project is not intending to discuss outsourcing of certain value chain activities, it aims however at focusing on only one aspect of the value chain, i.e. the sales function, thus already taking into consideration the ‘organisational form’. The current research argues more on the potential strength and therefore necessary but maybe missing acknowledgement of sales within the value chain, which needs to be considered in the overall MNE strategy. It implicitly reflects such a third dimension, like ‘transactional completeness’, therefore does not call for a third dimension in the I/R framework as such.

Available studies at the functional level referring to the I/R framework still have much potential for deeper investigation, which becomes even more apparent following the discussion by Rugman et al. (2011) on the disaggregated value chain. Rugman et al. (2011) suggest disaggregating the value chain to find under a resource bundling view (focusing on internal competencies and location advantages) a potentially more efficient approach to the respective part of the value chain. Also Swoboda et al. (2014) in their discussion on potential limitations of their research postulate the necessity to more deeply research into the industry sector – retail in their case – and the parts of the value chain in order to fine-tune potential strategy decisions, which most likely differ among value chain activities, whereof they mentioned marketing (to potentially differentiate) and supply chain (to globally integrate). In the context of knowledge management in MNEs, Mudambi and Swift (2011, p.186) argue, “the best firms develop micro-processes that align the activities of their subsidiaries with the local contexts in which they operate, to complement corporate level control structures. This
allows them to diffuse the tension between global integration and local responsiveness.”

Literature on the I/R framework so far did not discuss the need for fine slicing the value chain in terms of empirical investigations, evident in the missing reflection of the functional topic. Fine slicing in the context of this research simply refers to the adoption of a single functional view, i.e. isolating the functional view from a more general approach to subsidiary strategy. It points to the significance of certain functions in their role to shape strategic subsidiary roles, which may lead to an enhanced global approach to a function and thus potentially increased MNE performance. In other words, a function such as sales, by introducing an ‘ideal’ strategy based on the knowledge from within the industry representing different types of strategies, may increase its contribution to the overall subsidiary’s performance. As such this postulates one of the major objectives of this research project. The I/R framework to date does not recognise a subsidiary’s position in the value chain, i.e. seeing the subsidiary as one unit (Meyer and Estrin, 2014, p.3, Devinney et al., 2000, Rugman et al., 2011). Furthermore, considering the context of this present study, literature explicitly referring to the sales function, rather than being a part of the marketing function (see for differentiation chapter 4.2) in relation to the I/R framework is to the authors’ best knowledge not available.

2.5 Summary

While the I/R framework adopts a predominantly parental view, i.e. the HQ or corporate perspective, one needs to investigate at the subsidiary level which choices are taken and how these forces and strategic choices actually affect local performance. The subsidiary perspective has still been rarely adopted in the well-established I/R literature, which this research project aims to contribute to.

Two streams within the I/R literature have been identified. One part refers to the pressures to integration or responsiveness itself, which is fundamental to the second stream, covering the area of strategic choices managers are exposed to. Two perspectives to the I/R framework have been discussed, referring to the strategic choices managers have to make, the industry and functional perspectives. In these two perspectives, the I/R framework offers limitations worth further exploring and adding knowledge to, i.e. extending the literature with very specific, hardly explored empirical
knowledge. One is the rarely used individual industry perspective. The second is the level of investigation chosen, i.e. HQ, subsidiary or functional level, where there is a clear need and potential for further research on both the subsidiary and functional levels. In order to more deeply research and analyse the subsidiary and functional levels, the author draws on the network literature as well as the HQ-subsidiary relationship literature in the subsequent chapter. It aims to connect the broader I/R perspective, which is serving as a starting point to this research project, providing the fundamental decision-making dilemma, with these two much more specific subsidiary focused literatures from a strategic and performance perspective.
3. The Network Approach and Subsidiary Literature

3.1 Introduction

As the subsidiary perspective is broadly missing in the I/R framework, network theory will be utilised to discuss potential changes in the roles of subsidiaries (along with changes in the overall strategic orientation of the MNE). Reflecting on the pressures, discussed in the previous chapter, it implies strategic consequences for a subsidiary’s operations, i.e. the strategic choices to be made. As subsidiaries function as a part of a larger MNE and certainly not acting in isolation of its local business, two aspects are therefore vital to investigate: the subsidiary’s internal and external business networks.

In line with the resource dependency theory, network theory as used in this research identifies the potential and dependencies, which lie within subsidiaries being externally embedded and balancing such potential with the internal perspective, i.e. internal embeddedness. A subsidiary’s embeddedness into its external network may have a large influence on an MNE’s aim to strategically integrate as well as on the subsidiary’s strategic choices which will be discussed subsequently. Therefore aspects of subsidiary roles within the HQ-subsidiary relationship will be discussed, leading towards the concept of subsidiary importance.

Subsidiary importance refers to the recognised special competence of a focal subsidiary within the MNE, serving as a source of knowledge and capability to the wider MNE. The final section reflects the current discussions on subsidiary performance literature, measuring the result of subsidiary strategy related to its market performance.

3.2 The Network Approach

A fundamental critique in subsidiary research is the missing theoretical underpinning in subsidiary (role) research; several approaches used have been discussed by Birkinshaw and Pedersen (2009). One frequently used theoretical perspective is the network theory being rooted in the social exchange theory and resource dependence theory. “The advantage of the network perspective is that the subsidiary moves from being a subordinate entity (within the MNE hierarchy) to a node in a network – with links to external and internal actors, greater degrees of freedom, …. (Birkinshaw and Pedersen, 2009, p.373). So the following section will review the concept of networks
and in particular discusses an organisation’s embeddedness within these networks and its implications for the subsidiary.

First, it needs to be clarified what exactly is meant by network, the network perspective and how it differs from other, mainly contingency, perspectives. In an attempt to gain an overview and to position this research, network research and approaches to networks are subdivided into three broad areas, visualised in Figure 3-1, and the research consequently concentrates on the organisational network perspective. As Hartmann (2010) also pointed out, the field of network research is rather wide, where researchers tap into different areas, such as levels and ‘location’ of networks and reasons for networks (Sydow, 1992), so it remains rather an approach than a theory as such. The first level of network approaches, as shown in Figure 3-1, is the individual level, which refers back to social exchange theories (Emerson, 1981) and studies the networks of individuals. A second level is the networks studied at market-level which is commonly known as the “market-as-networks” approach (Forsgren et al., 1995, Håkansson and Snehota, 1995), which finds its origins in the IMP² group in Sweden. The quintessence of this school of thought lies in the observation that markets can be seen as networks consisting of actors (organisations: e.g. the focal organisation and its suppliers and customers), who establish various and heterogeneous direct and indirect relationships (Håkansson and Snehota, 1995, Renz, 1998). Whereas the original research concentrated on network relationships of a firm in general irrespective of its internationality, the study of organisational networks focused mainly on MNEs as the centre of the phenomenon. In its fundamentals there is a close relation between the market-as-network approach and the ‘Swedish Network’ approach (in inter-organisational networks). So the market-as-network approach will not be used explicitly, however, it is fundamental to the external network embeddedness perspective, recognising the heterogeneity of business relationships with partners external to the MNE.

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² IMP Group – Industrial Marketing and Purchasing Group, formed in 1976 by researchers from 5 European countries, however, mostly driven by the Swedes, which is the reason for some terming it Swedish Network approach
Organisational networks, which can be differentiated by viewing these as intra-organisational (relationships within an organisation between departments, units, subsidiaries) and inter-organisational (relationships to other organisations, government or e.g. research institutions) networks, are typically driven by resource limitations and specialisation in certain functions (Ghoshal and Bartlett, 1990, Sydow, 1992).

Stepping one level deeper into intra-organisational networks, another distinction has to be pointed out, which again is a matter of perspectives, vital to understand the embeddedness concept in contrast to the MNE strategy literature around Nohria and Ghoshal (1997). The authors brought forward the view of the “differentiated network” as opposed to a static hierarchy perspective regarding a firm’s international strategy. The differentiated network approach proved already to be a fundamental step towards the acknowledgement of individual subsidiary contribution, however, considering the network to be more of a ‘communication’ network, where information flows both between HQ and subsidiary as well as between subsidiaries (Forsgren et al., 2005, Gupta and Govindarajan, 1994, Gupta and Govindarajan, 2000). It has been argued that this perspective neglects the importance of an MNE’s environment, when it comes to analysing the subsidiary level. Differentiated networks are seen to develop from the
inside, rather than the outside, which contrasts with the arguments of researchers like Forsgren et al. (1995), who investigate networks deeply, being interested in the relationships with the external business partners and their interaction implication on the focal firm (subsidiary). The authors present a “network model, that takes the firm’s relations to the environment as its point of departure” (Forsgren et al., 2005, p.5). In contrast to the resource-based view, the resources and capabilities existing and to be acquired from the outside of the firm are the main focus of these network studies, gaining a significant role in the management of the MNE through its subsidiaries. As Andersson (1997, p.5) discusses in his thesis, network theory “recognised that critical resources are linked to the subsidiaries’ specific relationships with customers, suppliers and other counterparts”.

According to Forsgren (2013), (2008), there are three differences regarding network theory vs. other approaches in MNE research. In contrast to the contingency perspective (which mainly underlies international strategy research) in MNE research, where MNEs are trying to adapt to the different situations in their environment in order to maximise their performance, the network perspective views the environment as a ‘market’ in which organisations operate. So the perspective rests on the business relationship with the actors in the environment. Furthermore, the network perspective defines relationships as not only external, but also speaks of equally important internal business relationships, in which a subsidiary is embedded. Finally, in such a network, subsidiaries are able to develop and define their roles through a “bargaining process” (Forsgren et al., 2005) as the network in itself is one of the most important subsidiary (controlled) resources. In particular, the acknowledgment of a subsidiary’s embeddedness in both networks – internal and external – in connection with the discussion on subsidiary roles development building upon these relationships, is a major difference to the ‘differentiated network’ subsidiary strategy literature, where subsidiaries are assigned roles due to specialisation in certain areas such as R&D, production, etc.

As the author is interested in the holistic environment and perspectives – external and internal to the subsidiary – the latter network approach has been identified as relevant for this research project. This view is supported by Renz (1998), who investigated networks as a management approach. As depicted in Figure 3-2, only the embedded network models are actually considering both the individual subsidiary and the HQ
perspectives. In contrast to the IB literature concentrating on the internal relationships mainly from an HQ perspective, the embedded network literature focuses predominantly on the subsidiary side. This perspective views the resources of a subsidiary developing through its external network and operating with both the internal and external network as a presupposition of subsidiary role and subsidiary performance.

Figure 3-2 – Focus within Network Models
Adapted from Renz (1998, p.82)

Clearly, the theoretical focus for the subsequent sections lies in the embedded network models.

3.2.1 The Nature of Business Networks

Before discussing the concept of network embeddedness, business networks will need to be explained briefly. Authors such as Forsgren et al. (1995) use social exchange theory (Emerson, 1962, Emerson, 1981, Granovetter, 1985) as a basis for theoretical developments on relationships in business networks. Social exchange theorists argue that social relationships “entail ties of mutual dependence”, based on the exchange of resources and information as well as values and other social factors (Emerson, 1962, p.32, Emerson, 1981). Business networks originate from and have an influence on such dyadic relationships of which there are typically several in business networks.
connected to each other (Blankenburg Holm and Johanson, 1997). The connection or more precisely the *interaction* emerges, grows and develops over time so that ultimately every relationship or industrial network has its own history (Forsgren et al., 1995). As a prerequisite to interaction, a *mutual orientation* is of great importance, whereas the interaction itself characterises the relationship per se (see also Emerson, 1981). Forsgren et al. (1995) further discuss interaction being comprised of the interrelated *exchange* and *adaptation processes* (see Figure 3-3). The exchange process is typically a longer-term, slowly developing activity, whereas the adaptation process has more of an operational character in daily business, like a mutually agreed adjustment of production or logistics processes. The authors argue that the stronger the exchange process, the more likely it is to see adaptation processes evolving. To strive for adaptation in business relationships requires a tight coordination of efficiency-enhancing work processes between partners (Yamin, 2005). Adaptations are argued to be a source of value creation as they “…entail multiple and interacting functional and operational interdependencies” (Yamin, 2005, p.99).

![Figure 3-3 – The meaning of interaction](source: own development)

Furthermore, Yamin (2005) is pointing to the depth of adaptations, which is suggested to be driven by the amount of interactions at *all levels* of the value chain throughout the organisation. The following section will specify and discuss the embeddedness concept and point to the relevant fields of research.

### 3.2.2 The Concept of Embeddedness within a Network

From a business network perspective, embeddedness is used as a concept, which describes: “how deeply involved the subsidiaries are in their business networks, and thereby how strongly influenced they are by them” (Andersson, 1997, p.6). Thus in contrast to the opposite so-called arm’s length market exchange relationships
(Forsgren et al., 2005), embedded relationships evolve through the development of long lasting mutual exchange relationships with business partners; mutual adaptations typically regarding product and production processes can be achieved, which in turn enhance a subsidiary’s competence (e.g. technological, organisational) (Andersson et al., 2007, Forsgren et al., 2005, Yamin and Andersson, 2011). Andersson et al. (2001a) suggest such competencies to be beneficial to the MNE if transferred to other organisational units, potentially affecting an MNE’s overall performance (Uzzi, 1997).

In the earlier stages of literature on network embeddedness, the focus has been primarily laid on external business networks, which can operate as a facilitator to subsidiary development (Andersson and Pahlberg, 1997, Holm and Pedersen, 2000, Andersson et al., 2001b). However, Yamin (2005), amongst other authors emphasised the need to also consider internal network embeddedness regarding “opportunity development in the MNE” (p.93, see also: Schmid and Schurig, 2003, García-Pont et al., 2009). It is important to understand how subsidiaries are able to influence the MNE through their organisational power stemming from the networks subsidiaries are embedded in, thus the capabilities and competencies they may have developed (Yamin, 2005).

Subsidiaries are typically embedded – to varying degrees (Andersson, 1997) – in both corporate (internal) and external networks, which in essence represent the environment of the subsidiary (Forsgren et al., 2005). The internal network is more of a ‘given relationship’, mainly of administrative nature as the subsidiary belongs to an MNE’s “legal authority” – the HQ (Yamin, 2005, p.103), being one of a subsidiary’s most important stakeholders, aiming to control and steer subsidiaries, applying an overall MNE strategy (Forsgren et al., 2005). The corresponding degree of integration reflects the depth of involvement in its relationships with sister units and/or the MNE’s HQ (Andersson, 1997), whereby some subsidiaries strive for influencing the overall MNE strategy rather than readily accepting the predefined role given.

External or local embeddedness reflects the position in a subsidiary’s external business network (outside the MNE boundaries), consisting of suppliers, customers, distributors, several institutes (incl. research), competitors, etc. (Forsgren et al., 2005, Young and Tavares, 2004). Research is focused on the relationship, its strengths and nature, between subsidiary and its local business partners (Birkinshaw and Pedersen, 2009). In contrast to internal embeddedness, external embeddedness develops from an
arm’s length relationship into a mutual exchange and adaptation relationship based on trust and interdependence (Yamin and Andersson, 2011). The more relationships a subsidiary has characterised by mutual adaptation with its business partners, the more embedded it is in its local environment (Andersson and Forsgren, 2000). The external relationship is thus somewhat path dependent as it grows over time and is therefore much harder to imitate or substitute (Hartmann, 2010, Gulati et al., 2000, Andersson et al., 2002). Andersson and Forsgren (1996) have furthermore empirically shown that subsidiaries being deeply embedded in external networks are less controllable by the HQ. Conversely, a subsidiary being tightly embedded in the internal network is suggested to be more easily controlled and influenced by the HQ. Typically, autonomy is rather high, when subsidiaries are deeply embedded in their local business networks, which enables the subsidiary through knowledge acquisition to be innovative and highly adaptive to its local environment (Andersson and Forsgren, 1996, Taggart and Hood, 1999). In turn, results from such relationships can be highly beneficial to the entire corporation, but may not be made visible by the subsidiary in question due to the low degree of embeddedness in the internal network. Uzzi (1997), among other authors, discusses the downside of too high a degree of external embeddedness, where an “overembedding” can be counterproductive as there is the risk to develop isolated innovations or competencies, incompatible to the actors outside this particular network (Andersson et al., 2001a).

3.2.3 The Concept of Dual Embeddedness

Literature focusing on external embeddedness has mostly researched the industrial manufacturing sector and has often emphasised topics technical/technological embeddedness, that is the exchange and adaptation of product and production development processes combined with the competency development of both subsidiary and the MNE (Andersson and Forsgren, 2000, Andersson et al., 2002). Andersson et al. (2002) suggest that subsidiaries with a high level of business embeddedness (a number of functional areas in direct contact and the adaptation of the business conduct, e.g. logistics, marketing, sales and purchasing (Mudambi et al., 2014, p.3)) positively influence technical embeddedness (e.g. R&D, production), which in turn improves both the subsidiary’s market performance and its importance to the MNE regarding the contribution it can deliver to other MNE units. Though, Birkinshaw and Pedersen (2009, p.372) point out “a strong network does not by itself provide a subsidiary with
more strategic influence on the MNE” it rather depends upon the subsidiaries’ ability to: a) absorb and grow valuable knowledge into new competencies and b) distribute it to the MNE by pointing to the importance of its competencies and thus influencing the organisation. Clearly, as Andersson et al. (2007) also conclude, it is the subsidiary importance – the transmission of the competencies built from external network embeddedness – within the intra-organisational network, that creates the strength of the subsidiary to exert strategic influence. Interestingly, Andersson et al. (2002) – in their empirical setting, which is the industrial goods sector – found that, in contrast to technical embeddedness, business embeddedness, i.e. sales and purchasing, does not have a direct impact on the subsidiary importance to other units as well as to its own market performance.

Literature considering dual or multiple embeddedness brings to the fore simultaneous importance of both elements of embeddedness – internal and external embeddedness – as vital prerequisites to subsidiary strategy development (Garcia-Pont et al., 2009). Alongside with Rugman and Verbeke (2001) the authors point to the importance of internal knowledge diffusion mechanisms without which subsidiary-specific advantages could not be dispersed MNE-wide. Internal embeddedness is argued to represent the mechanism for diffusion of knowledge with increasing degrees of embeddedness, which in turn is key to subsidiary distinctiveness (Garcia-Pont et al., 2009). Subsidiary distinctiveness, which although slightly different can also be understood here as subsidiary importance, is discussed to enable the subsidiary to actively take part in the strategic decisions at MNE level (Garcia-Pont et al., 2009, Birkinshaw, 2000). Therefore the strength of the internal embeddedness needs to be seen as a vital contributor if not the driver of subsidiary strategy. Related, however, focusing on subsidiary importance, Yamin and Andersson (2011) also posit their findings towards the relevance of internal embeddedness as well as the interaction between external and internal embeddedness. A main finding has been that internal embeddedness negatively moderates on the positive effects of external embeddedness. In particular the authors found that internal embeddedness reduced “the positive effect of external embeddedness on a subsidiary’s importance for production” though not for product development, which remained an open question (Yamin and Andersson, 2011, p.160). Clearly, the embeddedness in internal and external networks is seen as being more like competing pressures (see also Andersson and Forsgren, 1996, who also
empirically found a highly significant negative correlation between both types of embeddedness.

Ciabuschi et al. (2014) conducted research regarding innovation development aiming to study the simultaneous impact of internal and external embeddedness on and to business performance. The authors found that internal embeddedness is related to subsidiary influence but only indirectly affects innovation-related business performance. However, they found external embeddedness directly impacts on performance, without being related to subsidiary influence, which means in essence, that both types of embeddedness have an impact, but somewhat differently, on subsidiary performance. As subsidiary influence is vital for its strategic role and the business performance essential for the subsidiary’s success, the authors suggest that a subsidiary being strong on both types of embeddedness is in a “favourable situation” and see both types as complementory contexts (Ciabuschi et al., 2014).

The issue of finding a balance at subsidiary level, in terms of the degrees of intra-MNE and local embeddedness, reflects the integration/responsiveness dilemma discussed in the preceding chapter. Thus in MNEs with a multinational orientation, subsidiaries with high levels of external embeddedness will be found, whereas globally oriented MNEs will consist of internally embedded subsidiaries to a higher degree. TNCs strive for both corporate and external embeddedness, which is however, difficult to achieve as an area of conflict remains in coordinating somewhat autonomous subsidiaries (Birkinshaw and Morrison, 1995).

Based on previous findings the present empirical research will also examine the impact of internal and external networks on subsidiary importance as well as in relation to subsidiary strategy as such. What is different to previous studies is the context of this study, which is the sales function in the FMCG sector in Germany. Traditionally, with low HQ involvement and conversely low need to internally exchange knowledge, the sales function is now faced with the opposite situation – the need for transparency, both internally and to customers regarding global customers, necessitating a shift in relational thinking, where internal embeddedness potentially plays a vital role. It remains open whether the two types of embeddedness are complementory or rather competing. This study aims thereby to broaden the knowledge base of the network embeddedness literature.
One major limitation of network research to date is its predominant focus on the industrial manufacturing sector. Since starting network research through the IMP group, the industrial goods (i.e. manufacturing) sector has been explored empirically. Network relationships are fundamental to the industry, which is characterised by long-term relationships based on exchange processes in the first place (Morschett, 2007, p.191). Some more recent research utilizes the concept of embeddedness (mostly dual) in connection to innovation (Ciabuschi et al., 2014) and the knowledge intensive industry (Najafi-Tavani et al., 2014, Najafi-Tavani et al., 2012). However, to the best of the authors’ knowledge, the concepts have as yet been neither applied nor empirically researched in the FMCG sector in particular, nor to the sales function within MNEs operating in this sector. The FMCG sector and the sales function undergo dramatic strategic shifts as described in chapter 4.

3.3 Subsidiary Roles and Subsidiary Importance

Having considered the subsidiary and its network position (in relation to its internal and external embeddedness), a subsidiary’s role typically is shaped by it. According to Reilly and Sharkey Scott (2014, p.196) and Gammelgaard et al. (2012), subsidiary strategy development is dependent on both local external and the corporate strategy changes (see also Benito et al., 2003).

In the case of lower degrees of internal embeddedness, integration strategies imposed by the HQ to its subsidiaries can be problematic, when subsidiaries choose to optimize their own performance by adapting to the local environment rather than participating “in centralized services and knowledge integration within the MNE” (Meyer and Estrin, 2014, p.8). Subsidiaries not adopting or aligning to such centrally imposed strategy may undermine the MNE’s performance (Meyer and Estrin, 2014). In particular, in knowledge intensive industries, as the industry considered in this research, integration becomes to a certain degree a vital factor of potential competitive advantage (e.g. in terms of innovation and competitive processes and procedures) (Gupta and Govindarajan, 2000, Meyer and Estrin, 2014). The subsidiary’s alignment to the integration strategy, rather than its opposition to it, should result in performance gains. It is therefore vital to understand the broader concept of subsidiary roles and subsidiary strategy within the MNE, which this section refers to.
Conceptually, and with the advent of the I/R framework, the MNE is predominantly seen as a differentiated global network, where hierarchy has been superseded by a tendency to a more heterarchical approach (Hedlund, 1986, Ghoshal and Bartlett, 1990). Thus the effects of globalisation shed light on the increasing diversity of MNE organisations, i.e. subsidiaries with different tasks or specialisations, which MNEs have to handle accordingly. HQ, being responsible for an MNE’s overall strategic direction, will more than ever need to be able to reflect on and reconcile a subsidiary’s strategic role within its network to ensure a maximum outcome and competitive stance. In the same vein, subsidiaries have to make sure to be heard especially in case of contrary perceptions towards its strategic role, which otherwise may ultimately influence a subsidiary’s performance. The perspective from a mere HQ- and MNE-centric perspective in IB (Papanastasiou et al., 2016), towards subsidiaries and their strategic role or position within the MNE, has changed drastically starting in the mid 80s until now. The “subsidiary role stream” (Paterson and Brock, 2002, Birkinshaw and Pedersen, 2009) delivers some of the central findings supporting the arguments towards the conceptual model. Essentially it points to the notion that a subsidiary is not just an HQ instrument but it is able to shape its own route (Birkinshaw and Pedersen, 2009).

In an attempt to identify and analyse strategy at subsidiary level, various authors (e.g. White and Poynter, 1984, Jarillo and Martinez, 1990, Bartlett and Ghoshal, 1986, Taggart, 1997, Birkinshaw and Morrison, 1995) developed several models of potential subsidiary strategic role typologies based on different dimensions and perspectives (Taggart, 1998a). Although literature suggests such variety in approaching the development of subsidiary roles, it provides some form of structure for researchers and practitioners helping to reduce complexity (Harzing and Noorderhaven, 2006). With Jarillo and Martinez (1990) as well as in a slightly modified version Taggart (1997), the I/R framework has found its first application at subsidiary level.

In the course of the subsidiary role research stream, authors like Birkinshaw and Pedersen (2009) bring forward a very relevant discussion on subsidiary strategy and subsidiary roles, which needs to be distinguished here. The authors point to the perspectives taken, where subsidiary roles are typically assigned through HQ in contrast to a subsidiary strategy suggesting “… some level of choice or self-determination on the part of the subsidiary.” (Birkinshaw and Pedersen, 2009, p.375).
The importance in this distinction, even if it sounds somewhat semantic (Birkinshaw and Morrison, 1995) lies in the nature of the process being either determined to follow the instructions of the HQ or developing rather, at least with some degree of freedom, a strategy in its own right. Most literature focusing on subsidiary roles is actually concerned with the former definition – the subsidiary role (Birkinshaw and Morrison, 1995), with some few exclusions such as White and Poynter (1984), who already identified a subsidiary’s ability to also operate somewhat autonomously.

Subsidiary strategy has been defined as: “…the positioning of the subsidiary vis-à-vis its competitors and its customers, and with regard to its underlying resources and capabilities.” (Birkinshaw and Pedersen, 2009, p.376). Traditional literature argues resources would have to be managed and developed by the HQ and the subsidiary’s task is to serve its market, simply being market-oriented (Cantwell and Mudambi, 2005). Birkinshaw and Pedersen (2009) question this view by reversing the responsibilities. The authors discuss that in the course of ongoing globalisation, i.e. global customers’ demand to be served through HQ, thus HQ taking the responsibility for e.g. customer development – the customer responsibility is taken out of the subsidiary’s hands. On the other hand, subsidiaries developing certain procedures or which are for example particularly good at implementing an effective distribution, i.e. have certain, sometimes even distinct, capabilities, are either asked to or being willing to share with the firm’s internal network. Essentially, subsidiaries are taking care of their resources and capabilities themselves, becoming internationally integrated operations (Cantwell and Mudambi, 2005). In the same vein, Mudambi et al. (2014) argue that HQ actually has no ability to effectively control a subsidiary’s resources, responsible for its value creation. Birkinshaw and Pedersen (2009) further argue that using the resource-based view (RBV) perspective at subsidiary level is not appropriate, as only the resources and capabilities of each subsidiary taken together comprise the potential competitive advantage.

Consequently, literature on subsidiary roles brings forward knowledge on the different roles subsidiaries potentially can grow into, however, as Morschett (2007) discusses, this does not necessarily refer back to potential consequences for the MNE itself. Research has thus to be conducted from a subsidiary perspective looking at the influence a subsidiary may have with a certain role regarding further development of
an overall strategic orientation in connection with an accompanying structure sought in the MNE.

In case of the sales function (in FMCG), organisations face a dilemma in needing to decide how to further organise the department and take strategic decisions – centralised vs. decentralised – where subsidiaries have to date conducted and managed strategic sales activities primarily at local level. Therefore, in development into a ‘focused approach’ towards the sales function strategic activities will potentially have repercussions on the strategic orientation and organisation the MNE is following in principle. So the subsidiary having a strategic role should also be seen as a potential originator of strategic decisions towards organisational design, which should be constituting a progress in knowledge as Morschett (2007, p.287) argues in connection to his research on service firms. The question connected to the present thesis remains, whether there is a strategic impact on the MNE, by splitting strategic sales activities between HQ and subsidiary, which in turn may impact on subsidiary performance. So as a consequence to the empirical research and findings it could mean rather considering the subsidiary perspective in this process. Considering the subsidiary’s role but more importantly its strategy, the discussion of subsidiary importance needs to be brought forward.

### 3.3.1 Subsidiary Importance

Bouquet and Birkinshaw (2008) argue the importance of a subsidiary to an MNE depends on a subsidiary’s “weight” and “voice” (see also Ambos et al., 2010). These two factors, originally used as determinants for a related discussion on HQ attention (Bouquet and Birkinshaw, 2008), point to and operationalize the importance of a subsidiary. In their arguments, “subsidiary voice” is another description for an initiative taking subsidiary (Bouquet and Birkinshaw, 2008, p.582) which “refers to the conscious and deliberate actions of subsidiary managers in their market place”. According to the authors, initiative takes place in connection to product or service development as well as the occurrence of market opportunities and expands the subsidiary’s value added “scope of responsibility” (Birkinshaw, 2000, p.8). It can eventually lead to a change of a subsidiary’s role, if the developments are of greater value to the entire MNE. Bouquet and Birkinshaw (2008) use this dimension to support their discussion on HQ attention towards the respective subsidiary. The authors empirically found that attention is more likely to be successful if subsidiaries
show their competencies in upstream as opposed to downstream value chain activities. Also Mudambi et al. (2014) argue that business-related (downstream) functional specializations lead to potential business-related power, however, technological related (upstream) functional specialisation has a higher probability to lead to strategic power within the MNE respectively. Clearly, downstream activities are seen as being more tied to the respective locations with a lower potential to being dispersed to other units. These subsidiaries need to actively channel their competence and knowledge to the HQ and sister-units. Bouquet and Birkinshaw (2008) found that in case of upstream value chain activities it is easier to attract attention through initiative taking activities. Since the sales function belongs to the set of downstream activities, one could infer that a subsidiary being focused on sales will have to work hard to actually gain strategic power.

The “weight of a subsidiary” as Bouquet and Birkinshaw (2008, p.594) termed it, is a “top-down structural process”, which consists of two parts as the authors define it. First, it is the perceived strategic significance of the local market to the results of the entire MNE, which could be sales opportunities, other successfully active MNEs or other cumulative location effects. Secondly, it concerns the subsidiary’s strength within the MNE, “defined as the extent to which a subsidiary undertakes activities upon which sister subsidiaries depend” (Bouquet and Birkinshaw, 2008, p.582). It subsumes thus the weight a subsidiary is given regarding its ability to gain attention from HQ. The key finding of this research has been built on the concept of headquarters attention as being a key strategic issue (Ambos and Birkinshaw, 2010), which may raise the subsidiary’s importance in the MNE network. “Voicing” the local initiatives (Birkinshaw and Hood, 1998, Bouquet and Birkinshaw, 2008), is – upon recognition – seen as one vital element for subsidiary development. Bouquet and Birkinshaw (2008, p.594) term it also a “bottom-up relational process, whereby attention is earned according to the subsidiary’s voice to the MNE”. It may, complementary to a subsidiary’s “weight”, influence the HQ attention and therefore choice to change potential investment activities by HQ, which succinctly potentially change the longer-term strategic role of the respective subsidiary.

As mentioned before, a closely related viewpoint to subsidiary importance is the aspect of power as discussed by Mudambi et al. (2014). The authors suggest, in their discussion on power in subsidiaries, that power does not usually grow through
resources, which are tangible or easy to be transferred to HQ or any other organisational unit, but builds from a resource, which is rather intangible and hard to imitate – typically technological or business-related knowledge. In case the MNE is dependent on its subsidiary competencies, Mudambi et al. (2014) further argue, the subsidiary may then exert influence over some MNE strategic decisions. The authors empirically proved that subsidiaries having gained and shown competency in one function might gain power in this function, turning functional into strategic power. This in turn means to potentially exert power within the MNE. However, the sole functional excellence is suggested to not be sufficient for achieving functional power within the MNE as it must be first recognised by the MNE and second be relevant to the MNE (Mudambi et al., 2014, p.8).

This argument is also discussed in another stream of research, which is relating subsidiary importance to the business network studies, where subsidiaries can develop into strategically important roles influencing the MNE, through interaction with its external and internal network (e.g. Andersson and Forsgren, 2000, Yamin and Andersson, 2011). Literature suggests that in order to develop into a ‘centre of excellence’ or a ‘world mandate’ subsidiary, i.e. gaining importance to the MNE, presupposes recognition by HQ in terms of the capabilities and knowledge built at subsidiary level at a particular functional level (Yamin and Andersson, 2011, Andersson et al., 2007). Yamin and Andersson (2011, p.154 and 151 respectively) define subsidiary importance as follows: it “reflects the extent to which its [a subsidiary’s] specialised competence is recognised by the MNC”, so it is the degree to which the subsidiary in question “is of use to them as a source of knowledge and capability” to both HQ and sister subsidiaries. Clearly, if a subsidiary is important for the development of respective competencies of its sister units, it is said to have a greater chance to influence an MNE’s strategic decisions (Andersson et al., 2007). As also Andersson and Forsgren (2000) point out, such a view implies to emphasise on the level of interdependency between units and the HQ rather than the often-emphasised levels of autonomy at the subsidiary’s side (Birkinshaw and Morrison, 1995).

Studies in the business network perspective conceptualise subsidiary importance by utilising technology, production and product development as indicators for a subsidiary’s importance to the MNE network. These activities represent, however,
solely the upstream activities within the value chain, which is a limitation so far in previous research. Andersson et al. (2007) also propose to include marketing or even human resources into researching subsidiary importance.

As the sales function is naturally a rather relationship-based function, the author builds on the former evaluation on the network embeddedness, as a theoretical base for this current research project; also the subsidiary importance will be adopted from a network perspective as in Yamin and Andersson (2011). Again the function to be investigated and the context potentially provide sources for contribution to existing literature in the field. Literature so far did not focus on downstream activities at subsidiary level regarding subsidiary importance, so the sales function will be examined against this background. From a contextual point of view, it remains to be investigated whether subsidiary importance within networks from a German subsidiary can be observed.

The final section in this chapter discusses subsidiary performance, in particular market performance, as an outcome to the strategic choices and potentially changes taking place at subsidiary level.

3.4 Subsidiary Performance

Performance measurement in IB and particularly regarding strategic management is still an intensively discussed field of study. Discussions arise because literature typically uses performance outcomes as a dependent variable and experts in the field bemoan the diversity of performance measures in its applications, which may lead to diverging results (Hult et al., 2008, Venkatraman, 1989, Jeppe et al., 2014). Yet it remains an essential variable in the course of researching various business strategies leading towards integration and/or responsiveness as the underlying topic of this thesis.

Three (hierarchical) levels of performance evaluation are typically employed in IB, the corporate level, the business unit level and the functional level (Venkatraman, 1989, Hult et al., 2008). The present research adopts the business unit, i.e. subsidiary level, perspective in regards to performance, as the research focuses on the subsidiary per se, leaving corporate performance being far too aggregate a level for strategic investigations at subsidiary level. Venkatraman (1989) also suggests measuring the business unit level, as strategic management is taking place at this level. Tian and Slocum (2014) point to the insufficient research on subsidiary level performance in
relation to the subsidiary business strategy interacting with the MNE’s international strategy. And
ersson et al. (2001b) also discuss the almost missing assessment of subsidiary performance, which is difficult to understand given the diversity of subsidiary environments and the resulting market-opportunities, which may even lead to organisational performance enhancement (MNE level). One crucial argument is certainly the lacking willingness of MNEs to report on and the inconsistency (e.g. accounting standards) of subsidiary financial or other performance data (Nguyen, 2011, Andersson et al., 2001b).

In assessing performance measurement in IB, Hult et al. (2008), building on Venkatraman and Ramanujam (1986), suggested a categorisation of performance types to be measured, namely financial, operational performance and overall effectiveness (see Table 3-1 for an overview of typically associated indicators). The authors call for using multiple performance measurement types in a study, however only a very few studies use all three performance dimensions. Hult et al. (2008, p.1069) identified the most common measures on business level performance measurement (highlighted in bold in Table 3-1), which have been sales-based (68%) in financial performance, measuring market share (46%) in operational performance and performance relative to competitors (50%) for the overall effectiveness measurement.

<table>
<thead>
<tr>
<th>Type of Performance</th>
<th>Financial Performance</th>
<th>Operational Performance</th>
<th>Overall Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Content</strong></td>
<td>Economic objectives accounting- and market-based metrics</td>
<td>Non-financial dimensions, however may lead to financial performance</td>
<td>Broader conceptualisation of performance</td>
</tr>
<tr>
<td><strong>Indicators typically employed</strong></td>
<td>Profitability (typically expressed as ratio) Profit margin Earnings per share Stock price <strong>Sales growth</strong> Growth of foreign sales</td>
<td><strong>Market share</strong> Efficiency New product introduction and innovation Product or service quality</td>
<td>Reputation Survival Perceived overall performance Achievement of goals Perceived overall performance relative to competition</td>
</tr>
</tbody>
</table>

Table 3-1 – Overview Types of Performance

Adopted from Hult et al. (2008, p.1066)

Authors of the network-related literature (see section 3.2) typically differentiate performance on the subsidiary level into organisational and market performance dimensions and operationalise both dimensions (Andersson et al., 2001b, Forsgren et al., 1999). Market performance relates to performance measured against a subsidiary’s
own objectives as success in the local market competing with other local players, whereas organisational performance refers to performance being measured against MNE objectives internally (Andersson et al., 2001b). The authors argue that organisational performance can be seen as a political process, where subsidiaries aim to “influence strategic decisions of relevance to the subsidiary” (Andersson et al., 2001b, p.6). Market performance is measured through sales volume and market share expansion, whereas organisational performance is conceptualised by “other managers’ assessment of how much influence the subsidiary has over certain decisions within the MNE will be applied.” (Andersson et al., 2001b, p.7). This view is quite distinct from the more traditional financial-related measurements being clearly related to the types of resources a subsidiary has access to (degree of embeddedness). Organisational performance is thus dependent on the role of the subsidiary within the MNE and not necessarily related to a subsidiary’s market performance (Andersson et al., 2001b) – and is thus later termed subsidiary importance (Andersson et al., 2007, Yamin and Andersson, 2011).

Adjacent to performance level and type, a third general issue discussed is the use of primary (subjective) vs. secondary (objective) types of data sources (Hult et al., 2008, Venkatraman and Ramanujam, 1986). Due to the typical lack of data on subsidiary performance, the construct needs to be investigated through primary data, thus will be measured subjectively by perception of relevant subsidiary managers. As subjective data is often seen as biased or less valid and reliable, researchers like Andersson et al. (2001b, p.7) investigated this issue and found perceived performance “tends to have high correlation to objective accounting-based measures”.

The present thesis investigates subsidiary network relations, their impact on subsidiary importance on the strategic decision-making taking place at HQ or subsidiary levels. Subsidiary importance is seen indirectly and the division of strategic sales activities between HQ and subsidiary as directly leading to subsidiary performance from a primarily market performance perspective, i.e. the success of the subsidiary in its market place. As the German market is one of the most important economies, MNEs will need to pay close attention to the German subsidiary’s market performance, despite its influence, hence the importance it plays in strategic decisions within the MNE. MNEs underperforming in the German market may feel repercussions towards overall MNE performance, due to the sheer market size. So the argument relates to
contextual factors, thus the country chosen and the relationships built locally, impacting the organisations’ performance through the individual market performance. As Forsgren et al. (1999, p. 187) state: “market performance of a firm is dependent on its business relationships with other firms” (see also Håkansson and Snehota, 1995). Here the sales function has a particularly strong relevance, building strong relationships with external business partners, i.e. retailers, being fundamental to a subsidiary’s market-performance. In turn it suggests important strategic decisions need to be carefully weighted between HQ and subsidiary, as these account for the market per se. It thus remains open how far predominantly centralised decisions will impact on the local market performance. To also account for the rigour in performance measurement, market performance will be operationalised according to the recommendation of Hult et al. (2008), utilising all three types for performance (financial, operational performance and overall effectiveness), i.e. sales growth, market share and perceived performance relative to competitors.

3.5 Summary

Building on the I/R framework discussed in the previous chapter, the current chapter outlined the network perspective, which is based on the social exchange theory as well as the resource dependency theory. In line with Papanastasiou et al. (2016), subsidiary network embeddedness is used as an important measure to understand how the subsidiary is resource dependent and thus influences the subsidiary strategy (Ciabuschi et al., 2014, Meyer et al., 2011).

Sections 3.2 and 3.3 discussed the network approach in detail, the concept of dual embeddedness and subsidiary importance, strategically influencing the MNE being a potential result of the subsidiary’s position and developed special competencies, within the MNE network. Subsidiary external embeddedness can lead to a development of special capabilities leading to potential performance improvements serving as a lever to enhanced subsidiary importance as suggested in the literature (Yamin and Andersson, 2011, Ciabuschi et al., 2014, Birkinshaw and Hood, 1998). Simultaneously, it is important to strive for equivalent degrees of internal embeddedness, providing the internal mechanism to diffuse knowledge within the MNE (Garcia-Pont et al., 2009). Ultimately, a subsidiary as a result may be able to influence strategic decisions at the MNE level, thereby developing a distinct subsidiary
role within the internal network. In Section 3.4, the particular topic of subsidiary performance measurement has been discussed.

The review from the literature pointed out above led to the following aspects, where this current research is aiming to contribute by adding to and confirming existing knowledge. The traditional focus lies on the industrial manufacturing sector and more currently on the knowledge industry (Najafi-Tavani et al., 2012), typically focusing on functions like production or R&D in relation to the network theory. Regarding the subsidiary importance stream, typically upstream value chain activities are researched. Therefore the current research study aims at contributing to the extant literature by empirically adding a new functional perspective – sales – in a very specific industry – FMCG sector – to the field.

In general, IB research typically refers to the subsidiary level rather than a functional level. In their attempt to investigate the marketing function at subsidiary level, Homburg et al. (2012) also realised that research needs to consider the functional level to increase precision in research, in their case the classification of subsidiary strategies. Paterson and Brock (2002) and also earlier Birkinshaw and Morrison (1995) already reflected on the existing gap of research at the functional level in multinational subsidiaries.

Before turning to the theoretical framework, the centrepiece of this research project – the sales strategy including its elements and the context of the FMCG sector (in Germany) will be discussed in the next chapter.
4. The Sales Function and the FMCG Sector

4.1 Introduction

The purpose of this chapter is to provide the reader with a functional and industrial background and to provide the fundamentals to the empirical research to this study – the core concept: the sales strategy.

The following sections will briefly review relevant B2B literature focused on sales function strategy, its definition and elements giving rise to the sales function to be recognised in its own right, rather than being a marketing appendix (as in ‘place’ or distribution being a part of the marketing mix) (Piercy, 2006). Then the author will introduce the FMCG sector and highlight the forces for integration and responsiveness in the FMCG sector, mostly emanating from some structural changes in the retail sector. The author thereby discusses the essence of the industry sector fundamental to the empirical part of this thesis.

The strategic elements in the sales function will then be specified providing the basis of this research, i.e. the centre stage of the integration/responsiveness dilemma, global or local decisions on strategic sales elements.

The necessity to closely investigate the sales function has increased greatly over the past decades, in particular in otherwise very marketing-led industries, like the consumer goods sector. As also Piercy and Lane (2011, p.25) rightly point out:

“Not only has the sales task become much more complex, the stakes are much higher.”

The chapter closes with a brief overview of the German FMCG market, which will provide the context of this research study.

4.2 The Sales Function

On the functional side, research has long concentrated on upstream functional areas such as of R&D, purchasing or production as these functions are regarded as “primary sources of global transfer and integration for achieving scale, scope and learning economies” (Kim et al., 2003, p. 328, Yip, 2003). According to Arnold et al. (1999), in downstream functions such as sales, the benefits of operating a locally responsive customer management for a long time outweighed the benefits of global integration. Only in recent years has the sales function - as distinct from marketing, which for a
long time has been recognised as a strategic function - began to be more deeply examined especially in an IB context (Panagopoulos et al., 2011).

Sales as a term needs to first be defined here, as there is a broad range of activities and (mis)understandings associated with the term (Hesse, 2004). Without entering deep semantic discussions and following Winkelmann (2013), it is proposed here to have two perspectives on sales. One is the selling perspective – where sales is seen as a function to physically sell products in person in a customer relationship. The other is the broader perspective of sales as a function as such, being responsible for the “coordination and implementation of the sales targets, sales strategy and sales measures” (Steiner, 2013, p.12) through managing the process of “customer acquisition and customer relationships as well as ensuring product delivery, sales controlling and sales channel management” (Winkelmann, 2013, p.286). Within this thesis the latter broader definition of sales will be adopted.

In practice, the sales function has meanwhile grown into a function in its own right, not being just reflected in one “P” (placement or distribution) of the marketing mix (Winkelmann, 2013). Organisations are increasingly focusing on the sales department as a separate value adding entity in addition to marketing. From a theoretical perspective, Winkelmann (2013) and Steiner (2013) analysed and compiled literature identifying whether sales has been looked at as a single entity. Their findings indicate only a few authors to date consider sales as an independent function. A majority of literature to date contextualises sales more as a sub-function to marketing, fulfilling the needs of the marketing mix strategy of a company.

In IB research, the author could not find sufficient material to infer a recognized field in its own right. Even marketing seems less well integrated, as already Birnik and Bowman (2007) are questioning the missing link between the marketing literature and the IB MNE strategy literature, as for example Bartlett and Ghoshal (1998), where marketing has mostly been researched in isolation. Likewise, the original I/R framework and resulting strategy types considered an overall (non-functional) perspective, i.e. “all aspects of the headquarter-subsidiary relationship” (Meyer and Su, 2015, p.151), which is one limitation of the rather descriptive I/R framework. The present thesis represents an attempt to “marry sales research to international business research” (Panagopoulos et al., 2011, p.232) by linking the sales function perspective with the MNE subsidiary strategy literature.
Already in 1998, Shapiro et al. (1998) pointed out the necessity of turning sales into a “board room issue”, i.e. to make top management aware of the importance of sales management decisions with respect to customer relationships. In the following years several authors discussed the changing role of sales and its emergence as strategic function. The authors (e.g. Ingram, 2004, Piercy, 2006, Homburg et al., 2008a, Storbacka et al., 2009) argue for the necessity of strategic customer relationships reaching beyond purely transactional selling relationships, mainly due to external pressures (see section 4.3.1 below) and explicitly called for research in this area. Clearly, the sales function has developed from a mere order-taking role, via a professionalised relationship management (e.g. key account management (KAM)) towards a rather sophisticated orchestrating function (Senn et al., 2013). Research accordingly moves, albeit gradually, towards “looking at sales research from a more strategic point of view” (Panagopoulos et al., 2011, p.232), however, the authors found that there is a great deficit in research on sales strategy. Williams and Plouffe (2007) bemoan the rather sparse research on the importance of a sales strategy from a functional view as compared to focusing on the sales person as such.

In an IB context, meanwhile, customer relationships start playing a pivotal role in an MNE’s internal network development, see e.g. Pernu et al. (2014), who focus on relational dynamics between the internal organisation and external relationships. The increasing weight of major customers (with increasing firm sizes due to consolidation on the retailers’ side) and the manufacturer’s relationships with customers are of significant importance and hence are a key contributor to a firms’ competitive advantage (Piercy, 2006). As Ingram et al. (2005, p.137) appropriately formulate: “collaboration with customers and with other units with the selling organization is increasingly important for sales success.”. Also in highly marketing-oriented FMCG organisations, a significant shift towards being customer-oriented and strategic relationship management can be observed (Senn et al., 2013, Cravens et al., 2006).

Increasingly, HQ pay attention to its sales operations world-wide as Shapiro et al. (1998) postulated. Such a shift necessitates understanding how MNEs are currently coping with these changes from a subsidiary perspective, where traditionally relationships have been managed in a strategically multi-domestic, hence rather independent, manner (Harzing, 1999). Customers pressure for global approaches to managing the strategic sales elements instead of receiving purely local-based services
is increasing (Montgomery and Yip, 2000, Pernu et al., 2014). In a nutshell the above implies “that if a supplier is unable to serve a customer globally, it is unlikely to continue to serve the customer at national level.” (Pernu et al., 2014, p. 354). Storbacka et al. (2009, p.892) discussed that “sales strategies have implications for the sales process and for the interface of sales not just with customers but also within the organisation”, which supports the necessity to have a clear understanding of what a sales strategy actually is and what it implies.

Sales literature, particularly on the topic of sales strategy and strategic sales management is, however, still underdeveloped and additionally mainly dominated by US researchers, focusing on the US and partly Western Europe (Panagopoulos et al., 2011). Section 4.4. depicts the sales function from a strategic perspective, splitting it into its major elements. Before turning to the details of the sales strategy, the following section describes the FMCG sector, its peculiarity, the changes it is undergoing and the responding driving forces towards integration and local responsiveness.

### 4.3 The FMCG Sector

This section aims to explain and define the consumer goods and more specifically fast-moving consumer goods (FMCG) industry. Consumer goods manufacturers produce finished goods, targeted at end consumers, who either consume or use the product short- to medium-term. Consumer-directed finished goods has one main difference from the capital or industrial goods industry: products are not being used for further production processes. The consumer goods industry is dominated by some very large MNEs, producing a number of categories (food, cosmetics, drinks, etc), products and brands within one MNE, for example Nestlé or Unilever, see also Figure 4-1.
Furthermore, consumer goods are typically divided into durable, non-durable goods and consumer services (Kern, 2010). Consumer services are intangible ‘products’ being produced and used at the same time, such as hair cutting, technical services or warranties.

Durable goods are those products being repetitively used over a certain time-span of one to about three years showing some deterioration effect after a certain frequency of use, and include products such as consumer electronics, furniture or household appliances. Products of this kind are physically offered (as opposed to e-commerce) in specialised retailers (e.g. Media Markt, PCWorld), own retail outlets (e.g. IKEA, Apple, Bosch) or more selectively in large hyper- or supermarkets (e.g. ASDA,
EDEKA, Metro). Durable goods are also known as the *non-food* segment particularly for those categories being sold in hyper- or supermarkets (Kern, 2010).

*Non-durable* goods in contrast are products being consumed promptly or within a short to medium time-span (maximum up to one year), such as food, drinks, beauty and care products or clothing (Kern, 2010). The segments are also called *food and near-food segments*. Products are bought frequently in stores such as super- and hypermarkets, discounters, drugstores, convenience stores, etc. and are typically representing the FMCG sector. According to Miracle (1965, p.20), FMCG consumer products are characterised by high “frequency of purchasing” and “rapidity of consumption” as well as low unit value, low levels of time and effort spent on purchase and low technical complexity (Hesse, 2004).

Finally, the consumer products market is predominantly operating as a two-tier market, where manufacturers are selling directly to customers (retailers) and therefore in most cases only indirectly to consumers (supported by e.g. media, promotion, social media), hence a business-to-business-to-consumer market (B-B-C) (Winkelmann, 2013). Due to the relatively low value, high turnover frequency and the usual focus on one or a few categories (e.g. dry food, dairy products or tins) of mass-market products, manufacturers are forced to efficiently use retailers, providing the infrastructure, a number of outlets, logistics and warehousing instead of establishing direct selling channels to consumers. Apart from the efficiency reason to operate through retailers, the perceived convenience in ‘one-stop-shopping’ by consumers furthermore drives the necessity to have retail formats such as super- and hypermarkets offering a wide range of products and product categories. Thus, retailers are typically the sole distribution channels for FMCG manufacturers’ mass-market products, apart from the still very small but growing e-commerce channel, which is precluded from this study. Consumer goods manufacturers with a slower moving, i.e. durable product portfolio or with a higher proportion of durable vs. non-durable goods to be sold, are in some cases selling their products through their own or specialised retail outlets rather than selling almost solely through food retailers. Therefore consumer goods manufacturers, being more focused on the durable goods sector, are to a certain degree less reliant on retailers than non-durable goods manufacturers. Swoboda et al. (2012, p.747) discuss and confirm “…retailer’s activities strongly influence the manufacturer’s response…”,
in their empirical study on global account management (GAM), being the main instrument of interaction between manufacturers and retailers.

The targeted industry segment for this research represents a mix between the repeatedly-used *durable (non-food)* and to much larger extent *non-durable goods (food and near-food)* being sold in food retailers, such as supermarkets, hypermarkets, discounters, drugstores and convenience stores as opposed to own retail or speciality stores in Germany.

### 4.3.1 Pressures on FMCG Manufacturers

The FMCG sector has already faced significant structural changes over the past decades, leading to increasing complexity, in particular on the manufacturers’ side – the focal subject of this current thesis.

![Diagram](image)

*Increasing complexity and changes in power over the past decades*

Figure 4-2 – FMCG Environment Changes over the years

Source: Own development

Figure 4-2 depicts in a simplified manner the major steps within the industry, illustrating a hypothetical example of an MNE operating with one retailer over the years. The traditional situation is a single country customer-relationship, where manufacturers still have a more powerful role and only a very weak HQ link regarding
the sales function. Within country A many of such relationships existed, and still exist in the more traditional, fragmented markets, such as Spain, Poland, Greece.

The structural changes then increasingly moved manufacturers into a more complex customer management, mainly due to three reasons. Retailers started:

1) to internationalise their operations, e.g. Tesco, Carrefour, Metro
2) to consolidate within national boundaries with both national and international retailers
3) to build buying groups, which is a particular European topic, due to the free trade environment (leading to potential cherry picking within the EU)

With the increased complexity, manufacturers need to have more transparency internally to also drive efficiency in the sales function, which led to higher HQ involvement and ultimately communication within the MNE, especially regarding the international customers. The increased sophistication of retailers across countries with finally an active HQ in place demanded in addition the closer involvement of manufacturer’s HQ in customer topics and led to a power shift towards retailers (Schlüter and Swoboda, 2009).

Manufacturers in the FMCG industry have long focused on other functions, e.g. R&D, supply chain, marketing, rather than sales to achieve integration benefits across borders. Typically, in consumer goods MNEs, subsidiary marketing functions are organised and strategically led by the central marketing function, with a certain degree of local adaptation granted. In contrast the sales function developed locally, i.e. decentralised from HQ, with subsidiaries pursuing the selling process in its original sense (distribution as initially one of the driving reasons for subsidiary establishment).

Consequently, the manufacturer’s sales function has been facing some fundamental changes, outlined more closely in the following, by concentrating on both pressures to integrate and to be locally responsive according to the scheme and structure discussed in chapter 2.1. These pressures are providing the bases of the discussion on the dilemma manufacturers are facing regarding sales strategy to be centralised/standardised or rather locally responsive/adapted.
4.3.1.1 Pressures to Integrate

Three categories are the main drivers to change in sales functions within the FMCG industry: the Customers (CUST), Competition (COMP) and Economies of Scale (ECO)/Infrastructure (INFR).

CUSTomers. First and foremost, the customers themselves have changed dramatically in structure and strategic thinking, which due to the special manufacturer-retailer relationship discussed above, affects FMCG manufacturers promptly. During the past decades, as indicated in the previous section, consolidations and internationalisation accelerated in the retail market, where smaller retailers merge into larger retail chains/groups locally and internationally (Tordjman, 1995, Gilbert, 1999). Two consequences arise for FMCG manufacturers. One, they face a broad range of different markets with different requirements to customer management, as will be discussed in section 4.3.1.2; and two, in contrast to such diversity, FMCG manufacturers need to be able to serve customers intensively at a more international or global level, which will be discussed in the following.

The growing numbers of international retailers increasingly demand and build centralised buying structures and thus global sales management solutions from manufacturers (Birkinshaw et al., 2001, Toulan et al., 2006-7, Schlüter and Swoboda, 2009). Historically, sales organisations were highly local in nature (i.e. operating multinationals as also Harzing (2000) or Swoboda et al. (2014) point out) as well as sales functions were “tremendously non-transparent” (statement by subsidiary sales director near food – SUB 43) within the FMCG industry. Such heritage leads to high levels of independence from HQ in the sales function; it also leads to a range of different approaches towards customers from country to country depending on the retail market structure as well as the brand manufacturer’s market position itself (Tordjman, 1995, Schlüter and Swoboda, 2009). As a result, manufacturers need to be able to shift to managing some international/global customers centrally, presupposing tighter internal coordination and alignment between sales functions of respective subsidiaries (Schlüter and Swoboda, 2009, Panagopoulos et al., 2011). Such coordination covers communication as well as the strategic alignment between the countries. Transparency and agreement to strategic sales activities (i.e. customer

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3 See list of interviewees in section 6.3.1
segmentation & prioritization, customer relationship management strategies, discount, trade terms & conditions, pricing, target & budget setting) need to be established at all levels as further outlined in section 4.4.1 encompassing potential for conflicts between local and central levels (Schlüter and Swoboda, 2009). Consequently, manufacturers are forced to change their strategic approach to customers on a global level by also focusing on changing internal procedures towards integrated processes resulting in higher levels of transparency on strategic issues such as customer prioritization or conditions’ schemes. Only then can international customers be managed accordingly.

Balancing these two consequences – covering a broad array of differences vs. serving customers more centrally – is one of the main sources of the dilemma sales organisations are facing in light of the I/R discussion. Swoboda et al. (2012, p.747) aptly formulate “the retailers’ centralisation of their international purchasing activities drives manufacturers to centralise strategic and tactical GAM activities much more than the retailers’ international market offers…”. The statement is also hindsighting the limited (regional) geographic scope of most international retailers (Bogner and Brunner, 2007). The majority of the interview partners from the preliminary interviews conducted also confirmed that within the respective firms essentially manufacturers have to be able to cope with both sides (local and global customer demands) nearly equally.

Additionally, in national markets with high levels of consolidation, i.e. concentration of retailers, such as Germany or the UK (Tordjman, 1995), the level of competition within and bargaining power stemming from retailers is increasing (Schlüter and Swoboda, 2009). As a result, manufacturers have to change and adapt customer strategies from a mere selling objective towards a more holistic approach – to selling solutions. Selling broader solutions, such as accompanying category concepts or other shopper-oriented sell-out solutions, increases complexity (Steiner, 2013) and once more there is the necessity to open up the sales function from a more isolated stand-alone-department towards a transparent multi-functional selling team (subsidiary sales director near food – SUB 4). Pressures to integrate therefore not only impact on the sales function per se, but also the wider functions supporting the sales function (marketing, shopper & customer marketing, supply chain, customer service functions, etc.) from a local and global perspective (Steiner, 2013).

4 GAM – Global Account Management
Apart from the competition between retailers, which needs to be “served” with more holistic selling approaches, the bargaining power of increasingly sizeable retailers locally and globally forces manufacturers to more closely integrate the sales function both at local and global levels. In the same vein, it forces manufacturers to establish or refine sales strategies at local and global levels. The shift in bargaining power in concentrated markets from manufacturers to retailers (Schlüter and Swoboda, 2009, Draganska and Klapper, 2007), can thus also be seen as the initial starting point for a drastic change in the sales function’s operations and strategy towards a more integrated approach. Coe and Hess (2005) rightly outline situations where manufacturers serve customers, which individually represent about 20% of the respective manufacturers’ turnover, however, the same customer views this manufacturer as accounting for only 1% to 5% of the customer’s turnover. So how can retailers’ increased bargaining power influence manufacturers? Retailers’ bargaining power vis-à-vis manufacturers is “derived from a number of sources: the power of listing/delisting products, price pressure due to larger volumes, available consumer knowledge leading to information asymmetry, and the offering of private labels” (Schlüter and Swoboda, 2009, p.33). Such power can have serious impacts on manufacturers’ profits (e.g. through provision of over-proportionate rebates or discounts) as well as market share growth (impact of delisting affects manufacturers’ shelf presence and thus market share for particular products/product groups) and thus market performance. It is therefore indispensable to have a concerted sales strategy in place, accommodating transparency and clear guidelines for customer management both at local and global levels.

COMPetition. The second area of forces to integrate is the industry’s fierce competition, still accelerating between manufacturers often resulting in cut-throat competition, especially in large mature markets, such as Germany. Manufacturers have to be able to build strong brands, which from a sales perspective need to be adequately placed in key retailers. With tight competition, manufacturers with only selling-focused customer relationships find themselves in a disadvantageous situation (Ingram et al., 2002). To highlight the importance, a manufacturer’s launch of a new, ‘innovative’ product (new products representing roughly around 30% share of all products in the FMCG sector (GfK, 2015)) may serve as an example. Speed to market as well as relevant ‘noise’ and visibility at the otherwise overcrowded point of sale (POS) to reach as many consumers as possible, accompanied by all sorts of media
support, becomes a main competitive advantage (Steiner, 2013). Competitive advantage lies in this case with those manufacturers being able to launch products to all relevant markets globally at the same time, to also efficiently leverage on global marketing activities (Bartlett and Ghoshal, 1998, Yip, 2003). In turn this presupposes an integrated strategic customer management approach, where international retailers can be approached globally, rather than starting from the individual local key accounts (Yip and Bink, 2007). The competitive advantage lies therefore in the speed to market and breadth of launch globally through at least centrally coordinated as well as local strategic customer management.

Another more complex strategic field is the pricing of products in a competitive market place and particularly in free trade zones such as the EU, where potentially retailers can source in any country, also comparing with competing manufacturers’ offers. A clear and centrally transparent, harmonized or differentiated pricing (and closely related rebates and discounts) strategy is therefore advantageous (Belz and Reinhold, 1999, Homburg et al., 2008b, Jensen, 2011).

ECOnomies of scale, as a third area in combination with INFrastructure, which is an underlying necessity to achieve economies of scale, can be a comparably large lever and was discussed in almost all interviews as a fundamental issue to be operationalised or refined. Triggered by an overall increasing cost efficiency, to achieve ‘economies of scale in sales’, a customer portfolio (building the base of a sales strategy), serves as a first dimension to efficiently focus on the ‘right’ customers (Turnbull, 1990). Typically, customer portfolio management is implemented through key account management (Zolkiewski and Turnbull, 2001), which is the dedicated customer management according to the importance of the customer (Zupancic and Müllner, 2008). Customer portfolios support manufacturers to focus annual investments on those customers providing the largest (and ideally most profitable) performance (Homburg et al., 2008b, Winkelmann, 2013). As trivial as it seems, manufacturers in FMCG long operated with a low level of differentiation across customers regarding customer investments, which has sometimes led to less defendable customer management terms. Another essential dimension is the customers’ terms and

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5 In the context of the present research project, only promotional pricing will be (superficially) included in the field survey; other pricing related questions will be precluded, due to the sensitivity of the topic being at the heart of every sales strategy. Nevertheless, the topic will be theoretically discussed as a vital element of the sales strategy due to its sheer importance.
conditions scheme a manufacturer is negotiating with retailers. Investments into customer relationships are efficient, if these are focused to benefitting all three parties (consumer, retailer, manufacturer) and are closely tight to rules such as pay-for-performance principles (Homburg et al., 2008b). Without a proper infrastructure – IT tools in this case – transparency and controlling of customer investments within and beyond countries becomes a tedious task, hard to capture and difficult to steer. Therefore, manufacturers increasingly feel the pressure to build standardised IT infrastructures dedicated to the sales function to be able to accommodate the need to steer customer portfolio, terms and conditions more efficiently (Homburg et al., 2008b, Belz and Reinhold, 1999).

4.3.1.2 Pressures to be Locally Responsive

Having grown very locally, the sales function is confronted with pressures to integrate, but in contrast increasingly faces two main categories of pressures, which are driving manufacturers to keep a locally responsive strategy. Paradoxically, the CUSTomer is the main driver for local responsiveness as well as local COMPetition.

CUSTomer. Referring to the dilemma discussed from an integration point of view above, dependent on the predominant market structure locally, customer (retailer) consolidation is taking place at different pace and scope, which leads to a continuum of retail structures as Tordjman (1995) calls it. In countries with higher proportions of ‘traditional’ retail (e.g. Spain, Greece, Italy), that is smaller stores, typically operating independently, the extent of consolidation will be lower than in markets with higher proportions of large (consolidated) retail chains (e.g. UK, Germany, Switzerland). In the light of the effort to integrate the sales function, through a more centralised sales strategy, creation of transparency and thus the need to adapt to centralised KPI (key performance indicator) structures, subsidiaries with a cluttered, more traditional retail landscape potentially face larger areas of customer conflict. Subsidiaries of manufacturing MNEs should to be able to steer long-term, trustful customer relationships, by applying traditional measures to customer management, rather than a solely centrally enforced sales strategy. Changes such as the advent of a new rebate and discount system or customer relationship management procedures as well as the introduction of customer segmentation will take a long time and have to be carefully evaluated before introducing and applying these to the customers (Homburg et al., 2008b).
Local policies or regulations, either legally enforced or informal ‘market rules’, can further drive MNEs towards local responsiveness in some strategic elements to stay competitive in the local market. As an example, promotion mechanisms are quite different by country either due to regulations (e.g. lotteries are not boundlessly useable in every country) or simply due to price differences and consumer perceptions (e.g. multi-buy vs. single product price-off) (Theodosiou and Leonidou, 2003). Therefore, establishing rigid centralised rules for promotion management may lead to conflicts with local retailers and eventually to a difficult competitive position, as consumers buy those promotions relevant in the respective market (country).

Manufacturing MNEs as a result need to be able to cope with a broad range of different markets they face regarding the customer structure, serving both extremes – traditional, cluttered trade structures and highly consolidated modern trade internationally represented.

COMPetition. As one of the results from the interviews, local manufacturer competition can be a second decisive source of pressures to be more locally responsive. Manufacturers with a pure national or at most regional orientation will be able to serve retailers according to their needs regardless of the retailers’ international orientation, as strategic activities are decided at local level. Multinational FMCG manufacturers thus also need to be able to compete with strong local manufacturers, who in turn may be more flexible in decision-making, especially if market shares are unfavourable for the multinational manufacturer vs. the local manufacturer. Strategic activities should thus be accommodating local needs, which could be, for example, grounded in customer portfolio (segmentation and prioritisation), which may favour another customer from a global perspective, or in locally adapted trade terms and conditions vs. internationally implied formats (Belz and Reinhold, 1999).

So clearly, pressures to stay locally responsive are becoming stronger with higher degrees of global integration, where the sales function develops from an originally purely locally oriented function towards a more globally oriented integrated function. Even more so in a market like Germany, which economically is of high importance to many MNEs, displaying a rather consolidated, yet predominantly domestic retail landscape, leaving little room for manoeuvring on strategic decision-making.
The following sections will now turn to the core of this research, the strategic elements or, more broadly speaking, the sales strategy.

4.4 The Sales Strategy

4.4.1 The Elements of a Sales Strategy

Only a few studies exist to date, mainly conceptual in nature, discussing the particular issue of sales strategy and what it comprises. A comprehensive definition from the author’s perspective has been given by Panagopoulos and Avlonitis (2010, p. 48).

“... sales strategy is the extent to which a firm engages in a set of activities and decisions regarding the allocation of scarce sales resources (i.e. people, selling effort, money) to manage customer relationships on the basis of the value of each customer to the firm.”

Table 4-1 provides an overview of relevant literature in this area, depicting only literature where strategy is defined and broken down at organisational rather than the individual sales person level (Panagopoulos and Avlonitis, 2010).

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Def. Sales Strategy</th>
<th>Elements of a Sales Strategy</th>
<th>Conceptual/ Empirical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ingram et al. (2002)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Ingram (2004)</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Homburg et al. (2008b)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Backhaus et al. (2011)</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Homburg and Wieseke (2011)</td>
<td>-</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

Table 4-1 – Sales strategy literature: Definition and Strategic Elements

Adopted from Panagopoulos and Avlonitis (2010)

The literature selected provides a definition on the term sales strategy as well as discussing the strategic elements, which will be explained below. As the empirical
base in the literature reviewed is rather sparse and mainly focused on national rather than international backgrounds, as well as across-sector investigations, there is great potential to add knowledge to the field by empirically investigating, supporting and amending these concepts.

In contrast to a marketing strategy, which is targeting the consumer with a firm’s products through utilisation of marketing mix strategies, a sales strategy comprises the interaction and relationship with a firm’s customer operating in this market segment. Sales furthermore aids the implementation of marketing objectives (Panagopoulos and Avlonitis, 2010), which poses the tightest link between the two functions. In the case of the FMCG sector, such distinction between these functions is important. This is due to the structure of the industry, where manufacturers typically use intermediaries – i.e. retailers, as the customer – to offer its products supported by marketing activities to its consumers via retail outlets. So clearly, since the industry is a B-B-C market, the sales function plays a pivotal role in managing the intermediary (the retailers, i.e. the B-B part of the business) in combination with the marketing function being responsible for the products to be recognised by consumers (i.e. the B-C relationship).

Backhaus et al. (2011) agree with Panagopoulos and Avlonitis (2010) in regards to the key dimensions of a sales strategy, and explain in detail that sales resources are directly assignable to customers. Backhaus et al. (2011) also refine customer relationship management (CRM) strategies discussing several levels of CRM strategies, as will be explained below.

Regarding the sales strategy elements, Panagopoulos and Avlonitis (2010, p.46) argue that there is “little agreement” on what a sales strategy explicitly is and what it entails. Their empirical study, where literature-based conceptual findings have been supported by 14 interviews, resulted in four main key dimensions of a sales strategy: 1) customer segmentation, 2) customer prioritisation/targeting, 3) developing relationship objectives/selling models, and 4) the use of multiple sales channels. Earlier, Ingram et al. (2002) identified these dimensions broadly as major strategic dimensions. A more structured approach in regards to sales strategy elements can be found in Homburg et al. (2008b), being more systematic and detailed and considered relevant from a practitioners’ perspective. The following Table 4-2 will provide a consolidation and summarise the main contents of these elements, called strategic sales activities, serving as key dimensions for this thesis.
<table>
<thead>
<tr>
<th>Dimension</th>
<th>Content</th>
<th>Comments/Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relationship</strong></td>
<td>Customer Segmentation and Prioritization</td>
<td>- aims to efficiently allocate sparse resources (people, budget/customer management costs) see also Homburg and Wieseke (2011)</td>
</tr>
<tr>
<td></td>
<td>Customer Retention (Relationship Management)</td>
<td>- need for differentiation among customers in regards to their management (Ingram et al., 2002):</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- pure transaction based relationship</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- solution oriented customer strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- co-operating/partnering customer strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- mutual/collaborative relationship strategy</td>
</tr>
<tr>
<td><strong>Sales Channels</strong></td>
<td>- direct vs. indirect selling (selling directly or via external partners)</td>
<td>customer value and decision on relationship management strategy determines channel strategy</td>
</tr>
<tr>
<td></td>
<td>- one channel or multichannel support</td>
<td></td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>Price positioning (base price)</td>
<td>Base price minus conditions (rebates) equals price on invoice; minus bonuses equals net price (“pocket price”)</td>
</tr>
<tr>
<td></td>
<td>- The premium strategy,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- The mid-value strategy, and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- The economy strategy, Discount, Terms and Conditions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Price promotions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>International Pricing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Special temporary discounted price, complex topic across customers and countries (Gedenk, 2011)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Price harmonisation is avoiding cherry picking from international retailers (buying products in country a where base prices are lower than in country b)</td>
</tr>
<tr>
<td><strong>Target &amp; Resource Allocation</strong></td>
<td>Setting sales targets</td>
<td>Define metrics as to how to steer and coordinate sales department (e.g. sales volume, market share, etc)</td>
</tr>
</tbody>
</table>

Table 4-2 – Elements of a sales strategy

Own adaption of Homburg et al. (2008b) and further adapted from Backhaus et al. (2011), Ingram et al. (2002) and Homburg and Wieseke (2011)

### 4.4.1.1 The Relationship Dimension

The first dimension considers the customer relationship, where customers need to be segmented and prioritised, followed by a customer relationship strategy, i.e. the strategic ‘depth’ of the relationship. Segmenting and prioritising customers is essential and fundamental to allocating resources most effectively and efficiently to economically important and unimportant customers (Backhaus et al., 2011, Homburg et al., 2008b). Only then should an organisation determine its CRM strategy, ideally according to a strategic customer portfolio resulting from prioritisation, ranging from low investment customers up to strategic accounts (Piercy and Lane, 2009). Ingram et
al. (2002) discusses the differentiation among customers in regards to CRM, mentioning four stages:

1) pure transaction based relationship – simply selling products to many customers, relationship is kept to its minimum, which is efficient and involves low costs,

2) solution oriented customer strategy – some product adaptation to customer needs, offering solutions through closer customer relationships, which are more time intense and not all customers can be served accordingly, higher costs involved,

3) co-operating/partnering customer strategy – next step implies a relatively small customer group being served individually and product offers are not standardised, but customised (in regards to FMCG – accompanied by services such as category management support) at high costs, aims at profitable long-term relations,

4) mutual/collaborative relationship strategy – closest form of relationship, which presupposes mutual commitment, as found in deeply externally embedded relationships, time intensity and investments involved are highest therefore only built with exclusive customers (see also Backhaus et al., 2011).

A sales strategy should entail at which levels customer relationship management should be carried out in accordance to the priority given to the customer.

4.4.1.2 The Sales Channel Dimension

The second dimension is related to the choice of sales channels, which in case of FMCG could be, in addition to the dominating retail sector, the online channels selling directly through own media or through e-retailers. As discussed above, online business has been excluded from this research due to its still very small size, and traditional retail channels are settled in a country like Germany; this element will not be taken into consideration regarding the present research. It is in general, however, of vital importance for entering new markets or for new channels to be brought up in close conjunction with the segmentation and prioritisation as well as conditions strategy elements to ensure the optimal balance in the channels.

4.4.1.3 The Pricing Dimension

The third dimension is representing both the heart of customer relationship contracts, in the form of list prices, rebates, discounts and terms and conditions as well as the responsibility to steer product sales through promotional activities (Jensen, 2011,
Gedenk, 2011). Whereas list prices, discounts and rebates are setting the monetary frame of the contract determining the net prices of the products sold, terms and conditions are the broader rules of cooperation with the customer (e.g. payment terms, delivery terms, etc) (Homburg et al., 2008b). Typically, the monetary frame as well as general terms and conditions are agreed upon on an annual agreement. Additionally agreements could also be more temporary in nature, where manufacturers agree with retailers on promotional activities under special conditions (Steiner, 2013, Gedenk, 2011). The share of price promotion varies dramatically between countries, for example in Germany only about 20% of total sales are generated through promotions; other countries such as the Netherlands or the UK have up to 80% of promotional sales in certain categories (Nielsen, 2016b). As a result promotional spend, i.e. also the price for promotions, needs to be carefully derived from the underlying promotion strategy relevant for the respective country/category in line with the overall sales strategy.

Whereas the first dimensions (relationship and channel) are clearly strategic activities, the third dimension offers room for discussion. Authors like Homburg et al. (2008b), Jensen (2011), Swoboda et al. (2012) postulate the strategic relevance of pricing rather than characterising it as a tactical activity. The strategic element lies in the connection of pricing to performance as in sales growth and in profitability, where low prices or arbitrary set rebates/discounts potentially lead to a loss in sales growth and profitability. Furthermore, the strategic characteristic is especially showing, when unforeseen customer consolidation is taking place, as observed in the German retail market, and rebates/discounts are provided on a discretionary basis, i.e. not withstanding defend-ability. As a result, manufacturers having pricing treated as a tactical instrument have been left with unfortunate, rather expensive negotiations.

Therefore the strategic aspect lies within an organisation’s management of the rebates, discounts and conditions regarding the realisation with customers, also referred to as pay-for-performance (Homburg et al., 2008b). To have a strategic conditional framework developed and established needs to be accompanied by the mindset to also use it as a strategic tool, being and staying firm in negotiations vis-à-vis customers. The ultimate rule would be to release conditions for a direct counter-performance by the retailer; only then do the discounts, rebates and conditions exercise become strategic.
4.4.1.4 The Target & Resource Setting Dimension

Finally, target setting and resource allocation is a strategic activity involving steering activities, which is of especially high importance regarding international customers. Centralising or at least centrally coordinating target setting, involving mandate setting for customer contracts, will be beneficial in international negotiations, leading towards a strategic (and central) management of the customer, which is mostly demanded too (e.g. Wal*Mart). Likewise, organisations need to decide how to structure customer management with international customers. Several models are so far in place – the GAM (global account management) (e.g. Wilson and Weilbaker, 2004, Montgomery and Yip, 2000), managing a global customer from a dedicated location, the IKAM (international Key Account Manager) (e.g. Zupancic, 2008), managing an international customer from the customer’s home country and the KAM (e.g. Stevenson, 1981, Homburg et al., 2002) managing customers at his home base and international customers are coordinated by a central function.

4.4.2 Strategic vs. Operational Sales Activities

The present research project will focus on three strategic dimensions (relationship, pricing and target setting & strategic resource allocation), discussed above, with the related strategic sales activities, which will be further operationalised in chapter 7.3.1. To distinguish strategic sales activities from the more widely known typical operational sales activities, Table 4-3, provides an overview, based on literature (e.g. Winkelmann, 2013), personal experience and the interviews conducted.

<table>
<thead>
<tr>
<th>Strategic sales activities (What?)</th>
<th>Operational sales activities (examples) (How?)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer segmentation and prioritization decisions</td>
<td>Customer negotiation</td>
</tr>
<tr>
<td>Customer relationship management decisions</td>
<td>Preparation of special offers, new product listings, relaunches etc</td>
</tr>
<tr>
<td>Decisions on discounts trade terms and conditions</td>
<td>Personal selling in store/at major customer</td>
</tr>
<tr>
<td>Decision on pricing (list price, rebates, promotion price)</td>
<td>Customer visit reporting, incl. frequency, content</td>
</tr>
<tr>
<td>Decision on sales targets and budgets by customer</td>
<td>Customer analysis (e.g. sell-in, sell-out, base line, promotion sales, etc) and customer evaluation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category management projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales controlling (budget, targets, customer contribution, etc)</td>
</tr>
</tbody>
</table>

Table 4-3 – Strategic and Operational Sales Activities

Source: Own development
The next section will relate the current chapter back to the research problem and theoretical background, to then lead to the development of the hypotheses in the following chapter.

### 4.4.3 Integration vs. Responsiveness in the Sales Function

Considering the developments in the FMCG industry and taking it into the perspective of IB, the question remains of how to solve the dichotomy of integration versus responsiveness within the sales function. Voeth and Buyun (2011) conceptually discuss the dilemma of turning a highly decentralised sales organisation into a more centrally controlled or coordinated function, arguing for a rather balanced mix between both streams. Whereas most literature argues predominantly towards integration activities, the present study argues and investigates on the likewise importance of responsiveness in the light of the function and the country chosen for this research. Such discussion is linked to the commonly known standardisation/adaptation debate at functional levels, which leads the author to very briefly discuss the subject.

Typically, marketing literature (closest to sales) extensively discusses the needs for standardisation or adaptation of either parts of the marketing mix (mostly product), the entire marketing mix or the marketing processes (Kotulla, 2012, Meyer and Su, 2015, Solberg, 2000, Birnik and Bowman, 2007). Literature on the broader topic of standardisation vs. adaptation falls into three schools of thought. The first two are rather dichotomous, where on the one side standardisation is clearly seen as the superior strategy achieving economies of scale, consistent brand images world-wide as well as facilitating better coordination by reducing managerial complexity (Theodosiou and Leonidou, 2003, Levitt, 1983). On the other side, proponents of the adaptation strategic approach still consider markets in diverse countries as idiosyncratic, aiming for adjusting a marketing strategy if necessary (Theodosiou and Leonidou, 2003, Kotulla, 2012). The third group is carefully evaluating and weighting between the necessity to standardise and to adapt, which is as in the original I/R literature mainly driven by the contingency perspective. Deciding on a strategic direction or its degree of standardisation or adaptation is made with a clear link to its performance impact (Theodosiou and Leonidou, 2003, Cavusgil and Zou, 1994).

One of the key findings in the marketing stream is that the degree of standardisation of the marketing strategy influences a firm’s performance. As an example, Kotulla (2012) found a highly significant relationship between product standardisation and product
performance at subsidiary level, where product name, quality and versions are ideally standardised, though variables like product ingredients, effectiveness and taste/smell should be carefully weighted regarding adaptation (food and cosmetic industry setting) to achieve a successful performance outcome. Through a systematic literature review conducted by Kotulla (2012), he confirmed earlier findings regarding the inconsistency, fragmentation as well as diversity in researching marketing strategy standardisation vs. adaptation. Due to the partial inconsistencies of this debate (Kotulla, 2012, Theodosiou and Leonidou, 2003), it will only be considered as somewhat guiding for the conceptualisation of the discussion on the concept of strategic sales activities.

Taking the sales function in the FMCG industry, the standardisation (integration)/adaptation (responsiveness) debate starts from the market forces, which are impacting on the decisions on the strategic elements or sales activities. Table 4-4 provides a summary and an overview of the forces as have been discussed in the sections above and links these to the sales strategy elements, which are or will be affected.

<table>
<thead>
<tr>
<th>Integration/Responsiveness</th>
<th>Forces</th>
<th>Strategic Elements</th>
</tr>
</thead>
</table>
| Need for coordination (Integration) | - retailer concentration – high transparency on manufacturers sales activities  
- demand for selling solutions (cooperation/collaboration)  
- demand for centralised selling structures  
- negotiation/bargaining power of global customers | - segment/prioritize global customers  
- pricing decisions  
- customer relationship approaches  
- terms & condition schemes  
- targets and metrics – share knowledge to enhance internal transparency |
| Need for responsiveness | - traditional customer structures  
- local promotion/promotion price needs to stay local due to policies and regulations differences between countries  
- local competitors being flexible | - segment/prioritize local customers  
- some price decisions  
- customer relationship approaches  
- terms and conditions  
- promotion |

Table 4-4 – Summary Forces and Strategic Elements

Source: own development

4.5 A Brief Introduction to the German FMCG Market

Considering the size, according to Destatis (2015) (Statistisches Bundesamt, Germany), the overall consumer goods sector achieved a 286.4bn € sales turnover representing about 17% of Germany’s manufacturing industry in 2015. Within these 17% share of sales within manufacturing, the non-food sector sales reached about
37.8bn € (representing 2% of total manufacturing with a 1.9% growth rate vs. 2013), whereas the much larger *food and near-food sectors* amounted to 248.6bn € (representing 15% of total manufacturing at a 0.7% growth rate vs. 2013). A detailed market overview regarding the category split, in food and near-food, can be found in Appendix 12-2.

The largest FMCG manufacturers operating in Germany by turnover are depicted in Figure 4-3. All manufacturers shown are multinationally or globally operating MNEs with subsidiaries operating in Germany. The slightly outdated data (2011) reflects the difficulty to gain access to subsidiary sales or performance data in general for most of the manufacturers involved.

![Figure 4-3 – FMCG manufacturers in Germany](image)

*Source: Lebensmittelzeitung (2012), sales turnover 2011 in Germany, *estimated turnover*

On the customer, i.e. retailers’, side, the focal market of this study underwent a concentration process, which results in the top three customers (EDEKA, REWE, Metro Group) representing already 52% of the total 247.7 Mio€ food retailer’s turnover in Germany (TradeDimensions, 2014, turnover in Mio€ full year 2013).
Figure 4-4 – Main Food Retailers in Germany by Net Sales 2014

Source: (Statista, 2015) All figures net sales 2014, excluding *gross sales; **including export sales

Figure 4-4, illustrates the largest retailers by sales reflecting in particular the dominance of some few retailers, such as EDEKA, REWE, Aldi and the Metro Group. All seven of the top retailers are also active and operate retail formats outside Germany, whereby EDEKA solely by means of a buying group (called Agenor, now Agecore in 2016). Foreign retailers, such as Wal*Mart have not yet successfully entered the German retail market. Several factors, such as the density of the shopping places (Nielsen, 2015b) as well as the traditionally low spend on FMCG products in Germany, is resulting in a saturated market of fierce price competition – the breeding ground for the high share of discounters in Germany (Nielsen, 2015a).

Conclusively, the German market is one of the largest consumer markets worldwide with a very special customer, i.e. retailer structure, which is predominantly local in origin and growing internationally outside Germany.

4.6 Summary

Within this chapter, the sales function as well as the peculiarities of the FMCG sector has been discussed to provide a base for the research setting. The sales function is seen as an individual entity in parallel to the marketing function, being tightly connected to each other in the more complex B-B-C industry set up. It therefore is of utmost importance to investigate the sales strategy as fundamental to successfully steering customer relationships increasingly globally. The FMCG sector is driven by
fundamental structural changes, implying the shift towards a more transparent, global strategy approach at the manufacturer’s side. The strategic elements and the respective strategic sales activities have been outlined, fundamental to the current empirical research, identifying potential elements to be integrated but also those which possibly have to be kept more at local level to ensure responsiveness to national customer needs. Finally, a brief overview on the German market has been provided to set the local scene for the upcoming research.

The rather unexplored but increasingly important issue of sales strategy and its lack of empirical investigations at the organisation level is evident. In addition, studies are typically not connected to the peculiarity of an MNE with the exception of global account management (GAM) studies, which relates to the sales strategy theme at subsidiary level, though on a typically personnel or organisational structure level (e.g. Swoboda et al., 2012). The author aims thus to add to the sparse empirical knowledge-base in particular regarding subsidiary management in relation to integration efforts driven both by customers and HQ, investigating the sales strategy elements. The elements have been identified and brought into relation with the forces for integration and responsiveness as identified in the FMCG industry.
5. Conceptual Framework and Hypotheses Development

5.1 Introduction

The purpose of this chapter is to present the conceptual framework based on the research questions outlined in chapter 1 and the respective relevant elements of the literature identified. The hypotheses will be developed and the conceptual research model presented.

5.2 Conceptual Framework

The preceding chapters discussed both the theoretical background to this study, the country context as well as the industrial and functional background necessary to providing the context to this study. Whereas the I/R framework is used as a starting point, where MNEs are facing the dilemma to decide for global integration or local responsiveness alongside the identified pressures, further theories are utilized to understand the subsidiary level and the decisions taken in the given context. Table 5-1 summarises the theories utilized in this study, recaps its main relevant content discussed in the previous chapters as well as capturing the link to the research project and finally the identified under-researched areas and gaps in literature are depicted.

The present research builds upon these theories and concepts. Forces for integration and responsiveness are to a certain extent reflected in the aim to balance the degrees of internal and external embeddedness. Keeping the forces for integration and local responsiveness in mind, the study investigates the interdependencies between the network embeddedness (internal and external) and subsidiary importance with respect to decision-making regarding strategic sales activities at subsidiary level. It thus conceptualises subsidiary embeddedness and subsidiary importance as determining factors for subsidiary/functional strategy decisions.
<table>
<thead>
<tr>
<th>Theory</th>
<th>Main Content</th>
<th>Link to Current Project</th>
<th>Identified Insufficiencies and Gaps</th>
</tr>
</thead>
</table>
| I/R framework | -management faced with decision-making dilemma, to globally integrate or be locally responsive on respective pressures  
-ideally MNEs strive for a balanced approach  
approach could be different for various functions, though there is general strategic orientation  
-framework provides four rather deterministic strategy types describing the strategic orientation  
Main literature Prahalad and Doz (1987), Bartlett and Ghoshal (1998), main discussions in e.g. Venaik et al. (2004), Harzing (2000), Rugman et al. (2011) | -change in retail environment, i.e. FMCG manufacturer’s customer, needs to be considered  
-change from a primarily multinational strategic orientation towards more integrated approach to sales function  
-research on where decisions are currently taken – HQ or subsidiary level, maybe both are deciding certain critical aspects (division of decisions) | -lack of empirical investigation on specific industry  
rare research on subsidiary and functional level |
| Network | -subsidiaries are part of a wider business network and acting as semi-autonomous entities  
-subsidiaries are to varying degrees embedded in internal (HQ, sister sub) and external (customers, suppliers, etc) networks and thereby influenced by them and can determine strategic role of the subsidiary  
-external embeddedness can be source of distinct knowledge  
-internal/external embeddedness can be complementary or competing  
Main literature Andersson (1997), Forsgren (2008), Forsgren et al. (1995), Andersson and Forsgren (2000), Andersson et al. (2001b), Ciabuschi et al. (2014) | -context of research – relationship-based sales function and the so far rather national (i.e. rather externally embedded) sales function/strategy  
-strength of external relationships lead to mutual relationships  
-finding balance between long grown external network relationships being managed locally and increasing corporate embeddedness – in a competing or complementary manner | traditionally focus on industrial manufacturing sector, more recently on knowledge industry  
typically concentrating on other functions than sales (i.e. R&D, production, etc) |

Table 5.1 – Summary relevant theories and identified research potentials
<table>
<thead>
<tr>
<th>Theory</th>
<th>Main Content</th>
<th>Link to Current Project</th>
<th>Identified Insufficiencies and Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary Importance</td>
<td>- is the extent to which a subsidiary’s specialised competencies are realised within the MNE and being used by sister subsidiaries Main literature Yamin and Andersson (2011), Bouquet and Birkinshaw (2008), Andersson and Forsgren (2000), Andersson et al. (2007)</td>
<td>- subsidiaries in Germany are acting in an advanced, consolidated retail market, therefore knowledge accumulation and sales strategy development may be already at high level leading towards “important” subsidiaries - in turn influences MNE also strategically, being used as a knowledge source → link to subsidiary market performance - market performance at subsidiary likely to be influenced by degree of subsidiary importance</td>
<td>-empirical research focusing on upstream value chain activities, lack for downstream activities</td>
</tr>
<tr>
<td>Sales Strategy</td>
<td>- sales strategy is set of activities to manage customer relationships and achieving value for both MNE and customer - elements of sales strategy are relationship, sales channel, pricing and target &amp; resource allocation Main literature Panagopoulos and Avlonitis (2010), Backhaus et al. (2011), Homburg et al. (2008b), Ingram et al. (2002)</td>
<td>- see where strategic elements – strategic sales activities are decided – link it to IB literature - confirm existing sales strategy elements through empirical study</td>
<td>-sales strategy including its elements under-researched - typically focus on people related issues, - missing link to IB</td>
</tr>
</tbody>
</table>
As the sales function is under high pressure to integrate, it can be assumed that some integration took place over the past years, leading to a division in decision-making between HQ and subsidiary, which will be investigated. Finally, the study researches potential impacts on the subsidiary’s market performance. Overall, special attention needs to be drawn to the context of this study, which is referring to the sales context, the country context and the industry context.

Figure 5-1 – Conceptual Framework

Figure 5-1 depicts the refined theoretical framework derived from the literature discussed in the preceding chapters. The following sections develop the hypotheses alongside this model, whereby the forces for integration and responsiveness need to be kept in mind as a starting point, but not to be considered as being part of the model.

Building on the conceptual framework, the next section presents the development of the hypotheses. These hypotheses centre on the internal and external embeddedness as well as the subsidiary importance, the sales strategy and finally the subsidiary’s market performance.

### 5.3 Network Embeddedness and Sales Strategy

First, both external and internal network embeddedness in relation to the degree of local vs. global decisions on strategic sales activities will be discussed and hypotheses developed.
5.3.1 External Network Embeddedness

In defining external embeddedness this study is following Yamin and Andersson (2011) and Ciabuschi et al. (2014), where external embeddedness is reflected by the depth of the business-related activities in external network relationships. Fundamental is thereby the differentiation of, at one end, arm’s-length relationships and those at the other end resulting in mutual adaptation with the subsidiary’s capacity to absorb knowledge through the relationship. In the sales context of the FMCG sector, relationships to retailers can be characterised by long grown, locally driven business networks, where strategic decisions have increasingly been tailor-made to these retailers in a typically national context. The pressure to locally adapt can therefore assumed to be rather high.

A deep customer relationship and thus being externally embedded is extremely important for a subsidiary’s success in the market place and implies local strategic decisions, when it comes, for example, to tailor-made customer solutions. In the sales function the prime aim is to constitute deep and long-lasting business relationships with external business partners, i.e. customers. Such relationships only develop over time with increasing interaction and interdependence and are usually accompanied by an increase in productivity (Yamin and Andersson, 2011, Forsgren et al., 2005).

Certainly, a subsidiary needs some degree of autonomy, which could be seen as ‘given’ in the predominantly multi-domestic strategic orientation of the FMCG sector so far, to be deeply involved in independent strategic decision-making (Birkinshaw and Hood, 1998).

There may, however, be differences in the depth of such relationships influencing strategic decision-making regarding the customer at subsidiary level (Bouquet and Birkinshaw, 2008). Mutuality in relationships presupposes willingness to share resources and information from both sides (Ciabuschi et al., 2014). Even though not all relationships of a subsidiary are at the level of mutuality, it has been suggested that external relationships lead to competence creation (Cantwell and Mudambi, 2005). Competence creation in this case is the development of a sustainable sales strategy and thus the decisions upon single strategic activities, such as customer segmentation & prioritisation, customer relationship management as well as the development of a solidly grounded and strategically focused trade terms and conditions system – seeking for the optimum solution for both sides. Furthermore,
businesses can benefit from mutually developed ideas, such as product placement or even product development inferred from the ability to exchange in-depth knowledge on the respective consumers/shoppers in return. Clearly, to arrive at a truly mutual relationship, both sides need to have a fundamental understanding of each other’s strategic pathways. In the context of the thus far predominantly locally focused FMCG sector, it can be assumed that subsidiaries’ sales organisations built sufficient expertise and capabilities – to varying degrees – being able to efficiently and effectively lead customer relationships at local level. It can therefore also be assumed that subsidiaries decide and perform strategic sales activities independently from HQ, leading to the following hypothesis:

\[ H1: \text{the stronger the ties to the customers at subsidiary level (high levels of external embeddedness), the more strategic sales activities are decided/Performed at subsidiary level.} \]

5.3.2 Internal Network Embeddedness

Internal embeddedness is defined here as the depth of business-related activities in internal/corporate network relationships, to both HQ and sister affiliates. It reflects the ability to integrate and communicate special competencies to the MNE (Ciabuschi et al., 2014, Yamin and Andersson, 2011).

From the discussion in Yamin and Andersson (2011), it follows that a high level of internal subsidiary embeddedness may hamper the benefits of a strong external embeddedness and thus be counterproductive to a tight set of competence creating local external relationships. Subsidiaries with high levels of internal embeddedness are potentially under tighter control through HQ and therefore more bound to corporate procedures and decisions. Locally built knowledge and competencies regarding customer management can thus possibly be weakened (or developed to a lower degree) if the subsidiary is deeply internally embedded, as the subsidiary presumably follows HQ directives rather than answering local needs. Subsidiaries, in such cases, tend to be more competence exploiting (Cantwell and Mudambi, 2005), operationally servicing the market and therefore do not become a centre of excellence in the field of sales.

From an internal MNE perspective, pressures to integrate could influence the degree of internal embeddedness, being forced to globally adapt to internal policies driving
internal economic efficiencies. Likewise from a customer’s perspective forces for integrating national contracts and negotiations to global levels, may influence the manufacturer’s degree of internal embeddedness. In contrast, pressures to locally adapt from a customer’s perspective, could potentially weaken the degrees of internal embeddedness, thus decreases the ability to internally integrate. Strategic decisions will more likely be made locally. It can thus be assumed that subsidiaries with a high level of internal embeddedness will be less likely to have locally decided strategic sales activities in place, rather conforming with centrally developed strategic guidelines. Therefore:

**H2: there is a negative relationship between a highly internally embedded subsidiary and locally decided/performed strategic activities at subsidiary level.**

### 5.4 Network Embeddedness and Subsidiary Importance

The following two sections will centre on the relationship between external and internal network embeddedness and subsidiary importance.

#### 5.4.1 External Network Embeddedness

The concept of subsidiary importance reflects the extent to which a specific knowledge and competence developed at the subsidiary level is being recognised and made use of by the MNE (Yamin and Andersson, 2011).

Subsidiaries are known to grow their knowledge and competencies through external relationships into special capabilities and expertise by their ability to absorb knowledge (Lane and Lubatkin, 1998) and upon having reached a relationship depth of mutual adaptation, which is a timely process (Forsgren et al., 2005). Subsidiaries in the FMCG sector in an advanced market like Germany can be assumed to have developed long-term and mostly deep relationships to their (key) retailers. A locally developed sales strategy and thus a structured approach to strategic sales activities may be of high interest to less advanced, unconsolidated markets, i.e. sister subsidiaries, regarding the sales function and its retailer market as well as relationships. It can be assumed that the deeper the relationship with the retailer, the more knowledge the sales function will acquire, enabling managers to develop strategically sound and applicable plans and activities, in (possibly rare) cases even mutually adaptive. A subsidiary with such expertise and knowledge can thus become important to the MNE, to the extent such specialised competence will be recognised
by, and reveals itself to be useful to, the MNE. Subsidiaries with a high degree of
importance to the MNE can therefore potentially exert influence on central efforts
and strategic decisions to integrate the sales function globally (Mudambi et al.,
2014). Conversely, subsidiaries with weaker external relationships, which may be
mainly transactional in nature, are potentially unable to build solid sales
competencies and do not therefore add value to sales functions within the MNE.

In contrast, Andersson et al. (2002) discuss the depth of external network
embeddedness in relation to its context, where “the higher the context specificity of
the relationships, the more resources will be deployed in relation-specific activities”
(2002, p.985). It implies that subsidiaries with deeply embedded and intensive
relationships to external business partners are developing knowledge, which is
closely related to these customers, such as retailers, which potentially would be
difficult to transfer to different markets internally. The subsidiary may therefore be
faced with a “…trade-off between embeddedness and the possibility to transfer
knowledge to other corporate units” (Andersson et al., 2002, p.985), which
essentially means variations in the ability to contribute to the MNE’s competencies
through the development and transfer of local competencies.

In the context of the FMCG sector, with subsidiaries in Germany which belong to
one of the most advanced countries regarding retail structure and customer
management practices, as discussed earlier, the trade-off argument becomes less
effective. As one sales director pointed out, relating to the importance of a particular
subsidiary in finding a solution for its customer:

“... which is the country where skills are most developed, regarding [e.g.]
negotiations. This is in this case the most difficult market world-wide – Germany....”
(Dataset SUB 4)

Subsidiaries in this context who have deeply embedded relations to retailers most
likely have highly developed sales competencies, and are thus assumed to be very
valuable for the MNE’s broader subsidiary network, where the sales departments are
less advanced due to the lower developed customer/retailer environment. It can thus
be assumed:
H3: strong ties to customers at subsidiary level (high level of external embeddedness) are positively related to subsidiary importance, in sales-related strategic decisions.

5.4.2 Internal Network Embeddedness

A strong internal embeddedness is a prerequisite to effectively communicate and exchange knowledge within the MNE. Knowledge and competency dispersion is thus predictably easier and more intense when the subsidiary in question has strong internal relationships.

Subsidiaries with higher degrees of internal embeddedness are known to benefit from resource allocation or gaining HQ attention (‘voice’) through value added activities (Birkinshaw and Hood, 1998, Bouquet and Birkinshaw, 2008) such as specialised sales competencies. Mudambi et al. (2014, p.8) discuss the degree of internal embeddedness where “the greater the embeddedness within the MNE focuses the subsidiary’s efforts along lines that are most likely to be recognised by and relevant to other parts of the firm”. Clearly, if competencies are recognised as superior and value adding within the MNE, a subsidiary will be to a larger degree internally embedded thus the MNE being dependent on the subsidiary. The subsidiary may then be important to the MNE. Additionally, as Mudambi et al. (2014) suggest, it even leads to a “reciprocal dependency”, where in turn in areas of lower competencies at subsidiary level the subsidiary will itself be dependent on the MNE in return.

It follows that with increased internal embeddedness, specialised competencies are more readily recognised by the MNE, hence the potential importance of the subsidiary may be perceived to be higher. As a result, the subsidiary may thus be perceived as or developed into, for example, a centre of excellence potentially influencing strategic decisions in the MNE network in the area of expertise (Ciabuschi et al., 2014), which will be strategic sales management in the present case. The following hypothesis is therefore:

H4: a strong subsidiary internal embeddedness within the subsidiary’s corporate network is positively related to subsidiary importance in sales-related strategic decisions.
5.5 Subsidiary Importance and Sales Strategy

Andersson et al. (2007) found a positive relationship between subsidiary importance and a subsidiary’s influence on MNE HQ strategic decisions. A subsidiary is therefore more likely to impact on strategic decisions, where the MNE recognised its importance regarding critical competencies. Sales competencies, and in particular expertise knowledge relating to the more strategic aspects of sales is becoming more critical to MNEs in the competitive environment. MNEs are assumed to thus have an interest in quickly developing sales competencies, ready for subsidiaries, where the customer environment is further consolidating and professionalising, i.e. eventually calling for a structured strategic approach to sales and customers.

Those sales functions in subsidiaries in Germany who have built strong sales capabilities through their customer relationships, have potentially acquired expertise in managing customers strategically. Essentially, it means they have a structured sales strategy, which defines the customer approach through their strategic activities, such as segmentation and prioritisation of customers, defining a customer relationship strategy, as well as defendable, pay-for-performance conditions and rebate systems fitting to the segmentation mentioned above. Subsidiaries with such competence being recognised by the MNE (i.e. being important to the MNE) will therefore presumably have more influence over strategic sales activities at local level. Essentially, subsidiaries in this case may be able to determine which strategic sales activities should ideally be decided and handled locally. At best subsidiaries of this kind will become centres of excellence developing into a central role for this particular part of the value chain – here, the sales function. So subsidiary importance can thus be assumed to have a mediating role regarding the subsidiary’s network relationships and the local decisions on sales activities between HQ and subsidiary. Therefore:

H5: the higher the subsidiary importance, recognised by the MNE, the more influence it has on the decision of strategic sales activities, taking strategic decisions locally to a higher degree.
5.6 Subsidiary Sales Strategy and Performance

Finally, the relationship between the division of decision-making on strategic sales activities (between HQ and subsidiary) and the subsidiary market performance will be considered. As discussed earlier, the pressure on the sales function is rather high regarding a subsidiary’s market performance, especially in the FMCG sector, where intermediaries, i.e. retailers, are building the core of each subsidiary’s business. It depends on the sales function’s ability to sell products (rather solutions, i.e. to manage retailer relationships) to the retailer, who then presents manufactured products on his shelf. As soon as products are accessible from a retailer’s shelf, the manufacturers’ market performance will become visible, influencing the manufacturers’ market performance. From literature we know that external network relationships have a powerful influence on market performance (Forsgren et al., 1999, Håkansson and Snehota, 1995), which implies to decide/perform on a sales strategy complying to local retailer needs.

A subsidiary that is able to perform and decide on several strategic sales activities locally may thus be expected to deliver high market performance (ceteris paribus). Aligning strategic activities locally offers maximum response possibilities towards retailers’ needs. Those subsidiaries performing centrally decided strategic activities may receive less favourable results, due to the missing closeness to the market at HQ side, where decisions on segmentation/prioritisation, for example, or customer relationship management strategy will in such cases be taken. Retailers may respond with de-listings or other sanctions, which obviously impacts directly their manufacturers’ market performance. Due to, for example, missing products on the shelf, potentially market performance may decline, which in the worst case may lead to the decline of total MNE performance in a case like Germany, where the respective subsidiary may have a high weight economically.

It can thus be assumed that having strategic sales activities decided and performed at local level, a retailer’s needs will be covered to a certain extent, due to the local expertise of the respective sales team and its involvement in the external relationship, and can therefore be related to a higher market performance. Therefore:

H6: the more strategic sales activities are decided/performed at subsidiary level, the higher the expected market performance.
5.7 Summary and the Conceptual Model

In the current chapter the hypotheses have been developed based on the literature reviewed in the previous chapters and the resulting theoretical framework.

These six hypotheses are summarised in Table 5-2.

- **H1** The stronger the ties to the customers at subsidiary level (high levels of external embeddedness), the more strategic sales activities are decided/performed at subsidiary level.
- **H2** There is a negative relationship between a highly internally embedded subsidiary and locally decided/performed strategic activities at subsidiary level.
- **H3** Strong ties to customers at subsidiary level (high level of external embeddedness) are positively related to subsidiary importance, in sales-related strategic decisions.
- **H4** A strong subsidiary internal embeddedness within the subsidiary’s corporate network is positively related to subsidiary importance in sales-related strategic decisions.
- **H5** The higher the subsidiary importance, recognised by the MNE, the more influence it has on the decision of strategic sales activities, taking strategic decisions locally to a higher degree.
- **H6** The more strategic sales activities are decided/performed at subsidiary level, the higher the expected market performance.

Table 5-2 – Summary of the Hypotheses

Based on the hypotheses stated above, the conceptual research model depicted in Figure 5-2 has been developed for the empirical research, which will be explained and analysed in the following chapters.

![Figure 5-2 – Conceptual Research Model](image-url)
5.7.1 Summary Part I

Part I first focused on the theoretical background of this study, utilising the I/R framework as a general starting point, identifying pressures to integrate and to be locally responsive. Within chapter 2, relevant literature on I/R framework has been reviewed. In Chapter 3 the business network perspective has been chosen to understand factors regarding a subsidiary’s strategic development including its role within the MNE by depicting the concept of subsidiary importance, whereby relevant literature in the field has been reviewed. Finally, chapter 3 closed with a literature review on subsidiary market performance.

Chapter 4 then described and discussed the empirical industry background as well as the focal function – the sales function, where relevant literature has been reviewed and discussed. Finally, chapter 5 closed Part I synthesising the theoretical concepts, depicted the theoretical framework and drawing on the preceding literature review, the hypotheses have been developed and the conceptual model illustrated.
PART II – The Empirical Study

Introduction to Part II

The second part will be dedicated to the empirical study conducted, within the industry chosen in subsidiaries of multinational organisations operating in the German market. This part contains five chapters, starting with the methodological groundwork, followed by the descriptive analysis chapter regarding the qualitative and quantitative empirical findings, the evaluation of the structural model using PLS and the subsequent discussion chapter. Part II will be closed with the general conclusion of this thesis.
6. Research Methodology

6.1 Introduction

The aim of this chapter is to guide the reader through the field research process, for which a mixed-method approach has been chosen. The author conducted in-depth semi-structured interviews during the first phase followed by a mixed-mode survey (online and mail survey) to the sample identified. By conducting the interviews with senior sales managers from both the HQ and subsidiary sides, the author could gain interesting insights, a validation of the importance of the subject matter and, most importantly, a qualitative support to the constructs to be measured and its respective relationships.

Both phases were not without challenges, however, conducting large-scale field research among sales managers (of different ranks) is in itself a rather difficult and certainly challenging task. Typically, the sales community is rather reluctant to be transparent (Binckebanck and Hölter, 2012) and response rates in this area are known to be far below typical marketing research (Binckebanck and Hölter, 2012, Carter et al., 2008). To account for the potential risks of not having enough responses enabling the author to analyse the data, the support of renowned, reputable institutions has been acquired and utilized. Both GfK⁶ (Gesellschaft für Konsumforschung), being one of the largest research institutes worldwide, and the Markenverband⁷ (Association of brand manufacturers) an institution for brand manufacturers, which exists locally in many countries and is attached to the AIM⁸ (European brand association), an international overarching institute, can be considered as contributors to the satisfactory response rates achieved.

The chapter is structured as follows. First the research design, its philosophical underpinnings and a brief discussion of the two major research methodologies – quantitative and qualitative related to IB – are given, followed by the justification of the mixed-method approach used in this study (section 6.2). Then both methods and procedures including data analysis are explained in detail. Section 6.3. focuses on the

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⁶ GfK access via: [http://www.gfk.com](http://www.gfk.com)
⁷ Markenverband access via: [www.markenverband.de](http://www.markenverband.de)
⁸ AIM access via: [www.aim.be](http://www.aim.be)
qualitative method and analysis. Section 6.4 describes the quantitative data collection approach. In section 6.5 the method of data analysis will be discussed, namely the variance-based Partial Least Square structural equation modelling (PLS) including the rationale for using PLS. The author uses SmartPLS software\(^9\) for running most of the calculations and the model (Ringle et al., 2005). Section 6.6 then provides an overview on the respondents’ characteristics and structure and finally section 6.7 summarises this chapter.

### 6.2 Research Design

Research design and in particular methods being used in IB have been controversially discussed in literature over a long period and these are still dominant topics. Some researchers claim an over-reliance on quantitative methods (e.g. Marschan-Piekkari and Welch, 2004), more specifically the survey method, and the missing use of alternative or even multiple research methods (e.g. Peterson, 2004). Others, like Kogut (2009, p.712), criticize constantly changing approaches to research, resulting in ambiguous research findings or terms which are broadly similar yet different in nuances, calling for solid research programmes to further “extend the cumulative results”.

As the debate is still ongoing, IB is faced with a predominantly quantitative school of thought, where surveys – either mail or online – dominate the otherwise wide array of research methods (Peterson, 2004). It is particularly surprising that IB is drawn towards such positivistic hegemony, as the field of research could not be more diverse in terms of cultures, country contexts, political contexts, etc striving for a deep understanding of context dependent phenomena (Marschan-Piekkari and Welch, 2004). Proponents of qualitative methods, or more broadly speaking research techniques, publishing in relevant IB literature, are trying to justify in-depth-knowledge creation introducing more rigorous techniques, and the community has grown. The latter issue is one of the major areas of critique of a positivistic perspective.

As also Peterson (2004, p.38) discusses, there is a need to have “…more and different methods to more thoroughly understand the phenomenon of interest” in IB.

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He further postulates the advantages of using, for example, interviews either before or after the survey to be conducted, to be able to gain insights that support building the questionnaire or to help explain the meaning of the data collected through a survey.

Generally speaking, in selecting their research design, researchers can follow induction, that is theory building through developing theories from observations, or deduction, that is a theory-testing approach. Researchers have to be aware of the main differences implied, which mainly stem from the underlying philosophical assumptions – ontology (our world view) and epistemology (how knowledge can be acquired). Without getting into too much detail with the several streams, broadly speaking the positivist (e.g. Auguste Comte) and empiricist (e.g. John Locke, both discussed in e.g. Creswell (2009), Smith (1983), Chalmers (1999)) tradition considers reality as objective and that knowledge can be acquired ‘independently’, which means the researcher views himself not to be part of the research subject using quantitative (statistical) methods. In contrast, the social constructivist (Lincoln and Guba, 1985) or phenomenological (Saunders et al., 2012) tradition views reality as subjective, where the researcher is part of the research through interaction with the subject under investigation, using qualitative methods, such as in-depth interviews, observation or case studies.

6.2.1 Justification of Using a Mixed-Methods Approach

These major differences obviously lead to advantages and disadvantages in applying one or the other design. As a counterargument to the competing discussions between the two approaches, literature also discusses the “…acceptance of pragmatism in choosing the appropriate method for addressing specific research questions, rather than focusing too much on the underlying philosophical debates.” (Snape and Spencer, 2003, p.15). In this view qualitative and quantitative research methods are seen as complementary, providing a ‘toolkit’ for the social researcher. This approach is also known as the mixed-method approach (combining qualitative and quantitative methods) (Creswell, 2009) or triangulation (using two or more independent data sources or data collection methods) as defined in Saunders et al. (2012) and (Homburg and Schilke, 2009, who refer to different sources not necessarily methods to be used).
Proponents argue triangulation to be a valuable method, where understanding research findings is extended by using the alternative approach, mostly in cases where qualitative interviews after the survey have taken place (Ritchie, 2003). Opponents argue from their respective perspective – qualitative or quantitative – that in terms of ontological (no single reality) and epistemological (different types of data) underpinnings, such an approach is unlikely to generate concurrent evidence (Ritchie, 2003). However, the author follows the argument of Bryman and Bell (2015) to use the mixed method approach to overcome the weaknesses of both quantitative and qualitative studies, increasing the validity of the findings (Jick, 1979). According to Jick (1979), mixing methods has the objective to gain a broader, more holistic picture of the research subject, which may discover an issue which the single methods would not have covered.

The current research project will adopt mixed-method research design, using both qualitative and quantitative data. The approach is also increasingly used by IB researchers (Hummerinta-Peltomäki and Nummela, 2006) and in strategic management (Molina-Azorín, 2012). In particular, the author leans on a sequential exploratory mixed-method strategy as defined in Creswell (2009), where first a qualitative study is conducted followed by a quantitative approach building on the results of the first phase. However interviews have also been conducted along the research phase, providing a more continuous approach rather than a purely sequential method.

Primary data is needed for the research in question, where the field of research – sales, sales strategy in the context of IB – still needs to be explored to a certain extent. Furthermore, conducting research in the area of sales and especially international sales tends to be rather challenging (e.g. Carter et al., 2008) as there is a traditional resistance to transparency (Binckebanck and Hölter, 2012), it being one of the most central functions within an organisation. The special contextualisation of this research is trying to catch the particularities of the sales function within an MNE in the country context of Germany (Michailova, 2011, Rousseau and Fried, 2001). The use of qualitative interviews (contextualisation as the “very nature of fieldwork”, Michailova (2011, p.135)) and quantitative questionnaires (means of addressing and level of detail in questions asked) accounts for the population and the surrounding context as mentioned above to be investigated in the light of this research project.
In addition, the author could not identify any existing research to build on in the area of sales in IB. Taking into account the sensitive topic and the natural resistance to transparency, the author decided to split the research into sequential phases.

**Phase I.** As semi-structured interviews are extremely useful for exploratory studies and deepening existing knowledge, the first phase comprises in-depth interviews (Daniels and Cannice, 2004). These interviews will be conducted to gain more insightful knowledge and further insights to the field providing “the groundwork for larger or follow-up studies” (Daniels and Cannice, 2004, p.187). Senior managers and other experts in sales from both the HQ and subsidiary side have been asked to explain their current situation regarding the sales strategy at global level and its difficulty in the HQ-subsidiary dichotomy. This approach enabled the researcher to qualitatively test the model relationships and the constructs involved, bringing personal views and findings to the study and furthermore serving to complement the analysis post-hoc.

**Phase II** builds upon these findings and those previously established through a thorough literature analysis, being able to design a questionnaire which again was in its further developments discussed with experts in the field.

### 6.3 Phase I – The Interviews

The interviews fulfilled two main purposes. One was to verify the importance of the topic for the consumer goods sector through practitioners. The second was to investigate qualitatively the main issues managers see in terms of their increasingly globalising sales function and thereby underlying sales strategy. Furthermore it deepened existing knowledge on the sales function and its respective strategy. The interviews supported the constructs originally derived and evaluated from the literature and helped to refine the upcoming quantitative survey development. Some constructs needed to be refined, increasing the relevance to the sales function and thereby required slight adaptations as discussed in section 7.3.1.

Following Kvale and Brinckmann (2009, p.3) an interview (as they call it, a semi-structured life world) is defined as: “an interview with the purpose of obtaining descriptions of the life world of the interviewee in order to interpret the meaning of the described phenomena.” The aim is therefore to gather information on the research topic from the perspective of the interviewee to understand how and why this
perspective is present (King, 2004, Symon and Cassell, 2004). The semi-structured interview technique has been chosen because of its inherent flexibility. It enables the researcher to have a clear but brief guidance to the major topics involved and not to forget anything important during the interview itself (Daniels and Cannice, 2004). In addition, it leaves room for side avenues opening during the interview, which are in some cases unforeseen, fruitful and more importantly create a more relaxed atmosphere following the flow of a conversation.

The interview guide developed through the interview phases as topics emerged in addition and others which originally have been included were dropped (King, 2004). In Appendix 12.3.1, the final interview guide is presented. The questions included, where developed from literature, i.e. the constructs developed, included from the author’s own professional experience as well as from the content of conversation carried out over the time of the research project regarding the research topic (King, 2004). During the interview, the guide was useful to reflect on the topics covered before and during the conversation, making sure all topics to be captured. Furthermore, the guide was used as a base for the invitation e-mails or in some cases telephone calls, preparing the interview. The author used thematic ‘what’ questions and accompanied these by dynamic ‘why’ or ‘how’ questions as proposed by Kvale and Brinkmann (2009). Such a mechanism helps both to capture the content, getting to know more deeply the interviewee’s perspective and to keep the conversation going. The latter issue was not an issue, as the interviewees, were enthusiastic in discussing the topic. Special care was devoted to the wording of the questions, expressing these in the “managers’ language” and avoiding abstract theoretical terms (Kvale and Brinkmann, 2009). Certainly, it has been advantageous to be part of the professional community, so the typical ‘language’ could be used and referred to, also helping to discuss some related topics which by then had been off the interview guide.

Regarding the sample to be interviewed, the author relied on her network, knowing that ‘cold calling’ would be tremendously difficult with sales managers and the efforts needed to establish trust are far higher. Therefore, recommendations made by a senior consultant and partner of an independent consultancy, being connected to many senior sales managers through sales related consulting projects, were key to the sample recruitment (Daniels and Cannice, 2004). These recommendations were
based on a briefing as to what type of sales manager at which side (HQ and subsidiary) was needed. The author also needed to take into account compliance rules, which do not allow for conversations to firms of the same sector/category served. Therefore, the author contacted predominantly sales managers from the food sector as shown in Table 6-1. The author explicitly chose to interview sales managers from both sides, the HQ and the subsidiary, getting a balanced response to the topic and also to probe whether the topic was relevant to both sides – which it certainly turned out to be.

6.3.1 The Interview Process
To arrange for the interview appointment, the author either sent personal e-mails or contacted the sales managers directly via telephone. Both ways were used to communicate the major topics to be covered during the interview taken from the interview guide. The interview language has been – to the interviewees’ convenience – German in all cases but one CON 2, who felt more comfortable being interviewed in English. The interviews were begun by briefly stating the background of the research project, introducing the author – focusing on the part as a researcher, asking for permission to record the interview, setting the atmosphere to then let the interviewee introduce himself or herself and his/her particular firm environment. All interviews started at ease with the topic presented, interviewees were eager to explain their experience and knowledge in the field. The following questions referred to the sales strategy and elements used locally and globally within the respective company, followed by more detailed questions on their HQ-subsidiary relationship (internal network and subsidiary importance) as well as their customer relationship. Some discussions deepened on the issue of global account management, others on the dilemma being faced with the need for transparency and global strategy guidelines and on the other side strong customer relationships to be maintained. Towards the end of the interview, the interviewees were asked if there was anything they would like to add or that they felt would be missing regarding the topic.

Recording was ended with the final questions, however, thanks to the deep discussions on the research topic and the trust established during the interview, no further comments or insights were made during the final phase. All participants were asked to potentially further support the research project in case of questions occurring, which all interviewees happily agreed with. After a short time, the
interviewees received a follow-up e-mail with a short note of thanks and in case of the transcribed interviews announcing the document to be distributed shortly.

All interviews of those being fully transcribed took place in Hamburg, Germany and lasted between 45 mins and 1.5 hours (the face-to-face interviews tended to be longer). The transcripts were sent after a maximum 4 weeks for validation and the interviewees’ final permission to publish findings through original statements anonymously to the interviewees. Due to personal reasons, the interview phase was split into two main phases: a first round during 2010/11 and a second round by the end of 2014/beginning 2015. This can be seen as a large time-span, however, concluding from the interview findings, almost nothing had changed in between, supporting the assumption of the sales’ function’s resistance to change.

### Table 6-1 – Overview of Interviewees

<table>
<thead>
<tr>
<th>Data Set</th>
<th>Industry</th>
<th>HQ Location</th>
<th>Nationality</th>
<th>Positioned at</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUB 1</td>
<td>Food</td>
<td>USA</td>
<td>German</td>
<td>Subsidiary</td>
<td>General Manager Sales</td>
</tr>
<tr>
<td>SUB 2</td>
<td>Food</td>
<td>USA</td>
<td>German</td>
<td>Subsidiary</td>
<td>Sales Director</td>
</tr>
<tr>
<td>SUB 3</td>
<td>Food</td>
<td>France</td>
<td>German</td>
<td>Subsidiary</td>
<td>General Manager</td>
</tr>
<tr>
<td>HQ 1</td>
<td>Food</td>
<td>USA</td>
<td>German</td>
<td>Regional HQ</td>
<td>VP Sales</td>
</tr>
<tr>
<td>HQ 2</td>
<td>Near Food</td>
<td>Germany</td>
<td>German</td>
<td>HQ</td>
<td>VP Sales</td>
</tr>
</tbody>
</table>

| Interviews by telephone without transcription but notes, orally validated statements used |
|---------------------------------|-------------|-------------|--------------|
| CON 1   | FMCG       | USA         | Austrian     | Partner – FMCG Expert |
| CON 2   | FMCG       | USA         | Dane         | Partner – FMCG Expert |
| SUB 4   | Near Food  | Germany     | German       | Sales Director    |
| HQ 3    | Food       | Germany     | Dutch        | HQ               | COO             |

<table>
<thead>
<tr>
<th>Interview without permission to publish</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ 4</td>
</tr>
</tbody>
</table>

Some of the interviews were conducted via telephone, where the author noted down key issues, both during the call and straight afterwards, which means only indirect statements can be brought forward to the analysis. The author re-called interviewees Sub 4 and HQ 3 to verify the statements after the data analysis to re-check on the authors’ notes. Interviewee HQ 4 did not permit to publish any noted quotation. CON 1 and 2, were both partners of a large global consultancy firm at that time (interviews were both conducted in 2011). These interviews provided a ‘third party’ perspective into the research topic, mostly verifying the findings gained from previous interviews.
(SUB 1-3 and HQ 1-2) and generally strongly supported the research topic. Also these two interviews were conducted via phone, with notes made during and after the interviews, though no verification took place here, as the findings were more supportive but generic in nature.

### 6.3.2 Evaluating Interview Data

As the interviews were conducted to initially explore the main issues related to the research project, a simple analysis, instead of utilising N*Vivo or similar tools, via coding was conducted (Ritchie, 2003). Coding was necessary as means of data reduction in qualitative research (Spencer et al., 2003), so the transcribed interviews and the statements from the telephone interviews were thematically coded alongside the model. The resulting matrix could then be used to identify the key topics emphasised by the interviewees. The interviews supported the authors’ model assumptions, the underlying constructs and also importantly reassured the necessity to investigate into the complex theme of sales strategy within an MNE. Almost all interviewees expressed their enthusiasm about this topic, which was reflected not just during the interviews, but also in being able to agree appointment times in a relatively short period.

Another round of qualitative data analysis was then conducted during and after the quantitative data was analysed, where some codes were refined, to see whether the more specific topic emerged in most of the interviews allowing for a richer data interpretation in the discussion section.

Critically reflecting on the interview phase, the author had always to take care to maintain neutrality on the research topic, clearly distinguishing between being a researcher and a sales professional, to avoid influencing the discussion in some specific direction, leading to potential interviewer bias. Learning from the first interviews, affirmative phrases have been avoided during the next interviews, as in the first interviews this led to further (off-track) discussions. Clearly, there is a trade-off being a researcher and being part of the community at the same time, which in this case the author reflects positively upon as it revealed some interesting findings.

### 6.4 Phase II – Quantitative Approach – Data Collection Methodology

In the following sections, the quantitative approach will be discussed. First, the data collection method will be described, followed by the second main section on the data
analysis method – the rationale of using of PLS as the main method. Regarding the
data collection method, first, the survey design, its pilot and pre-test phases will be
described. Then the sampling strategy followed by the actual data collection phase
will be presented.

6.4.1 Questionnaire Development and Design
The tool of enquiry is a standardized, self-administered questionnaire in two well-
known forms (de Leeuw and Hox, 2008) – provided as an online survey (in English
and German) and a mail survey (in German). In addition to this mixed-mode
approach (Dillman et al., 2009), there are two variants of the survey, surveys for both
subsidiary and HQ respondents, whereby the latter variant was solely available
online due to practicality and cost reasons, which will be explained further below.
Methodologically, the use of and types of surveys has changed drastically over the
years (Dillman et al., 2009, de Leeuw and Hox, 2008). Levels of trust, human
interaction and real interest in the individual respondent have declined with the
advent of mail and more recently online surveys, which leads to close
methodological and practical considerations before starting such a ‘modern type’ of
survey (Dillman et al., 2009). A clear advantage of mail or online surveys against
more personal contact-led survey techniques is its less intrusive character, implying
high levels of privacy as well as invoking less time pressure on the respondent, being
able to complete the survey at his/her most convenient time (de Leeuw and Hox,
2008). The latter issue, especially, may result in improved accuracy as de Leeuw and
Hox (2008, p.244) call it. Although surveys accompanied by interviewers are said to
lead to a higher response rate as well as, for example, the disadvantage of
misunderstanding questions can be adequately treated (de Leeuw and Hox, 2008,
Dillman et al., 2009), the author decided to not use these survey types at all due to
time and budget constraints.
In conducting a survey with a relevant sample, the major aim is to achieve response
rates that are as high as possible (Harzing, 1997), whereby the control over the mail
or online questionnaire is mainly in the hands of the respondents (Dillman et al.,
2009). Therefore there is a great need to carefully prepare the actual data collection
period and have a targeted, well designed survey in place (de Leeuw and Hox, 2008).
In particular Dillman et al. (2009) deliver a comprehensive overview and details to
the survey design and data collection phase.
The online survey has been designed and conducted with the online survey provider SoSciSurvey (2015), which is a widely accepted provider (Kotulla, 2012). This online service provider offers very flexible design options, which necessitate some HTML programming language, which is easy to learn and very well explained by the provider. The general layout of the survey can be chosen from templates and provides a very reliable, reputable look and feel in particular in combination with the integration of the university’s and Markenverband’s logos. The mail survey has been finally designed and bound as a booklet by GfK based on the author’s dummy version, likewise including both logos mentioned above (in black and white) providing a very professional design (Dillman et al., 2009).

Overall, the present research uses 34 mainly closed questions in the survey, according to the operationalisations discussed in the following chapter 7. A few open-ended questions have been integrated providing an open field to the respondent’s individual answer, such as the regional HQ location, the age of firm and subsidiary and the number of employees at subsidiary and MNE levels. Integrating further and more substantial open questions, where the respondents would have needed to spend some effort has been omitted due to the fact that sales people in general are subjectively likely to be more impatient towards surveys (due to only recently increasing experience with surveys as observed by the author herself) and secondly, as also research substantiates, the dropout rate potentially increases with open-ended questions (Lozar Manfreda and Vehovar, 2008, Harzing, 1997). The advantage of closed questions is furthermore the comparability of the answers, based on the Likert-style rating scales.

The design of the questionnaire regarding the order and layout of the questions and the general survey layout needs to be carefully thought through, as this is usually the only interface with the respondents (Dillman et al., 2009). The present research starts with an introductory page or a neatly designed cover letter in case of mail surveys, posing the university’s as well as the Markenverband’s logos. Respondents are briefly informed about the objective of the research, given the university’s ethical consent statement as well as the confidentiality agreement and finally are greeted with the contact details of the researcher. The respondents were first asked simple, orientation-like questions, such as their current position, length of employment in the current position as well as the industry segment the organisation is operating in. The
following sections are built according to the sensitivity it involves, which means questions on the particular sales strategy activities and perceived performance outcomes have been placed in the last third of the survey (Dillman et al., 2009). Since the survey is rather lengthy, easy-to-answer questions have been posted towards the end of the survey, such as number of employees, age of the company, etc. This way the potential tiredness of the respondents is taken care of, which could lead to inaccurate answers not being desirable for the more sensitive and key questions in place (Lozar Manfreda and Vehovar, 2008).

In general, the type of questions is varied, to avoid potential boredom of the respondents – shifting from matrices to single questions to ranking questions, also in accordance to the needs of the author (Fink, 2013). Furthermore, the author developed simple, easy to understand questions, highlighting particularly important words or phrases, which is even more important for the online survey, as here questions tend to be read even quicker than those on paper, to be attributed to the characteristics of the internet community (Lozar Manfreda and Vehovar, 2008). Furthermore, clear questions decrease the occurrence of measurement errors (Dillman et al., 2009). Additionally, a progress indicator has been included on all pages of the internet survey, since, different from mail surveys, the respondent has no transparency over the real length of the survey (Lozar Manfreda and Vehovar, 2008, Dillman et al., 2009).

The final pages of the survey asked the respondents for their e-mail addresses in case they would like to receive a summarized report of the study, which serves as an incentive to participate in this study. The online survey includes a function to assure anonymity to separate the respondents’ e-mail addresses from the actual survey, being uploaded into a separate file without date or any potential means for identification. Thus in this case the e-mail address could conveniently be added in the penultimate screen. The mail survey respondents had the opportunity to send an e-mail to the author’s university e-mail address with the subject line ‘Report’, keeping the effort low in comparison to sending a ‘real’ e-mail. Some of the mail respondents used this opportunity.
Table 6-2 summarizes and provides an overview of the survey sections, including the illustration of the main differences between the subsidiary and HQ questionnaires. Each section was introduced to the respondent, explaining what the following section would be about and referring to his/her role in more general questions, which is

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10 please find the “subsidiary questionnaire” on the Appendix 12.3.4.
supposed to ease the transition from one section to another (Dillman et al., 2009). The HQ survey was slightly shorter, omitting very detailed questions, which the HQ manager possibly could not have responded to, as all questions focused on the German subsidiary of the MNE in question. It has to be pointed out that both HQ and subsidiary questionnaires have measured all key constructs.

Finally, regarding language, the author decided to provide the mailed survey to managers in subsidiaries in German only, as all respondents identified were most likely German, as indicated by their names. Typically, from experience, sales personnel including sales manager are native speakers and if not are fluently speaking the local language. In the vast majority of cases customers, i.e. retailers are likewise only native in this case German speaking, which simply necessitates sales managers to fluently speak the local language conducting regular negotiations. In case of the online-survey both language options have been provided, where respondents needed to choose their favourite language in the very first page. Likewise the HQ variant has been offered in both languages, though here English is more likely to be chosen in particular, if the respective HQ is located outside Germany.

The questions have first been developed in English, and later translated into German, which according to Harzing (2005) needs to be conducted carefully to not obscure the survey results. Scholars usually refer to the translation/back-translation method to overcome potential semantic differences as discussed in Behling and Law (2000). Semantic equivalence refers to the item’s meaning, which should ideally not change through translation from one language into a second and back-translation to the original language. In the present case the author used several techniques. First of all, the author herself is a native German speaker, so initial translations have been carried out early on in the survey development phase. Along the development phases, both pilot and pre-test participants were thoroughly checking on the German language appropriateness and ease of understanding.

The questionnaire has been reworked according to the commentaries, which usually targeted at the same expressions or wordings. In addition two people with a strong academic background (MSc and Diploma) being fluent in both languages too, were investigating both versions – German and English – in parallel, aiming to detect any language flaws. This final check was conducted at the pre-test phase for the on-line
survey, having both languages readily available in the test-mode. Consequently, the final version was marginally edited, ensuring semantic equivalence.

6.4.2 Sampling Strategy and Key Informants

The unit of analysis in this research is the subsidiary level, more particularly the sales function on the subsidiary level in Germany. The sector will be FMCG as discussed in the previous chapters. Due to the more strategic nature of the present research, the population of this research consists of senior sales managers, sales directors or general managers at the subsidiary level and senior (sales) managers or sales directors on the HQ side.

A sampling frame needed to be established by the author, as no readily available database provides data on FMCG firms in Germany in particular (Swoboda et al., 2014). The author therefore utilised several sources for the database development stage, aiming to cover FMCG firms, being part of an MNE at the same time (either as subsidiary or HQ in Germany). Several logical steps with clear selection criteria downsized the vast amount of firm data collected. The main criteria were identifying firms to be FMCG manufacturers, using the product classification scheme by Miracle (1965) (see Appendix 12.2. for classification scheme), by the existence of an HQ and by the number of subsidiaries operated by the manufacturer.

During the first step, all members of the Markenverband have been analysed and selected upon fulfilling these criteria. Out of the 380 member organisations, 159 organisations qualified for the sample. The Markenverband is an institution, which:

“...represents the interests of brand-oriented businesses in Germany. Founded in Berlin in 1903, the federation has just under 400 members, which in Germany account for a turnover of more than 300 billion euros in branded consumer goods and around 200 billion euros in the services sector. This makes Markenverband the largest federation of this kind in Europe.” Markenverband (2016)

Members come from different sectors, such as consumer goods, textiles and fashion, pharmaceuticals or telecommunications. The institution is widely recognised and it can be assumed that almost all large multinational FMCG companies are members, due to the fact that brand management is especially tough in this highly competitive

11 http://www.markenverband.de/verband/mitglieder was accessed first in 2013 and for a verification in June 2015
sector. The second source of FMCG firms was AMADEUS, a worldwide database provided by the University of Manchester library. The database is organised using the commonly known and reported ISIC codes, so the author identified and retrieved the appropriate sub-groups (e.g. 10.3. fruit and vegetables manufacture) and verified again 119 out of 1,043 manufacturers. Some overlap has been identified with the Markenverband members, which effectively added 57 further organisations to the sample. Thirdly, another very reliable and often-used source (Swoboda et al., 2012, Homburg et al., 2002) is the firm database “wer-zu-wem” (who-to-whom)\textsuperscript{12}, searching for the sector consumer goods amounted to an additional 37 firms. In total 253 firms have thus been identified, collecting data such as brands sold, HQ location, number of subsidiaries and continents served and where possible the latest sales turnover, number of employees and profit figures into the database.

The second step contained further detailing of company information by searching and adding the responsible (senior) sales manager, sales director, key account manager or general manager. This step was one of the most time-consuming and tedious working steps towards the final database. The author looked through all 253 firm websites again, to identify contact details, such as a central telephone number, the address (for mail surveys) and general information e-mail address if available. In some cases, addresses or telephone numbers could not be found; here the “who-to-whom” website was again a useful resource to consult. In parallel, the author investigated the name of the sales contact, which followed the following scheme:

1) Searching XING\textsuperscript{13} or LinkedIn\textsuperscript{14}, being both credible, established and broadly recognised business networks commonly used in the German speaking countries and internationally respectively (the majority of sales managers could be identified here by searching for the company name and by keywords such as sales or sales manager, depending on the number of members per firm in XING/LinkedIn)

\textsuperscript{12}http://www.wer-zu-wem.de - a database of organisations in Germany, providing addresses, information on groups the organisation is part of, HQ location, type of business, sector, etc
\textsuperscript{13}Access to the XING network via: https://www.xing.com/app/startpage
\textsuperscript{14}Access to the LinkedIn network via: https://www.linkedin.com/home?trk=hb_tab_home_top
2) The Lebensmittelzeitung, provides regular updates on personnel changes, which can be searched for by company online.

3) The last resort in a few rare cases was Google, as sometimes personnel announcements could be found in different papers or journals, searching for the company’s name and “sales director” or “sales manager”.

By accessing the information as stated above, the author could identify sales managers or sales directors in almost all firms, which was essential for two reasons:

First, as more and more surveys enter firms’ premises, incorrectly addressed or rather anonymously (Dear Sirs) addressed mail surveys, one would almost certainly not find the appropriate respondent (Ilieva et al., 2002). Furthermore e-mails for online surveys could not have been sent without a concrete e-mail address available, which presupposes the respondents’ name. Second, according to Dillman et al. (2009), it is vital to customise and personalise surveys as much as possible to achieve high response rates.

The third step was to identify the correct personal contact details of the sales managers, which was done by calling a central number of the firm in question. The author called each organisation asking directly for the e-mail addresses of the identified sales manager (by stating his/her name and function). Some firms were cooperative and provided the e-mail address. Others asked for the objective behind the request, which the author provided by a very short summary of the purpose of the research. This persuaded a further number of firms to provide the e-mail address. Others provided the contact details of the personal assistant or the potential respondent. In these cases, the author expanded on the research objective and most of the potential respondents or respective personal assistants provided an e-mail address in return. In these ways the author managed to gain about 40% that is 98 of the sample’s firms e-mail addresses. These respondents can be considered to be online-affine, as they have established accounts in either business network mentioned above and e-mail addresses were obtainable.

In contrast, people who could not be found or accessed online through any source, were contacted to fill in a mail survey. Additionally, it is quite typical in sales to

15 Access to Lebensmittelzeitung via: http://www.lebensmittelzeitung.net - this weekly journal represents the food and non-food industry, who is involved with retailers

16 Access to Google via: https://www.google.de/?gws_rd=ssl
have people in their later career stages (i.e. older generations), who in turn might not be too keen filling in the survey online. Aiming at reducing coverage errors, by unintentionally excluding these respondents, the two survey methods were implemented (Dillman et al., 2009). Overall 182 respondents including postal addresses were identified accounting for 155 firms who are in the mail survey sample. Some firms were contacted through more than one person especially in situations where organisations have several divisions accounting for the product ranges, such as L’Oréal, Nestlé or Carlsberg. Both the online (98 firms with 12 multiple respondents) and mail (155 firms with 27 multiple respondents) surveys include firms with two or more potential respondents.

A variant of the survey targeted senior managers in HQ sales functions. Sampling a relevant, reliable sample from HQ was beyond the scope of this project, due to timing and monetary reasons. In order to gain some insight from the HQ’s perspective on its respective German subsidiary, the author established another link to the Markenverband, which is closely linked to the AIM – the European Brand Association17. One of its members kindly asked his fellow members participating in this research, which coincidently raised a lot of interest. The group is currently thinking about a large-scale research study on global sales, global sales strategy and organisation issues among its members – again an argument urging exploration of this topic further within the FMCG sector offering future research potential. Overall the author was able to recruit another 22 managers from the AIM and personal contacts in XING and LinkedIn sharing sales interest groups or knowing each other from sales conferences.

As an incentive to participate (Dillman et al., 2009), the potential respondents were offered a management summary of the findings of this research, which will be sent out after the analysis has been conducted and conclusions can be drawn. For this reason, the author included an option in the online survey (after the last question) to note down the e-mail address in case of interest. This answer is detached from the survey, i.e. does not influence the anonymity. The mail respondents were asked in the introductory letter to drop a separate e-mail to the author with the word “report” in the mail headline in case of interest.

17 http://www.aim.be - the European Brand Associations has links into all European national markets brand associations, like the Markenverband in Germany
6.4.3 Pilot Study

Conducting a pilot study is essential as “testing is the only way of assuring that the survey questions written do indeed communicate to respondents as intended.” (Campanelli, 2008, p.176, de Leeuw et al., 2008, Saunders et al., 2012). So also in this research the author accounted for a period of intense piloting, i.e. testing the questionnaire in June 2015.

In traditional research settings, members of the pilot tests are part of the sample, randomly selected, whereby a minimum sample of 10 should be achieved (Fink, 1995, Campanelli, 2008). The advantage of this method is the possibility to identify difficult concepts or troublesome questions, however, questions could be misunderstood or answered in a socially desirable way (Campanelli, 2008). To overcome these disadvantages, making use of experts in the field is a new method, according to Campanelli (2008). Experts are suggested to be academics as well as research experts in the field, whereby a large number of issues such as problems at conceptual level or issues with the operationalisation of constructs can be detected. Both methods work towards valid questions, which should result in reliable data collected from these surveys.

The author uses both types within this research. One group, consisting of seven academic experts in the fields of IB, sales and marketing as well as retail, was sent the English version questionnaire still in Excel, however, after several rounds of reworks. Those reworks were the result of preceding expert consultations with a researcher holding a PhD working in a research institute. The other group comprised people from the actual sample were chosen with the request of supporting the piloting phase and providing comments regarding understandability of questions, order and logic of question sequence, the length of the questionnaire including the time needed to complete the survey. Overall 12 sales managers have been recruited whereby eight people responded to the author’s request, which indeed can also be considered an expert group. Feedback on the German questionnaire was provided in writing and the author requested a further telephone interview to listen to the experts’ opinions further.

The responses were very useful from the academic as well as business experts, providing critical feedback. The length was considered to be acceptable; the business experts needed about 20-25mins to completing the survey. Some other comments led
the author to drop two questions as well as to consolidate and slightly reformulate another question to ease the flow of the survey. Feedback from the four responding academic experts pointed to similar issues, such as the reformulation of a question in the sales strategy section.

Consequently, all necessary modifications to the questionnaire were made and the survey was finalised regarding its content, structure and wording. As mentioned above a final check on language was conducted when the author programmed the questionnaire into SoSciSurvey (2015) in both languages.

6.4.4 Data Collection

The overall period of data collection was 10 weeks, from beginning of July to mid-September 2015. By experience, the timing has one disadvantage, which is the summer holiday season, which was accounted for by the length of the time provided towards the “final deadline”. However, one major, much more heavily weighted advantage on the timing is “seasonal quietness” of a sales person’s working life, after typically all current year’s negotiations closed and the annual planning phase to come in late August or September, succeeded by starting the next round of annual negotiations with customers from late September onwards.

According to Dillman et al. (2009), pre-contacting respondents will usually increase response rates, which the author indirectly initiated using a very reputable institution – the Markenverband – being widely recognised among the sample. The author intentionally chose this approach to increase credibility for researching in the area of sales, which is known for declining and compared to marketing research lower response rates (Binckebanck and Hölter, 2012, Carter et al., 2008).

The online data collection period started July 6th 2015 with a circular pre-letter distributed by the Markenverband to its members accompanied by a one-page summary including the research objectives, the benefits for the respondent and the kind request to participate in the study (see Appendix 12.3.2 for the distributed version). As Lozar Manfreda and Vehovar (2008) discuss, pre-letters (which additionally included the researcher’s name, contact details as well as her photo in the on-page-summery mentioned), work also against the perceived intrusion into privacy, when receiving an e-mail requesting for participation in a survey. Besides the institutional support, bringing transparency into the research process as well as
appearing personally as a researcher (Harzing, 1997) most likely increased the perceived credibility of the research project and thereby levels of trust in the researcher. On July 8th, the author started sending out e-mails from her university’s e-mail account to the 98 identified firms and 110 email addresses, contacting each respondent personally with a customized e-mail, referring to the pre-letter and kindly asking for participation until August 7th (the duration accounted for the holiday season, proving enough time to respond).

Each respondent received a personal link\textsuperscript{18} for his/her convenience, with again a reassurance of confidentiality and anonymity, which is highly valued particularly in the area of sales and inevitable for two reasons: firstly, compliance rules were largely sharpened, prohibiting the exchange of information between firms on certain issues such as pricing, conditions, terms, etc due to antitrust (or competition) laws, whereby people are individually liable; secondly, sales, as stated before, is the heart of each organisation, so information is shared only sparsely. These two reasons posed one of the major difficulties in this research project, involving a high risk of receiving too few responses. Without the support of the Markenverband and GfK, as well as almost certainly the University of Manchester, this research would most likely not have received so many responses.

Personalised links had to be sent in order to distinguish the samples – online and mail – accordingly and constituting a barrier to potentially abusing the (impersonalised) link to the survey, e.g. filling it in more than once or by some person who was not expert enough. Two respondents contacted the researcher, aiming to know how they were sampled. Explaining the procedure under maximum transparency, promptly, both potential participants were very satisfied with the answer and acknowledged to support the author’s research project. Anonymity and confidentiality was always adhered to, by storing data safely with a document login only known to the researcher.

A first reminder was sent starting July 22\textsuperscript{nd}, which again was carefully timed and designed according to literature suggestions (de Leeuw and Hox, 2008, Dillman et al., 2009). Until then only 14 surveys were completed online, which increased to 25

\textsuperscript{18} An example of a personalised internet link to the online platform: 
https://www.soscisurvey.de/vertriebsstrategie/?s=FL076375
just before the second reminder was sent August 8\textsuperscript{th}. The HQ sample was addressed in the same time frame, with likewise two reminders sent to the sample.

In parallel, the printed version was finalised (layout and booklet “design”) and was sent July 29\textsuperscript{th} through GfK with a paid envelope to return the questionnaire, together with an introductory letter as in the online version slightly adapted to this format. The reminder was sent August 17\textsuperscript{th} accompanied by the one-page information sheet mentioned above, to account for the length of time between the initial e-mail circulated by the Markenverband (July 6\textsuperscript{th}) and the first mail reminder. Again anonymity and confidentiality were strictly accounted for in this case. Here the author received the completed surveys, which GfK affixed codes to independently of the researcher. These mail surveys were transferred to the online system in one day, coded in accordance with the online types. Periodical double-checks on mail surveys vs. its manually recorded online version accounted for high levels of accuracy in transferring the data.

Respondents within the mail sample were also offered to switch to the online version upon request, which actually happened in three cases, visible by the serial number, which consisted of a four-digit number attached to each mail survey in contrast to an automatically generated code for the online sample (see example). The reverse offer was made for potential respondents in the online sample, not being used by any respondent. However, the contact details provided were utilised by two online respondents, who had a technical question on one of the ranking questions, which the author could explain quickly and this was never an issue elsewhere. In both cases the respondents remarked their own superficial reading techniques (Lozar Manfreda and Vehovar, 2008).

The following section will discuss the method of data analysis used for the data generated, the PLS method. A rationale for having chosen PLS is provided in the following section.
6.5 Data Analysis with Partial-Least-Square-Modelling

In order to evaluate the theoretical model, and to estimate several causalities between its latent variables a multivariate analytical approach was chosen. Structural equation modelling (SEM) is such a multivariate approach, combining elements of regression and factor analysis (Nitzl, 2010). According to Hair et al. (2011) SEM became a dominant, almost standard method in the marketing discipline. Two main, yet complementary, approaches to structural equation modelling developed over time the covariance- and variance-based models (Henseler et al., 2009, Chin, 1998, Hair et al., 2012a).

Covariance-based (CB) SEM techniques are more widely known and applied in social science research, typically used with software packages like LISREL, AMOS or EQS and dominantly associated with SEM as the technique (Chin, 1998). Less popular, however, with growing attention (Henseler et al., 2009) is the utilisation of SmartPLS (Ringle et al., 2005) as a tool to run a technique called partial least square modelling, a variance-based technique serving as an alternative model. PLS aims at the maximisation of the “explained variance of the dependent latent constructs” (Hair et al., 2011, p.139) by iteratively estimating partial model relationships (as in ordinary least squares (OLS) regressions) (Hair et al., 2012b). An objective of PLS is to “aggregate indicators within blocks in a predictive sense” (Chin, 1998, p.303), which essentially means that PLS does not work with latent variables as such but with weighted composites of its respective indicators (Haenlein and Kaplan, 2011).

According to Chin (2010), the PLS-SEM approach has often been termed a “soft-modelling-method”, which is referring to Lohmöller (1989) pointing at its “distributional assumptions” rather than the modelling or concepts itself. Clearly, in contrast to CB-SEM, PLS, which based on predictor specification, operates with nonparametric and prediction-oriented measures (Chin, 2010, Hair et al., 2014) as no assumptions on distribution are being made. CB-SEM methods rather rely on the overall “goodness of model fit”, which is measuring “how well the parameter estimates are able to match the sample covariances.” (Chin, 2010, p.657), not focusing on maximising the explained variance (R² values) as in PLS (Hair et al., 2011). In other words, the most often applied maximum-likelihood (ML) algorithm used in CB-SEM looks at the best possible fit between model parameter estimations and the covariance found in the data sample (Chin, 1998). In contrast to CB-SEM,
which is more suitable for theory testing/confirmation, PLS-SEM is more suitable for exploring or extending existing theory, due to its prediction-oriented capabilities (Hair et al., 2011).

In recent years, PLS structural equation modelling has been applied in several research fields, such as international marketing (e.g. Henseler et al., 2009), organisational and management research (review of several studies by Rönkkö and Evermann, 2013), marketing (e.g. Hair et al., 2012b) as well as strategic management (e.g. Hulland, 1999, Hair et al., 2012a). A major criticism brought forward by several academics is the seemingly less rigorous methodology and therefore it is accompanied by some scepticism over its capacity to examine relationships between latent variables (e.g. Rönkkö and Evermann, 2013, Hair et al., 2011) – an issue that will be addressed further in section 6.5.1 below.

Several reasons for using variance-based techniques, such as PLS, were discussed in the literature. First and foremost, its exploratory nature (Wold, 1974, Henseler et al., 2014) is one of the distinguished features of PLS. The authors explicitly point to the application of PLS in cases of fragmentary theory, where the overall objective is prediction and theory development (see also Hair et al., 2011). Second, when sample sizes are relatively small PLS is able to deliver more robust results (Hair et al., 2011). Thirdly, PLS can handle high complexity in the model and both formative (indicators cause the latent variable (LV) – arrows point to the LV) and reflective (indicators are caused by/are functions of the latent variable – arrows point to the indicators) measurement models, which is more restrictive in CB-SEM (Hair et al., 2011). A fourth issue raised is the data characteristics, i.e. non-normal distributions, which PLS is able to handle in contrast to CB-SEM (Hair et al., 2011).

6.5.1 Rationale for using PLS and the Assessment Approach

PLS is used as the appropriate data analysis method for two major reasons – the rather exploratory character of this research and its relatively sample size – both of which will be discussed in the following.

As the sales function, particularly in an MNE setting at the subsidiary level, has hardly been researched, theories from broader fields such as marketing, network theory, and strategic IB literature needed to be applied. The author aims to extend theories by the functional perspective, which also implied to adapt and develop in
particular two constructs, which were to the authors best knowledge not readily available in the literature: subsidiary importance (SUBIMP) and sales division (SALDIV). All other constructs, i.e. internal and external embeddedness as well as market performance, were operationalised with existing, well-tested constructs. Such an approach implies a more explorative character, where the aim is to further develop the existing IB theories by predicting and explaining the variance of the endogenous target constructs (Sales Division and Market Performance) (Hair et al., 2012a).

The second rationale and commonly discussed reason for using PLS as an analytical SEM technique is the possibility to operate with smaller sample sizes. Sample size clearly plays a pivotal role both in regards to determination of statistical power as well as that there is a minimum requirement for robust statistical estimations as such (Henseler et al., 2014). According to Reinartz et al. (2009), PLS operates statistically reliably with small sample sizes, which are typically well below 250 (e.g. n=100) and shows higher levels of statistical power than CB-SEM methods. Samples larger than 200 are suitable for CB-SEM, which in turn does not operate reliably with smaller samples (smaller than 200) (Reinartz et al., 2009). However, due to numerous debates regarding sample sizes (e.g. Reinartz et al., 2009, Rönkkö and Evermann, 2013, Hair et al., 2012a) it needs to be pointed out that there are several techniques to ensure the achievement of statistical power, besides the adherence to the rules of sampling, which in any case should be applied. Samples with a large heterogeneity obviously need more observations than those with less heterogeneity, to be statistically meaningful (Hair et al., 2013). Hair et al. (2014, p.20) suggest three techniques or rather “rules of thumb”, for evaluating the required sample size:

1) the ten-times rule (sample size needs to be at least 10 times “the largest number of structural paths directed at a particular construct in the structural model” (Hair et al., 2014, p.20))

2) Hair et al. (2014) use Cohen (1992) statistical power analysis and provide an overview where at a statistical power level of 80% minimum sample sizes required are shown at which significance level, with which minimum $R^2$ to be achieved, dependent on the number of paths pointing at a construct.

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19 The alternative ten-times rule is related to formative indicators, which will not be used in this research, i.e. disregarded in the discussion.
3) and/or several software programs of which the Hair et al. (2014) mention G*Power (http://www.gpower.hhu.de). Here specific model setups need to be inserted in the tool provided to run a power analysis.

All three rules have been applied as suggested, whereby Cohen (1992) was emphasised for its more precise approach than the simple ten-times-rule, as it includes several parameters (Hair et al., 2014). Regarding the ten-times rule, the construct with the maximum number of paths is “Sales Division” (with three paths), which implies a minimum of 30 observations to be taken into consideration. According to Cohen (1992), sample sizes between 59 and 38 should be utilized for detecting a minimum $R^2$ of 0.25 and 0.50 respectively at a 5% significance level with three arrows pointing at the construct (Hair et al., 2014) (see Appendix 12.5 for the Table applied here). Finally, the G*Power test also suggests statistical power given with a sample size of n=52 in connection with the model specifications.

Overcoming the perceptual shortcomings of the PLS method regarding its rigorous application, Henseler et al. (2009) particularly point to the methodological needs of PLS applications in the international marketing context and consequently deliver some guidelines using PLS within this context. In the same vein, as originally suggested by Chin (1998) and later refined by Hair et al. (2014), the analysis of the results will be split into two parts. The first part covers the evaluation of the measurements, often referred to as the “outer model” (Henseler et al., 2009), and only after having shown the adequacy of the measurements in regards to reliability and validity, the second step follows, where the validity of the structural model (the “inner model”) will be presented. Figure 6-1 summarizes the steps of the respective assessment. Such a rigorous approach ensures maximum transparency needed both for other researchers to potentially replicate the study and for researchers to deeply understand the research and its results.

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20 The software programme can be downloaded for free and comes along with a how-to-use guide.
6.6 The Response

The following sections will closely analyse the respondents, referring to the response rates and the respondent’s characteristics.

6.6.1 Response Rates

Achieving high response rates in IB research is still a major challenge in research, based on the historically low response rate in industrial population research (Harzing, 1997). By experience from the business side, with the ease to conduct surveys through online platforms, the number of survey requests in firms increase enormously. Such increase amounts to a decrease in willingness to participate in surveys, as the quality of surveys also varies drastically. The author tried to increase the response rate by using credible supporting institutions and, most importantly, addressing an up-to-date and, as all interview partners confirmed, very high-interest topic with to date hardly any transparency available. Nevertheless, 12 refusals from the online and six refusals from the mail survey were sent via e-mail. The author, furthermore, did not receive more than one survey per organisation at subsidiary level, considering the multiple respondents mentioned earlier.
Table 6-3 illustrates the response rates achieved during this study, separated by the two modes of survey – mail and online. Overall 84 people participated in the study leading to a rate of 33.2%, with almost 60% returns of the identified online sample and 17% of the mail survey sample. After excluding those surveys, which were terminated and thus showing high proportions of missing values, a total of 71 completed surveys were collected. Followed by a thorough analysis in SPSS, the author excluded four cases with extreme outliers (one case always answered on the right side) and a further 19 cases of firms that were too small (firms with less than 1,200 employees world-wide were omitted). Firm size measured by the number of employees (Xu et al., 2006, Gates and Egelhoff, 1986) had been assigned to the sample initially during the database set-up by using secondary data (company web sites, annual reports if available, portals such as “who-to-whom”). In some cases, however, data on the number of employees have not been published (particularly privately held firms), so that the author relied on the observed data, which indeed returned without missing data on this item at least on the MNE level (total number of employees in the MNE).

Consequently, these procedures resulted in 52 useable surveys, reflecting a very satisfying and certainly acceptable effective response rate of 20.6%, whereby the online sample shows still higher returns reaching 30.6% in comparison to the mail sample with 14.2%. Considering Harzing (1997), the overall effective response rate in this research can be considered larger than those identified particularly for Germany, where Harzing (1997) reported 15.5% in a cross-country comparison study.

<table>
<thead>
<tr>
<th></th>
<th>Total Sample Size</th>
<th>returned surveys</th>
<th>real response rate</th>
<th>useable surveys</th>
<th>effective response rate</th>
<th>verified useable surveys</th>
<th>final effective response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online</td>
<td>98</td>
<td>57</td>
<td>58.2%</td>
<td>46</td>
<td>46.9%</td>
<td>30</td>
<td>30.6%</td>
</tr>
<tr>
<td>Mail</td>
<td>155</td>
<td>27</td>
<td>17.4%</td>
<td>25</td>
<td>16.1%</td>
<td>22</td>
<td>14.2%</td>
</tr>
<tr>
<td>Total</td>
<td>253</td>
<td>84</td>
<td>33.2%</td>
<td>71</td>
<td>28.1%</td>
<td>52</td>
<td>20.6%</td>
</tr>
</tbody>
</table>

Table 6-3 – Overview Response Rates

The high online-response rate is presumably accounting for both the measures taken to increase the response rate (creating high credibility, using reputable institutions, etc) and the comparably more “convenient”, easy to use online survey (Ilieva et al., 2002).
The HQ sample, consisting of 22 contacted senior sales managers, achieved much higher results, where 13 usable surveys accounted for a 59% response rate. Again in line with findings in Harzing (1997) the response rates of HQ samples reached 21.8% in her study, which was higher than those at subsidiary level in Germany as pointed out above. In addition to the facilitating factors mentioned above, most likely the relatively small network the respondents are linked into accounted for such a high effective response rate.

6.6.2 Structure and Characteristics of Respondents

Being faced with a relatively small sample in comparison to research on cross-industry or cross-country studies, the structure of the respondents was analysed showing, despite its size, the subsidiary sample to be representative. Although the HQ sample was intentionally recruited for validation purposes, thus only a very few data sets are available, the author also presents relevant HQ respondent characteristics in the following tables.

First of all, as broken down in Table 6-4, key respondents are, as targeted, sales managers mostly at director or very senior levels, which represent a strong expertise in the field of sales. In combination with the 44% of the respondents being more than 10 years in the current company in question, this supports the level of expertise assumption (please see the Appendix 12.4, Table 12.4 for detailed data). Equally at HQ level, the majority of responses reflect senior sales managers with longer than 10 years of experience within the organisation. Typically, from experience, sales managers at HQ level have a long career in the field of sales, including side steps into marketing or general management.

<table>
<thead>
<tr>
<th>Subsidiary Level</th>
<th># of respondents</th>
<th>in %</th>
<th>HQ Level</th>
<th># of respondents</th>
<th>in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Manager</td>
<td>6</td>
<td>11.5</td>
<td>3</td>
<td>23.1</td>
<td></td>
</tr>
<tr>
<td>Board Management Sales / Marketing</td>
<td>11</td>
<td>21.2</td>
<td>1</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>Sales Director</td>
<td>22</td>
<td>42.3</td>
<td>8</td>
<td>61.5</td>
<td></td>
</tr>
<tr>
<td>Marketing Director</td>
<td>1</td>
<td>1.9</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Senior Sales Manager</td>
<td>9</td>
<td>17.3</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Key Account Manager / Global KAM</td>
<td>3</td>
<td>5.8</td>
<td>1</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
<td>13</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Table 6-4 - Current Positions held by Respondents
So clearly the respondents are experts in their field, i.e. sales, and are thus ideal to explore this function more deeply. Secondly, the overall size of the MNE and its German subsidiary may play a role when it comes to the analysis of the key constructs. Figure 6-2 illustrates the distribution of MNEs according to the overall size, grouped into reasonable size-ranges. Concluding from the secondary data gathered for those available, the cut-off point for MNEs was about 1,200, where most of the MNEs concerned only had a small number of subsidiaries operating worldwide (mostly below 10) and thus were not considered for analysing. About 40% of the respondents (both at subsidiary with 18 and HQ with 5 respondents) are employed in MNEs with up to 5,000 employees (n=45 sub, n=13 HQ). Accumulated, 69% of the subsidiary sample is represented by firms reaching up to 15,000 employees. Only a very few organisations can be considered as very large.

![Figure 6-2](chart.png)

**Figure 6-2 – Spread of MNE Sizes by total # of Employees**

As shown in Figure 6-3, subsidiary sizes are more evenly spread at least among the subsidiary respondents. The author received 47 and 13 answers from subsidiary and HQ respondents respectively. The majority of subsidiaries, in both samples, employ between 100 and 500 employees (12 and six respondents accordingly). However, one can also see some very large subsidiaries, where sizes from 1,000 employees upwards represent 1/3 of the respondents (about 36% accumulated). A reason may be the relatively high proportion of German HQs represented in the sample (see further...
below) and/or the size of the German economy, which potentially facilitates subsidiaries with a larger spectrum of value chain activities other than sales, marketing or HR and Finance. This is a factor the author will return to during the analysis.

Another measure to firm size, in particular subsidiary size that was employed was the relative size of the subsidiary in relation to the MNE’s turnover (Table 6-5). Subsidiary sizes are predominantly in the range 1-10% of the MNE sales turnover, which is also reflected by the HQ respondents being asked for the German subsidiary size of the respective firm. The majority of subsidiaries – 63% and 69% respectively – in the FMCG sample represent up to 20% of the MNE’s total sales turnover. Subsidiaries with a very high proportion of sales turnover, are less frequent, however, 14% still represent between 41-50%.

<table>
<thead>
<tr>
<th></th>
<th>less than 1%</th>
<th>1-10%</th>
<th>11-20%</th>
<th>21-30%</th>
<th>31-40%</th>
<th>41-50%</th>
<th>more than 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidiary</strong></td>
<td># of respondents</td>
<td>1</td>
<td>22</td>
<td>10</td>
<td>7</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Respondents</td>
<td>in %</td>
<td>1.9</td>
<td>42.3</td>
<td>19.2</td>
<td>13.5</td>
<td>1.9</td>
<td>13.5</td>
</tr>
<tr>
<td><strong>HQ</strong></td>
<td># of respondents</td>
<td>-</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Respondents</td>
<td>in %</td>
<td>46.2</td>
<td>23.1</td>
<td>7.7</td>
<td>15.4</td>
<td>7.7</td>
<td></td>
</tr>
</tbody>
</table>

Table 6-5 – Size of the Subsidiary relative to the MNE
Thirdly, the author considered the age of the MNE and German subsidiaries by measuring the respective year of establishment (n=35). As shown in Table 6-6, the respondents’ firms are predominantly established in the first half (and some even before, e.g. 1823!) of the past century, though it can also be seen that subsidiaries are until recently getting established in Germany, though to a much lower proportion.

<table>
<thead>
<tr>
<th>Year of Foundation</th>
<th>German Subsidiary</th>
<th>MNE overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of respondents</td>
<td>in %</td>
</tr>
<tr>
<td>until 1950</td>
<td>13</td>
<td>37.1</td>
</tr>
<tr>
<td>1951 - 1980</td>
<td>8</td>
<td>22.9</td>
</tr>
<tr>
<td>1981 - 2000</td>
<td>8</td>
<td>22.9</td>
</tr>
<tr>
<td>2001 - 2015</td>
<td>6</td>
<td>17.1</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 6-6 – Years of Establishment of MNE and the German Subsidiaries

A closely connected issue is the status of the subsidiary, which was included in the survey, leading to an unsurprising answer of 50 subsidiaries being wholly owned and two missing values. Presumably this can be reflected back to two issues: one is the long period of establishment of subsidiaries in Germany and the other is the relative ease (administratively, politically, legally) of firm establishment in the country.

Fourthly, the sample has a relatively high proportion of HQs located in Germany as illustrated in Figure 6-4. The large number of German firms is arguably grounded in the fact that particularly the Food segment has operated predominantly locally in the past. Only in the past few decades have firms grown into “real” MNEs beyond merely exporting products into different markets. All subsidiary respondents indicating a German HQ are at the same time managers of German subsidiaries. Having two locations or business entities can be attributed again to the economical weight of the country as well as in some cases for administrative reasons, such as reporting, planning, budget allocation, etc. In contrast, a large number of firms exist without a separate German affiliate (called “Stammhaus” in German), which are predominantly privately held firms and typically small to medium sized international firms (e.g. Alfred Ritter GmbH & Co. KG, “Ritter Sport” chocolate or Griesson de Beukelaer, “Prinzenrolle” cookies and biscuits) and have not been considered here.
The respondents show a similar distribution in relation to the total sample recruited as seen in Figure 6-4. It can thus be ensured that 46% of the sample (24 cases) has its HQ located elsewhere than Germany, leading to the representativeness of the sample. For a more detailed country breakdown see Appendix 12.4, Table 12-5.

The respondents from the HQ sample respondents are predominantly employed in German HQs, where seven senior sales managers returned the survey. A broad recruitment particularly of sales managers in foreign countries was beyond the scope of this research project (time and budget), as it would necessarily have involved close contact development with respective HQs. Nevertheless, several respondents represent HQs located in different countries by means of contacting potential respondents through members of the AIM network. This led to responses from HQs located in France (2), Sweden, the UK, the US and Czech Republic (1 each), which is thus slightly different in locations to the main subsidiary sample (e.g. Sweden, CZ).

Finally, the split of the sample regarding the particular sector the consumer goods organisations were operating in (Table 6-7) was closely monitored. From the original 100 Food sector sample, 27 respondents completed the survey, representing already...
slightly above half of the 52 responses available. Thus within this group the highest response rate could be achieved, potentially also reflecting the urge of getting to know more about the strategic perspective of the sales function. The other two groups, Near and Non-Food, are well represented with 21% and 27% respectively.

<table>
<thead>
<tr>
<th></th>
<th>Total Sample</th>
<th>in % of total</th>
<th>Final Survey Result</th>
<th>response rate per category in %</th>
<th>in % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>100</td>
<td>39.5</td>
<td>27</td>
<td>27.0</td>
<td>51.9</td>
</tr>
<tr>
<td>Near Food</td>
<td>52</td>
<td>20.6</td>
<td>11</td>
<td>21.2</td>
<td>21.2</td>
</tr>
<tr>
<td>Non-Food</td>
<td>101</td>
<td>39.9</td>
<td>14</td>
<td>13.9</td>
<td>26.9</td>
</tr>
<tr>
<td>Total</td>
<td>253</td>
<td>100</td>
<td>52</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 6-7 – Responses according to segments: Food, Near and Non-Food

Conclusively, the respondents can be said to be representative of the population sampled regarding expertise, size and age splits as well as the HQ location. In addition, the split of the Food, Near and Non-Food sections can be considered to be representative, considering all proportions (well) above 20% of the final respondents distribution.

### 6.7 Summary

This chapter outlined the research design used for this study, discussing the reasons for having chosen a mixed-methods approach, where both semi-structured interviews and mail/online surveys were utilized for primary data collection. Both methods and procedures were explained in detail. Regarding the quantitative data analysis, the author discussed and justified the use of PLS-SEM as a data analysis method, outlining its two-step assessment procedure. Finally, the structure and characteristics of the respondents are briefly described.
7. Measures and Descriptive Data Analysis

7.1 Introduction

The objectives of this chapter are to review potential biases, which can occur in any research, to provide a detailed description of the operationalisation of the constructs utilised and to present a descriptive data analysis. In particular the descriptive data analysis provides some interesting findings relevant for the explanation of the structural model, to be analysed in the following chapter.

The chapter is structured in three parts: firstly, test results for response biases, the early-late response bias and the common method bias will be discussed in section 7.2; secondly, in 7.3 the definition of the concepts as well as the operationalisation of the constructs for the quantitative data analysis will be discussed; thirdly, the following sections within 7.4 are dedicated to descriptive data analysis exploring the five main constructs of the research model. It presents data analysis regarding the subsidiary characteristics, the sales function as well as the sales strategy as such. Section 7.5 closes this chapter with a summary.

7.2 Reviewing Potential Biases

7.2.1 Non-Response Bias

A non-response bias typically occurs as a source of measurement error, when respondents completing the survey are significantly different from those who are not participating in the survey (non-respondents) (Van Goor and Van Goor, 2007). Since data of non-respondents is hardly available, literature suggests an alternative method, comparing answers of early versus late respondents within a survey (Armstrong and Overton, 1977). A basic assumption is the potential resemblance between those being late respondents (those answering after the second reminder) and those not responding at all, as late respondents would most likely not have answered without a second reminder.

The corresponding independent t-tests conducted in SPSS showed no significant (i.e. p-values results all above 0.05), differences between the early and the late respondents in all key constructs measured (as outlined in section 7.3). The t-test calculation also includes the Levene-test, preceding the t-test, showing that equal
variances can be assumed. These results therefore suggest a minimised non-response bias in the sample data.

7.2.2 Common Method Bias
Common method bias refers to a systematic measurement error, occurring through the measurement method, which may influence the measurement’s variance (Podsakoff et al., 2003, Temme et al., 2009). Literature provides a wide range of potential sources of common method bias and measures to control its occurrence, whereby Podsakoff et al. (2003) deliver a comprehensive overview. Regarding the present research, the author tried to minimize the risk for common method bias by implementing the following provisions. Four categories of common method bias were identified by Podsakoff et al. (2003, pp.881-883), the single source responding to both exogenous and endogenous latent variables (“common rater effect”), the questions being unclear, suggestive or ambiguous, the sequence of questions in relation to the context of the questions and finally the measurement context, i.e. whether the survey is conducted in one medium only.

The first potential source was somewhat counterbalanced by also conducting this survey at HQ level, which posed a challenge in terms of timing and budget constraints. However, from the small HQ sample the author could identify five HQ-subsidiary pairs, which were analysed as dyads, though accounting for anonymity will not be further referred to explicitly. Being able to establish these pairs is beneficial for evaluating at least three critical key constructs, where subjectivity potentially plays a role: subsidiary importance, the division of strategic sales activities and market performance.

A second source refers to the survey questions (i.e. the items), which the author was carefully evaluating during the aforementioned pilot-tests, making sure all items are easy to comprehend, unambiguous, certainly not suggestive in any form and clearly formulated. As also described above, scales and type of questions varied throughout the survey, keeping respondents “active”. Additionally, on the introductory page (online and mail surveys) respondents were assured that there are no “right” or “wrong” answers to the survey’s questions. Furthermore, providing anonymity is not just essential to achieving higher response rates, but also reducing the likelihood of socially desirable answers, for example.
The sequence of questions as mentioned previously (see section 6.4.1) plays another vital role and was accounted for. Finally, the survey was conducted in a mixed mode approach, i.e. trying to avoid the so-called “selection bias” as a potential common method bias source (Podsakoff et al., 2003). Overall, it can be concluded, that sources of common method bias were accounted for and it is therefore likely to be minimised, knowing, that there is no possibility to actually preclude common method bias altogether.

Statistically, literature recommends the “Harman’s single factor test” (Podsakoff et al., 2003), which is also critically discussed, for example by Temme et al. (2009) as well as Podsakoff et al. (2003), due to its potential shortcomings. However, in the case of the present research, where only a very limited number of multiple sources per case could be provided as well as anonymity being promised, alternative statistical methods are limited accordingly. Podsakoff et al. (2003, pp.898-899) also conclude recommending the “Harman’s single factor test” in these situations.

Technically, in an exploratory factor analysis conducted in SPSS, loading all relevant variables determining the number of variables needed to account for the variance in the variables (Podsakoff and Organ, 1986). The majority of covariance between variables is explained by more than one factor (five factors with Eigen values above 1 were identified) (so-called "Kaiser-Criterion" according to Backhaus et al., 2011, p.359), which accumulated account for 73.065% of the total variance. The factor accounting for the highest Eigen value (3.215) explains 20.093 of the total variance. It can thus be assumed that common method bias is rather low, not negatively affecting the results of the present research.

### 7.3 Definition of Concepts

In order to empirically research the theoretical model and hypothesized causal relationships developed in the previous chapters (see Figure 5-2), the concepts and construct measures have been extracted from established research, where possible and fine-tuned or in some cases built from the interview findings. The key concepts have been defined in the literature and hypothesis development chapters (chapters 3-5) respectively and will be summarized below (Table 7-1).
<table>
<thead>
<tr>
<th>Definition of the Concepts</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Embeddedness</strong></td>
<td>Ciabuschi et al. (2014), Yamin and Andersson (2011)</td>
</tr>
<tr>
<td>External embeddedness is reflected by the depth of its business-related activities in external networks relationships</td>
<td></td>
</tr>
<tr>
<td><strong>Internal Embeddedness</strong></td>
<td>Ciabuschi et al. (2014), Yamin and Andersson (2011)</td>
</tr>
<tr>
<td>Internal embeddedness is defined as the depth of business-related activities in internal/corporate network relationships, to both HQ and sister affiliates. It reflects the ability to integrate and communicate special competencies to the MNE.</td>
<td></td>
</tr>
<tr>
<td><strong>Subsidiary Importance</strong></td>
<td>Yamin and Andersson (2011, p.151 and 154)</td>
</tr>
<tr>
<td>Subsidiary importance reflects the extent to which a specific knowledge and competence at the subsidiary level is being recognised and made use of by the MNE.</td>
<td></td>
</tr>
<tr>
<td><strong>Division of Strategic Sales Activities</strong></td>
<td>On the basis of Voeth and Buyun (2011, p.166 and 169)</td>
</tr>
<tr>
<td>Division of Strategic Sales Activities is the extent to which strategic sales decisions are taken and resulting activities are performed at subsidiary level.</td>
<td></td>
</tr>
<tr>
<td><strong>Market Performance</strong></td>
<td>Andersson et al. (2001b, p.7), Forsgren et al. (1999)</td>
</tr>
<tr>
<td>Market performance relates to the performance measured against a subsidiary’s own objectives as success in the local market competing with other local players. A subsidiary’s market performance is assumed to be dependent on its business relationships.</td>
<td></td>
</tr>
</tbody>
</table>

Table 7-1 – Definition of Key Concepts

As these concepts are rather abstract, not directly observable and somewhat complex, one needs to establish indirect measures, the indicators, which are used as proxy variables for the respective construct in question. The combination of a construct’s indicators leads to scales, which indirectly measure the construct – which is also called the latent variable (LV).

Besides the possibility to establish formative measurement (arrows point toward the LV and thus indicators causing the construct’s measurement) or reflective measurement (arrows point from the LV to the indicators, i.e. assuming the LV causes the indicators’ measurements) models (e.g. Hair et al., 2010), researchers also have to decide to build single-item or multi-item constructs. The present research will solely use reflective items, where the items of a particular construct should be highly correlated with each other, and omitting one item of a multi-item scale should not change the meaning of the construct itself (Hair et al., 2014).
Furthermore, all key constructs in this research will be measured through several indicators, i.e. being multi-item constructs. Multi-item constructs are recommended in case of constructs being rather vague and complex (Bergkvist and Rossiter, 2007, Fuchs and Diamantopoulos, 2009). As discussed in Fuchs and Diamantopoulos (2009), a construct should even be multi-item measured if the construct to be measured is relatively clear and concrete but answers may potentially be dishonest. This way, items measuring the constructs will be verified or validated through a second (or third) item (Fuchs and Diamantopoulos, 2009).

In case of moderator or control variables, which tend to be more concrete or unidimensional in nature (Fuchs and Diamantopoulos, 2009), the author also uses some single-item constructs.

7.3.1 Operationalisation of Constructs

According to the considerations briefly discussed, the operationalisation of the key constructs will be presented and summarized in Table 7-2. This research model will be measured by three independent (exogenous) variables: external and internal embeddedness, and subsidiary importance. Although subsidiary importance will be influenced by both external and internal embeddedness, it is considered to be an exogenous variable in the context of the model in place, where the other two focal constructs are the division of strategic sales activities and market performance. These latter two latent variables represent the endogenous, i.e. dependent, variables which will complete the model. Regarding the analysis of the constructs, subsidiary importance will nevertheless be treated as an endogenous variable following the rigorous analytical process.

Referring to the literature discussed in chapter 3, both external and internal embeddedness are constructs, which are discussed and empirically researched achieving good performance for many authors (e.g. Andersson et al., 2002, Ciabuschi et al., 2014, Yamin and Andersson, 2011, Garcia-Pont et al., 2009). In line with the context of the present research, the widely used 7-point Likert scale to measure the closeness of the relationships was chosen, the interaction intensity (adaptation in case of external embeddedness and cooperation with high frequency for internal embeddedness) between the network participants and the length of the relationship respectively. The indicators have been slightly adapted to the context of the sales function.
<table>
<thead>
<tr>
<th>Construct</th>
<th>Indicators</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Embeddedness</strong></td>
<td>A101_1 You have a close business relationship in terms of sales of goods and services</td>
<td>Ciabuschi et al. (2014)</td>
</tr>
<tr>
<td></td>
<td>A101_2 You have adapted your resources and activities very much to this counterpart</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A101_3 The counterpart has been important for the business for a very long time</td>
<td></td>
</tr>
<tr>
<td><strong>Internal Embeddedness</strong></td>
<td>A105_1 Headquarters has fully supported your interest in developing a sales strategy</td>
<td>Ciabuschi et al. (2014)</td>
</tr>
<tr>
<td></td>
<td>A105_2 The cooperation with headquarters has been characterized by frequent interaction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A105_3 Business activities and practices are closely linked (interrelated) between headquarters and subsidiary</td>
<td></td>
</tr>
<tr>
<td><strong>Subsidiary Importance</strong></td>
<td>To what extent is your subsidiary important for other sister subsidiaries?: A201_3 … key account management/organisation development A201_6 … sales strategy development A202_1 To what extent is your subsidiary important for the exchange of sales related best practices to other sister subsidiaries? A202_2 To what extent has your subsidiary been asked to provide input to a centralized global sales strategy development?</td>
<td>Yamin and Andersson (2011), Garcia-Pont et al. (2009)</td>
</tr>
<tr>
<td><strong>Division of strategic sales activities</strong></td>
<td>A303_01 To what extent is the decision on customer segmentation and prioritization being taken at subsidiary level? A303_02 To what extent are decisions on customer relationship management strategies (e.g. the quality of relationships) taken at subsidiary level? A313_01 The decision on price promotions are taken by the subsidiary</td>
<td>Cavusgil and Zou (1994), Panagopoulos and Avlonitis (2010)</td>
</tr>
<tr>
<td><strong>Market Performance</strong></td>
<td>How do you judge your subsidiary’s achievements for A402_01 … increasing sales turnover A402_03 … increasing market share A403_01 how do you consider the development of your firm’s sales growth compared with your main competitors in Germany in the past five years?</td>
<td>Andersson et al. (2001b), Hult et al. (2008), Solberg (2002), Andersson et al. (2002), Venkatraman and Ramanujam (1986)</td>
</tr>
</tbody>
</table>

Table 7-2 – Overview of the Constructs’ Operationalisation

Subsidiary importance is a construct which the author needed to rebuild and adapt to the context of the research, i.e. the sales function at subsidiary level. Yamin and
Andersson (2011) used two well-established items (to date) explaining the construct subsidiary importance, namely, a subsidiary’s importance for product and production development to other subsidiaries in the MNE network. In the context of the sales function within the MNE, these proxies were likely to be inappropriate for sales managers. The author decided to keep these two indicators (A201_1 and A201_2), however, reflecting the functional specificity and based in the interview findings, developed a new scale, with four new and adapted versions of these proxies (A201-3 to A201_6 see Appendix 12.3.3 for full list). Additionally, two items from Garcia-Pont et al. (2009) were adapted (A202_1 and A202_2).

Both established items failed in the factor analysis – not correlating with the other six items, presumably because traditionally sales managers are neither involved in production, nor directly in product development (albeit indirectly sales is very often involved – stating new ideas from “outside” or reflecting on products in early product-development-stages) and were removed from the construct measurement. The remaining six items were closely evaluated. Four items (A_201_3-6) were very close content wise, which is accounted for by the fact that a maximum of potential factors needed to be included to be able to fine-tune afterwards. From the factor matrix the first two items were chosen and carefully evaluated regarding the closeness of the content, which are (A201_3) “… key account management/organisation development” and (A201_6) “…sales strategy development”. Additionally, both questions referring to the transfer of best practices are used as these are also pointing to the extent to which a subsidiary is able share valuable knowledge being important for and desired by other subsidiaries. Again, factor analyses showed sufficient correlation patterns to the previously reported items and have therefore been selected (A202_1 and A202_2) as shown in Table 7-2.

The focal construct of this research, the division of strategic sales activities, which aims at measuring the extent to which strategic sales activities are carried out at HQ or subsidiary level, has been newly developed by the author. Inspired and guided by existing literature in the marketing field, such as Cavusgil and Zou (1994) and Panagopoulos and Avlonitis (2010), measures of the literature identified in the area of sales strategy were used (e.g. Homburg and Wieseke, 2011, Backhaus et al., 2011, Ingram et al., 2002, Homburg et al., 2008b, Voeth and Buyun, 2011). Here also a number of identified indicators were included into the questionnaire, to ensure the
largest possible validation across the items towards the construct (Fuchs and Diamantopoulos, 2009, Nitzl, 2010). Clearly, as in subsidiary importance, this construct also needed to be thoroughly analysed before utilizing the construct in the model.

The five indicators (see full list in Appendix 12.3.3) selected for the questionnaire do not represent the full spectrum of strategic sales activities as outlined in Table 4-2. In particular questions on pricing (base price strategy) and the interrelated issues of discounts, rebates as well as international pricing have been left out on purpose. According to the interviews and by own experience, pricing topics are highly competitive, therefore very sensitive, leading to potentially biased or even untrue answers. Consequently, answers would most likely have distorted the construct values, leading to the decision to omit these otherwise very important and interesting indicators. Instead, more visible and less critical items have been used, such as promotion pricing and a condensed item containing discounts, trade terms and conditions (A212_01 and A311_01). Customer segmentation and prioritisation (A303_01), customer relationship management strategies (A303_02) as well as target and sales budget setting (A314_02) were chosen to be appropriate and also the most frequently mentioned items in the interviews (by all interview partners), supporting the final choice of indicators to be used. Furthermore, the sales channel dimension has not been utilized, as Germany is a fairly stable, consolidated market, where the established industry has no need to decide on trade channels.

Two of the items had to be discarded from the factors establishing the construct, which were (A311_01) “The decision on discounts, trade terms and conditions is taken at subsidiary level” and (A314_02) “The subsidiary decides locally on sales targets and decides the size of the sales budget”. The latter variable could not be used due to a mistake in the order of sub-questions within the questionnaire, which neither the author nor the piloting group discovered. On the contrary, the pilot group answered on this question meaningfully, presumably most due to high concentration and thus focus on each question. So, whereas the preceding questions (consisting of two questions each) always started with the question whether or not the item was locally decided, the question on targets and sales budget was first asked for the centrality and then the locality of the item. As the response cases showed no clear pattern (some peak on either side towards the extreme), a factor analysis confirming
this finding and considering this item to not correlate with the other four items in this group, the item therefore had to be omitted.

Considering the discount, trade terms and conditions item, the factor loading was too low with 0.54, measured in SmartPLS (Ringle et al., 2005), thus well below the threshold value of 0.7. The author critically reflected this item post-hoc considering “discount, trade terms and conditions” to be complex in nature as it can be regarded as the sum of what is meant to be the framework of negotiations and thus one central element of strategic sales. The respondents therefore potentially did not grasp the item in its complexity, which leads to possible misconceptions. Ideally, the item should have been split at least into discounts and terms & conditions. Also, running a SPSS factor analysis independently, the item turned out to not correlate too strongly with the other remaining three strategic activities.

Finally, market performance is a construct, where the author builds on well-established indicators allowing for recommendations made by Hult et al. (2008), and Venkatraman and Ramanujam (1986) to utilise several types of performance, i.e. financial, operational performance and overall effectiveness. The three resulting indicators focus on the performance of the subsidiary in the market place as an indicator of (well-)established business relationships (Forsgren et al., 1999).

### 7.3.2 Control and Further Influential Variables

Several influential and control variables were included in the questionnaire allowing for testing potential group heterogeneity within the sample as well as investigating the influence of other variables on the built model.

The first variable is the ‘age’ of the subsidiary captured by an open question asking for the year of establishment. Literature suggests that the longer a subsidiary operates in a local market, the more it is externally embedded (Najafi-Tavani et al., 2012, Forsgren et al., 2006, Uzzi, 1997). Related to the embeddedness argument, another argument to include subsidiary age is connected to the phase of internationalisation, where MNEs in their early phases rely on market information of local representatives. Local representatives have thus a certain leeway on strategic decisions due to a lack of market information at HQ (Solberg, 2000). It thus can be assumed that the degree of customisation or adaptation at early stages of a subsidiary operating in a market is higher than for well-established subsidiaries (Solberg, 2000).
A second variable is a subsidiary’s size relative to the MNE. Subsidiary size is captured by the subsidiary’s relative turnover in relation to the MNE (Meyer and Estrin, 2014), on a 7-point scale from less than 1% to more than 50% in steps of 10%. Another measure was employed, which is the number of employees both at the subsidiary and the MNE in total (Xu et al., 2006, Gates and Egelhoff, 1986).

Thirdly, the industry segments represented by the respondent were included to control for potential impacts due to the nature of products. Respondents were asked to choose from a predefined list, selecting their segment as well as the main product types the respective subsidiary is selling (Kotulla, 2012). The industry segments are well known in the FMCG industry (particularly in Germany), as research agencies, such as AC Nielsen established a classification of products and categories widely used in classical market share, sales and other sell-out performance indicators reports. The industry segments are food, near food and non-food, whereby food and near food products can be found in most supermarkets or food-related retail outlets. Non-food categories are sold in predominantly large super- and hypermarkets. An overview of the industry segments and adjunct product categories is provided in Appendix 12-2.

Fourthly, respondents were asked to state whether their subsidiary is directly managed by a regional HQ, which is a single-item measure answered with yes or no. If the respondent indicates yes, the location of the regional HQ should be indicated. Whether or not a subsidiary has a regional HQ can provide insights into potential differences between the two groups in relation to the causal relationships of the model.

Finally, the firm’s overall strategic orientation was measured to find any likely influence or interaction with the more local or global approach to sales strategy. Therefore existing and successfully employed scales on local responsiveness and global integration as originally established in Harzing (2000) and further refined in Scott-Kennel and Giroud (2015) were used. Firms being locally responsive, i.e. follow a multidomestic strategic approach are captured by a 7-point Likert scale (1 “not at all” to 7 “to a great extent”) asking for local product and practices adaptations, local competition orientation and whether markets are treated separately in each location (see question 26, indicators A501_01-03). Firms following a global strategic orientation, i.e. are more globally integrative, are represented by the
questions about whether their competitive position is defined globally and whether operations dispersedly located are globally closely interlinked (see question 27, using the same Likert scale as presented above, A502_01-02).

7.4 Descriptive Data Analysis

In this section, data will be described using simple tools of data analysis on the sample and the measurements. The descriptive statistical data analysis will also be used for the determination of location and dispersion parameters. The author uses mean values and standard deviations for the respective parameters, indicating those variables or constructs not captured with the model itself, delivering added information for the subsequent discussion. The model-related descriptive analysis results on all constructs and items are also summarised in the following chapter, Table 8-1 in section 8.2.1. Therefore the current section will focus on the findings beyond the basic data by focusing thematically on the constructs.

7.4.1 Subsidiary Characteristics

In addition to the data described in the respondent characteristics in section 6.6.2, some more relevant variables from the survey were analysed. One sub-research question aims at the overall strategic orientation of the MNEs in the sample, which has been measured for 51 subsidiaries with one respondent answer missing, depicted in Figure 7-1. Alongside with the findings of Johnson (1995) and Swoboda et al. (2014), the present research focusing on the FMCG industry shows all four strategy types as originally defined by Bartlett and Ghoshal (1989). The multinational strategic orientation dominates the FMCG sample (24 cases\(^{21}\)), which is in accordance with the findings of Harzing (2000).

Global and transnational strategic orientations are each represented by 10 cases, whereas, as in most research, the international strategic orientation is the least frequent form detected with only seven cases. Furthermore, four out of those seven firms show a tendency towards the multinational cluster. In addition, Table 7-3, indicates the number of firms according to its HQ countries per cluster in more detail. The small number in each of the four quadrants does not allow for further analysis of data in terms including these into the structural equation model.

\(^{21}\) Please note that some data points are stacked due to multiple occurrence appearing bold, i.e. not all data points are visible.
Referring to Figure 7-1, having conducted a SPSS cluster analysis, some seemingly inconsistency needs to be clarified regarding the cut-off-lines in the grid, which is grounded in the answering pattern of the sample. The mean value for global strategy orientation is 3.8, whereas the mean value of local responsiveness lies at 4.9. Both variables show an acceptable standard deviation of 1.3 and 1.4 respectively and the minimum and maximum values of both variables are on the scale of 1 to 7. Having observed a slight left-skewed distribution, where the median is higher than the arithmetic mean for the local responsiveness variable, may result into the slight cross-over in the multinational cluster as well as the more obvious shift of the international cluster into the area of the multinational orientation. In the latter case one would expect a low impact of forces to integration and responsiveness, however, it seems that the forces to responsiveness are perceived to be higher. Therefore, Figure 7-1 delivers only an indication of the industry’s strategic orientations. A more reliable cluster analysis, however, needs an increased number of cases.
Despite the shift of the clusters, breaking these clusters down into its HQ countries, the observations are in line with several findings in literature. The US firms are either transnational or globally oriented as well as there is the dominance of multinational oriented firms in Germany, which is according to expectations (Harzing, 2000).

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Global</th>
<th>Transnational</th>
<th>International</th>
<th>Multinational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Israel</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>24</td>
</tr>
</tbody>
</table>

Table 7-3 – HQ Countries associated with I/R Cluster

So, clearly also the FMCG industry sample follows the typology and respective characteristics for MNEs. There is still a dominant tendency to strategically respond to forces found locally in this particular industry. Only a few organisations in the sample so far manage to balance both forces to a certain extent following a more transnational strategic orientation.

**Key Finding 7.4.1**

- The majority of firms respond to local needs having a predominantly local strategy, being strategically multi- or transnationally oriented
7.4.2 The Role of External Embeddedness

The following comment was made by a sales director (German subsidiary of an international MNE in the FMCG food sector), whom the author interviewed prior to the survey:

"...we do see, that upon early customer involvement and offering here and there tailor-made solutions ... we will get ahead. [in relation to market performance] The customer is the overall measure of all things that count ..."22 (Dataset SUB 2, p.12).

This statement offers two key messages. One, a deep customer orientation is highly beneficial and, two, customers need to be centre stage regarding closer business involvement, i.e. deeply recognized within larger processes within the organisation.

In addition to the construct measurements used on external embeddedness, a further set of variables has therefore been included in the questionnaire. Following Yamin and Andersson (2011), the depth of external business relationships is further measured and supported by asking for the number of internal functional areas involved in customer relationships, showing the extensiveness of contact to business partners. The respondents were provided with a list of 10 possible functions (see Appendix 12.3.4, survey question 6) and one open answer box for potentially further functions. Since eight was the maximum number of functions reported in the responding sample, the groups were split evenly, to compare potential differences between highly and lower involved subsidiaries in their business relationships (see Table 7-4). Clearly, those subsidiaries where alongside the sales function further supporting functions are involved in customer relationships (i.e. other than sales) show even higher degrees of external embeddedness (highlighted in bold). Regarding market performance, the mean difference is significant ($p < 0.05$), which means those being more intensely networked to the customer through a broader range of internal functional areas show a higher perceived performance (see highlighted in bold) than those with a lower number of functions involved in the customer relationship. Therefore the depth of the external embeddedness eventually plays a role towards market performance through higher levels of mutual adaptation.

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22 Remarks referring to the broader context of the statement of the author are made in […] in non-italics.
This can also be translated into the “quality” of the customer relationship, where respondents were asked to describe their customer relationship strategy (Ingram et al., 2002) having their largest customers in mind providing four types to choose from (see Table 4-2 in section 4.4.1). Taking the customer relationship under closer analysis in relation to the depth of the external embeddedness of a subsidiary’s sales function by considering the investment in the customer through the involvement of many functions (Yamin and Andersson, 2011), the following observation can be made conclusively. The number of functional areas involved in a focal customer relationship significantly relate to two types of customer relationship strategies. Whereas transactional and solution oriented customer relationship strategies show similar mean values despite high or low numbers of functions involved, cooperating and collaborating relationships do differ significantly. Subsidiaries employing a cooperating customer relationship strategy to a rather high extent also show a high involvement of many functions in the respective customer relationships (mean value 5.48 vs. mean value of the low involvement group with only two to four functions of 4.74, \( p\)-value = 0.058). Even stronger and highly significant is the effect between collaborative customer relationship strategies and a high number of functions involved in the customer relationship, which can be significantly proven here (mean values 5.57 vs. 4.16, \( p\)-value = 0.007). The more the manufacturer invests into its customer relationship the greater the level of adaptation, i.e. working collaboratively, the better the market performance.

<table>
<thead>
<tr>
<th>Multi-item Construct</th>
<th>Total Sample (n=52)</th>
<th># of involved functions up to 4 (n=28)</th>
<th># of involved functions from 5 (n=23)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Embeddedness</td>
<td>5.93</td>
<td>5.80</td>
<td>6.09</td>
</tr>
<tr>
<td>Internal Embeddedness</td>
<td>4.50</td>
<td>4.21</td>
<td>4.87</td>
</tr>
<tr>
<td>Subsidiary Importance</td>
<td>4.32</td>
<td>4.01</td>
<td>4.66</td>
</tr>
<tr>
<td>Market Performance</td>
<td>4.97</td>
<td>4.68*</td>
<td>5.30*</td>
</tr>
</tbody>
</table>

Table presents: mean value and standard deviation; measurement scale 1 (min) to 7 (max)

\***p<0.000; **p<0.01; *p<0.05

Table 7-4 – The Involvement Effect of further Functional Areas
Key Findings 7.4.2

- The depth of the external customer relationship (degree of embeddedness) increases with the number of internal functional areas involved in the relationship.
- The deeper the customer relationship through involvement of several internal functional areas, the higher the perceived market performance.
- Higher degrees of external embeddedness can be achieved with cooperation/collaboration relationship strategies, and this goes along with higher numbers of functional areas involved in customer relationships.

7.4.3 Characterisation of the Sales Function

Taken from the interviews and the identified gap in the literature, there is an urgent need to understand the sales function more deeply and more importantly the strategic sales function. The author, therefore, included questions to the survey, enabling a deeper explorative analysis on the topic. The interviews reflect the still relatively unstructured approach to (global) sales strategy, which was expressed in:

“...we are trying to ...” (Dataset SUB 2, p.8 – in regards to implementing elements in several countries), “...we have tried global, we have tried Europe and we have tried Europe and global...” (Dataset HQ 2, p.18 – in regards to sales strategy and organising the sales function).

7.4.3.1 The Elements of a Sales Strategy

Regarding the strategic elements of a sales strategy, Datasets SUB 3, SUB 1 and HQ 2 stated customer (management) strategy/segmentation, channel strategy, pricing as well as trade terms and conditions strategy/concept as the key elements. SUB 3 (p.3) also mentioned price, promotion and placement strategy as the natural “...levers a sales person is carrying...”, which are now “strategically defined” to ensure greater efficiency. HQ 2 mentioned assortment, promotion and POS strategy as the key business drivers being accommodated in the trade terms and conditions strategy. The interviewee goes on:
“...pricing\textsuperscript{23} and profit related\textsuperscript{24} KPIs are the most difficult to standardize.”

(Dataset HQ 2, p.9),

which also reflects the current status of a global sales strategy being in place – being still in its infancy.

One question related to the elements investigated the current level of decision-making between HQ and subsidiary, asking: “to what extent is the decision on … taken at subsidiary level” scale 1 (not at all) to 7 (to a great extent), the following Table 7-5 shows the related mean values and standard deviations. As a result there is a high tendency for strategic sales decisions to be taken at subsidiary level, indicated by the relatively high scores.

<table>
<thead>
<tr>
<th>Sales Strategy Elements</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segmentation / Prioritization</td>
<td>6.02</td>
<td>1.21</td>
<td>6</td>
</tr>
<tr>
<td>Customer Relationship Strategy</td>
<td>6.25</td>
<td>0.99</td>
<td>4</td>
</tr>
<tr>
<td>Discounts Trade Terms &amp; Conditions</td>
<td>6.21</td>
<td>1.23</td>
<td>5</td>
</tr>
<tr>
<td>Price Promotions</td>
<td>6.42</td>
<td>0.78</td>
<td>4</td>
</tr>
<tr>
<td>Target and Resource Allocations</td>
<td>4.10</td>
<td>2.10</td>
<td>6</td>
</tr>
</tbody>
</table>

Table 7-5 – Main elements of a Sales Strategy

Another question tried to identify those strategic sales activities, which are most critical to central decision-making. Respondents had to rank the activities accordingly. Table 7-6 depicts these rankings indicating decisions on discounts, trade terms and conditions to be perceived most critical to be centralised/standardised. This is followed by decision-making on the segmentation and prioritization of customers, the target and resource allocation and finally customer relationship management strategy and price promotions being ranked with 4 and 5. It can therefore be inferred, that decisions regarding conditions paid to customers (i.e. the investment strategy) as well as the segmentation and prioritisation and consequently the target and resource allocation should ideally being made or at least strongly influenced at subsidiary level.

\textsuperscript{23}Pricing refers to the sales price to the customer/retailer.

\textsuperscript{24}profit related KPIs – ROI-based TTC like assortment, promotion, POS, etc
As the interview results indicated, most firms including those interviewed are still in the process of actually implementing a solid sales strategy, which as a result in most firms becomes not only a local but also a global discussion at the same time due to the pressures discussed in chapter 4.

“...our operations are very decentralised...” and “...decentralised structures means 2000 sales people working in different ways... therefore a standardised approach is needed now...” (p.7)

The manager goes on regarding the implementation of a standardised sales strategy:

“...needs to have top level support, otherwise it is not implementable.” (p.13)

Therefore another set of questions was included (adapted from Hesse (2004)), investigating the “status” of the sales strategy in place, which are shown in Table 7-7. The results exhibit that not all firms actually have yet a solid (strategic elements documented, structured) sales strategy in place, which points again to the need to investigate further, providing recommendations academically and to practitioners.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Segmentation / Prioritization (n=51)</th>
<th>Customer Relationship Strategy (n=50)</th>
<th>Discounts TradeTerms &amp; Conditions (n=48)</th>
<th>Price Promotions (n=49)</th>
<th>Target and Resource Allocations (n=51)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>29,4%</td>
<td>24,0%</td>
<td>33,3%</td>
<td>14,3%</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>23,5%</td>
<td>16,0%</td>
<td>20,8%</td>
<td>20,4%</td>
<td>23,5%</td>
</tr>
<tr>
<td>3</td>
<td>11,8%</td>
<td>18,0%</td>
<td>18,8%</td>
<td>22,4%</td>
<td>29,4%</td>
</tr>
<tr>
<td>4</td>
<td>23,5%</td>
<td>22,0%</td>
<td>12,5%</td>
<td>20,4%</td>
<td>21,6%</td>
</tr>
<tr>
<td>5</td>
<td>11,8%</td>
<td>20,0%</td>
<td>14,6%</td>
<td>22,4%</td>
<td>25,5%</td>
</tr>
</tbody>
</table>

Table 7-6 – Rank order of Sales Strategy Elements Critical for Centralisation

<table>
<thead>
<tr>
<th>Status Strategy Implementation</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent is your sales strategy well documented?</td>
<td>4.81</td>
<td>1.75</td>
<td>6</td>
</tr>
<tr>
<td>Your sales objectives, strategy and strategic activities can be described as excellent</td>
<td>4.83</td>
<td>1.52</td>
<td>5</td>
</tr>
<tr>
<td>The governance of your sales objectives, strategy and strategic activities can be described as excellent</td>
<td>5.06</td>
<td>1.66</td>
<td>6</td>
</tr>
<tr>
<td>To what extent does your subsidiary ensure a pay-for-performance system?</td>
<td>5.25</td>
<td>1.49</td>
<td>6</td>
</tr>
</tbody>
</table>

Table 7-7 – Status of Sales Strategy Implementation

Based on the just-above mean level of having a sales strategy well documented, the just-above mean answers to the second question regarding excellent objectives and
strategic sales activities in place leave room for improvement. It strengthens the argument of an urgent need to develop knowledge in this field.

<table>
<thead>
<tr>
<th>Sales Strategy Implementation</th>
<th>Total Sample (n=52)</th>
<th>low (scale 1 to 4) (n=20)</th>
<th>high (scale 5 to 7) (n=32)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Embeddedness</td>
<td>5.93</td>
<td>5.60</td>
<td>6.14*</td>
</tr>
<tr>
<td></td>
<td>0.89</td>
<td>1.17</td>
<td>0.59</td>
</tr>
<tr>
<td>Internal Embeddedness</td>
<td>4.50</td>
<td>4.15</td>
<td>4.72</td>
</tr>
<tr>
<td></td>
<td>1.39</td>
<td>1.52</td>
<td>1.28</td>
</tr>
<tr>
<td>Subsidiary Importance</td>
<td>4.32</td>
<td>4.24</td>
<td>4.37</td>
</tr>
<tr>
<td></td>
<td>1.49</td>
<td>1.36</td>
<td>1.58</td>
</tr>
<tr>
<td>Div. Strat. Sales Activities</td>
<td>6.23</td>
<td>6.10</td>
<td>6.30</td>
</tr>
<tr>
<td></td>
<td>0.80</td>
<td>0.82</td>
<td>0.79</td>
</tr>
<tr>
<td>Market Performance</td>
<td>5.06</td>
<td>4.68</td>
<td>5.16</td>
</tr>
<tr>
<td></td>
<td>1.04</td>
<td>1.36</td>
<td>1.02</td>
</tr>
</tbody>
</table>

Table presents: mean value and standard deviation; measurement scale 1 (differentiated strategy) to 7 (standardized strategy) 4 represents the middle position

***p<0.000; **p<0.01; *p<0.05

Table 7-8 – Influence of Level of Sales Strategy Implementation

Table 7-8 above, shows the result of an analysis based on the findings above and linking these to the model discussed in Chapter 5. Comparing now those subsidiaries having higher and lower average levels of sales strategy implementation, it can be observed that all constructs are valued slightly or significantly higher in case of a high level of sales strategy documentation, governance, pay-for-performance and objectives. Two factors are particularly interesting. External Embeddedness scores significantly better than the low implementation level group, which means that with a clear sales strategy, the customer relationship seems tighter too. Focusing on market performance, one can observe a positive influence of having a solid sales strategy in place, as the mean score is higher in this case as well.

7.4.3.2 The Status of “Global” within the Sales Strategy

Since the FMCG industry has a strongly national sales function history, the author included a question to get an impression of where subsidiaries and HQs perceive themselves to be in the process of globally integrating the sales function. The level of development regarding the global sales strategy can be observed in the following Figure 7-2, which reflects the subsidiary respondents’ perception towards the level of global integration (standardisation) of their respective sales strategies.
Both groups responding to this question showed a similar pattern, whereby the HQ group (n=13) indicated a slightly higher tendency towards the global strategy. Overall, there is an obvious shift from predominantly local sales strategies over five years ago with only very few respondents to be observed showing a tendency towards a more globally integrated sales strategy (less than five firms showing only a slight tendency towards global). The number of purely local strategies declines, though still represents a relatively large number overall during the more recent years. Figure 7-2 also shows an increase of firms with a globally integrated sales strategy over the same time frame. What is striking is that no firm actually indicated a fully global sales strategy in operation and the numbers of respondents decreased drastically with higher levels of global sales strategy in place. Again this is an indicator that there is still room for further development finding the “right” balance of strategic decisions between HQ and subsidiaries.

Finally, what can also be observed from the data collected (Table 7-9) is the tendency of organisations with a more global sales strategy (see numbers highlighted bold) to show a slightly higher perceived market performance. Interestingly, a higher level of external and significantly higher level of internal embeddedness seem to have a larger influence on subsidiary importance, which in turn become significantly stronger. Despite the low number of respondents already turning towards a global sales strategy and the therefore statistically less valid results on this particular group,
one could infer a tendency, where sales start turning towards being more successfully globally integrated.

<table>
<thead>
<tr>
<th>Degree of &quot;global&quot; within Sales Strategy</th>
<th>Total Sample (n=52)</th>
<th>rather local strategy (scale 1 to 3) (n=33)</th>
<th>rather global strategy (scale 5 to 7) (n=10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Embeddedness</td>
<td>5.93</td>
<td>5.75</td>
<td>6.27</td>
</tr>
<tr>
<td></td>
<td>0.89</td>
<td>1.02</td>
<td>0.49</td>
</tr>
<tr>
<td>Internal Embeddedness</td>
<td>4.50</td>
<td>3.96**</td>
<td>5.40**</td>
</tr>
<tr>
<td></td>
<td>1.39</td>
<td>1.36</td>
<td>0.90</td>
</tr>
<tr>
<td>Subsidiary Importance</td>
<td>4.32</td>
<td>3.84*</td>
<td>5.33*</td>
</tr>
<tr>
<td></td>
<td>1.49</td>
<td>1.57</td>
<td>0.92</td>
</tr>
<tr>
<td>Div. Strat. Sales Activities</td>
<td>6.23</td>
<td>6.20</td>
<td>6.10</td>
</tr>
<tr>
<td></td>
<td>0.80</td>
<td>0.91</td>
<td>0.49</td>
</tr>
<tr>
<td>Market Performance</td>
<td>5.06</td>
<td>4.97</td>
<td>5.17</td>
</tr>
<tr>
<td></td>
<td>1.04</td>
<td>0.89</td>
<td>1.39</td>
</tr>
</tbody>
</table>

Table presents: mean value and standard deviation; measurement scale 1 to 7

***p<0.000; **p<0.01; *p<0.05

Table 7-9 – Subsidiaries with higher tendency towards a Global Sales Strategy

Interview partners pointed to the fact that HQ should provide (or is providing already) a strategic framework, which essentially structures the strategic approach to operate with customers and thus increases transparency. Such transparency arises with common understanding of: a) terminology, b) KPIs as well as c) top management conviction towards the strategic importance of sales. It seems that such framework, providing the major cornerstones of the strategy – which are in essence the strategic activities or elements described earlier – will be adapted to the specific situation, needs and requirements faced locally. Therefore it seems that operating a global strategic framework to be adapted and detailed locally, positively influences market performance.

**Key Findings 7.4.3:**

- The decision on key strategic elements is still taking place predominantly at subsidiary level.
- There is only a slow development towards a global sales strategy within the industry.
- In particular, price promotions and customer management strategies are locally decided to a very high degree.
- A high level of sales strategy implementation is connected with deeper external
embeddedness and increased market performance.

- In case of sales strategies showing tendencies towards global integration, organisations show higher degrees of internal and external embeddedness as well as slightly higher levels of market performance.
- A strategic framework with major cornerstones of sales strategy may be provided centrally, to be locally adapted in detail.

7.4.4 Observed HQ – Subsidiary Dyads

The final section within the descriptive data analysis is dedicated to the dyads observed in the survey, where overall 52 subsidiary respondents and a further 13 HQ respondents participated. Within these surveys from both sides five matching subsidiary-HQ pairs could be identified. Table 7-10 provides an overview of the dyads identified.

<table>
<thead>
<tr>
<th>Case</th>
<th>EXTEMB</th>
<th>INTEMB</th>
<th>SUBIMP</th>
<th>SALDIV</th>
<th>MARK-PERF</th>
<th>Total diff.</th>
<th>Mean diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ 1</td>
<td>2.67</td>
<td>4.00</td>
<td>3.00</td>
<td>4.33</td>
<td>3.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub</td>
<td>5.67</td>
<td>4.00</td>
<td>5.50</td>
<td>6.67</td>
<td>3.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>diff</td>
<td>3.00</td>
<td>0.00</td>
<td>2.50</td>
<td>2.33</td>
<td>0.67</td>
<td>8,50</td>
<td>1,70</td>
</tr>
<tr>
<td>HQ 2</td>
<td>5.67</td>
<td>6.00</td>
<td>4.00</td>
<td>5.67</td>
<td>6.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub</td>
<td>6.00</td>
<td>4.00</td>
<td>5.00</td>
<td>6.33</td>
<td>5.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>diff</td>
<td>0.33</td>
<td>-2.00</td>
<td>1.00</td>
<td>0.67</td>
<td>-0.67</td>
<td>-0.67</td>
<td>-0.13</td>
</tr>
<tr>
<td>HQ 3</td>
<td>5.67</td>
<td>5.67</td>
<td>5.25</td>
<td>5.67</td>
<td>4.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub</td>
<td>6.00</td>
<td>5.33</td>
<td>3.25</td>
<td>5.67</td>
<td>3.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>diff</td>
<td>0.33</td>
<td>-0.33</td>
<td>-2.00</td>
<td>0.00</td>
<td>-0.67</td>
<td>-2.67</td>
<td>-0.53</td>
</tr>
<tr>
<td>HQ 4</td>
<td>5.67</td>
<td>6.33</td>
<td>5.75</td>
<td>5.00</td>
<td>5.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub</td>
<td>5.67</td>
<td>1.67</td>
<td>5.50</td>
<td>6.33</td>
<td>6.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>diff</td>
<td>0.00</td>
<td>-4.67</td>
<td>-0.25</td>
<td>1.33</td>
<td>1.00</td>
<td>-2.58</td>
<td>-0.52</td>
</tr>
<tr>
<td>HQ 5</td>
<td>7.00</td>
<td>6.00</td>
<td>4.50</td>
<td>6.33</td>
<td>2.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub</td>
<td>7.00</td>
<td>6.33</td>
<td>4.25</td>
<td>5.00</td>
<td>3.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>diff</td>
<td>0.00</td>
<td>0.33</td>
<td>-0.25</td>
<td>-1.33</td>
<td>0.67</td>
<td>-0.58</td>
<td>-0.12</td>
</tr>
<tr>
<td>Total Mean</td>
<td>5.70</td>
<td>4.93</td>
<td>4.60</td>
<td>5.70</td>
<td>4.43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total differences</td>
<td>3.67</td>
<td>-6.67</td>
<td>1.00</td>
<td>3.00</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean difference</td>
<td>0.73</td>
<td>-1.33</td>
<td>0.20</td>
<td>0.60</td>
<td>0.20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 7-10 – Mean Values in HQ-Subsidiary Dyads

From the perspective of the subsidiary, most of the cases show an approximately coherent pattern, except case 1, which has a mean difference of 1.7. Focusing on the constructs, internal embeddedness (INTEMB) has the largest mean difference, where HQ rates its German subsidiary’s internal embeddedness somewhat higher, as is also reflected in the overall comparison below. External embeddedness (EXTEMB) also
shows a larger mean difference on average between the pairs, however, it is more homogeneous in the overall sub-sample comparison.

Initially, the most critical construct from the author’s point of view is subsidiary importance (SUBIMP), which in the case of subsidiary measurement theoretically could have well exceeded the HQ’s perspective on the respective subsidiary, assuming subsidiaries rate themselves to be relatively more important. However, as we see three cases with the HQ perceiving its German subsidiary to be more important to the MNE than the subsidiary itself, it should not pose a large problem to the total research sample. Subsidiaries (n=52) reach a mean of 4.32 in total compared to a total mean by the HQ sample (judging the respective German subsidiaries) of 4.92, which is slightly higher and conducting a 2-tailed t-test also non-significant (see Table 7-11).

<table>
<thead>
<tr>
<th>Multi-item Construct</th>
<th>Subsidiary Sample (n=52)</th>
<th>HQ Sample (n=13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Embeddedness</td>
<td>5.93</td>
<td>5.54</td>
</tr>
<tr>
<td></td>
<td>0.89</td>
<td>1.02</td>
</tr>
<tr>
<td>Internal Embeddedness</td>
<td>4.50</td>
<td>5.69***</td>
</tr>
<tr>
<td></td>
<td>1.39</td>
<td>0.75</td>
</tr>
<tr>
<td>Subsidiary Importance</td>
<td>4.32</td>
<td>4.92</td>
</tr>
<tr>
<td></td>
<td>1.49</td>
<td>0.89</td>
</tr>
<tr>
<td>Div. Strat. Sales Activities</td>
<td>6.23</td>
<td>5.67*</td>
</tr>
<tr>
<td></td>
<td>0.82</td>
<td>0.68</td>
</tr>
<tr>
<td>Market Performance</td>
<td>4.97</td>
<td>4.87</td>
</tr>
<tr>
<td></td>
<td>1.17</td>
<td>1.04</td>
</tr>
</tbody>
</table>

Table presents: mean value and standard deviation; measurement scale 1 (min) to 7 (max)

***p<0.000; **p<0.01; *p<0.05

Table 7-11 – Comparison Mean Values of Overall Subsidiary vs. HQ Sample

By focusing on the overall comparison (HQ n=13 vs. subsidiaries n=52) it is apparent that the degrees of internal embeddedness and the division of the strategic sales activities between HQ and subsidiary differ significantly between the two groups. Regarding the degree of internal embeddedness, the HQ respondents perceive a significantly higher degree of internal exchange, cooperation and coordination than the German subsidiaries (p = 0.000). One could argue that HQ is striving for high degrees of internal embeddedness in particular in regards to the
sales function, being originally such a decentralised function. The subsidiaries in contrast, still perceive medium levels of internal embeddedness (4.50), thus have rather less tight levels of exchange with HQ on sales issues for the same reason. This finding reflects one of the core factors in the decision-dilemma of integration versus responsiveness. Regarding the context of this research, the German subsidiaries in the FMCG industry, having predominantly existed for a long time already and operating in a saturated, rather consolidated, developed but still also quite “national” (basically no international retailer has gained a foothold in Germany yet) market, the perceived need to integrate from a subsidiary’s perspective is still rather low.

This is also reflected in the differences in the perceptions on the division of strategic sales activities, where subsidiaries are deciding predominantly locally (mean 6.23). The difference in variance is less strongly significant, however, but still statistically significant with $p = 0.026$, whereby HQ is also rating decision-making on most strategic sales activities rather locally (mean 5.67 on a 7-point Likert scale). Analysing the single elements of the sales strategy, two elements stand out. Firstly, there is the customer relationship management strategy and secondly, the price promotions. Price promotions differ in ratings to a larger, though statistically non-significant degree with mean values of 5.77 vs. 6.42 (HQ and subsidiary respectively). A main reason could be the HQ increasing tendency to bring efficiency of spending under control, which interviewee HQ 2 also elaborated.

“...we need transparency and need to know, where do I spend how much...”
and further “... the hardest enabling dimension is promotion. Here one would need to set the hardest guidelines and still leaving enough freedom.” (Dataset HQ 2, p.6 – “enabling” means HQ provides a framework)

The other element, the customer relationship management strategy, is significantly different ($p = 0.015$) in its results, where HQ reached a mean of 5.46 and subsidiaries 6.25 being the second highest mean value. Also in this case, HQ strives for a framework to be applied at customer management. The manager from HQ 1 discussed this accordingly:

“... well in a situation, where a decentralised structure is going to become more centralised, there are risks involved.” ... “Problems occur when people want to remain at the wheel...” (Dataset HQ 1, p.19)
Correspondingly, managers of a subsidiary stated:

“…we try to live with a certain framework, which is provided, but also a country-specific flexibility” (…is provided) (Dataset SUB 2, p.8)

by thinking about customer relationships being built over time including sales structures and mind sets, to steer the customers fully locally. HQ is then perceived as a guiding entity.

Conclusively, there are slight differences overall, comparing both sides, HQ and subsidiary responses, which mainly are observed in the degree of internal embeddedness and in the division of strategic sales elements. Referring back to the methodology of this research, the HQ-subsidiary dyads show no major inconsistency, thus a common method bias can be seen as rather low.

Key Findings 7.4.4:

- Subsidiary importance is rated similarly by both sides, thus the subsidiary’s self assessment can be seen as valid.
- Internal embeddedness is significantly lower valued by subsidiaries, potentially striving for lower levels of involvement.
- The division of sales strategy is significantly higher valued by the subsidiaries – accounting for the predominantly local decision-making

7.5 Summary

The preceding chapter aimed at analysing and presenting the research data collected from the mail and online surveys as well as being complemented by the qualitative interview findings. First, the data was analysed to test for non-response bias and common method bias, which both were minimised and therefore seems not to affect the results of the present research. Second, the construct definitions and operationalisations were discussed. Some interesting additional findings were extracted and discussed from the descriptive data, regarding the subsidiary characteristics, external embeddedness and the characteristics of the sales function including the sales strategy/strategic elements per se. Furthermore, the surveyed HQ-subsidiary dyads were analysed supporting the minimisation of a common method bias as discussed in section 7.2.
8. Research Findings and Structural Model Analysis

8.1 Introduction

The objective of this chapter is to thoroughly analyse the research data with the structural equation modelling method PLS as explained in Chapter 6. The analysis will be structured in two steps, assessing the measurement (outer) model in step one and the structural (inner) model in step two.

In section 8.2, reliability and validity of the measurement (outer) model, in particular the construct measures, will be checked with the aim to minimise measurement errors as far as possible (Hair et al., 2014). The second step follows in section 8.3, where the hypotheses will be tested and the model evaluated for its predictive capacity and relevance. Finally, in section 8.4 the analysis of several groups will be explicated to account for potential heterogeneity in the sample involved and section 8.5 summarises this chapter accordingly.

8.2 Assessment of the Measurement Model

8.2.1 Internal Consistency Reliability

In order to measure the consistency of the items used in the research, the two recommended criteria were used: the more conservative Cronbach’s alpha and composite reliability (Hair et al., 2014). The constructs show all satisfactory Cronbach’s alpha values above the 0.7 threshold, ranging from 0.723 to 0.853, which indicates the reliability of the indicators (please see Table 8-1: “C’s α” for the Cronbach’s alpha value). Within PLS-SEM indicators are prioritized in line with their individual reliability and the Cronbach’s alpha is furthermore sensitive to the number of items, which leaves this criterion to be rather conservative (Hair et al., 2014).
Therefore, it was suggested to use a second criterion - the composite reliability - where the threshold should also be met between 0.7 and 0.9 (Hair et al., 2014). Bagozzi and Yi (1988) even posit a minimum value of 0.6, which Hair et al. (2014) also suggest to be acceptable with exploratory research. In the present research the composite reliability, which takes the different indicator loadings into account, is ranging in the threshold values between 0.834 and 0.899 as indicated in Table 8-1 using the abbreviation “CR”.

<table>
<thead>
<tr>
<th>Constructs and Indicators</th>
<th>Mean</th>
<th>SD</th>
<th>Outer Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Embeddedness - IntEmb</strong></td>
<td>4.50</td>
<td>1.39</td>
<td>(C’s $\alpha=0.765$, CR=0.863, AVE=0.677)</td>
</tr>
<tr>
<td>HQ supports subsidiary sales strategy development</td>
<td>4.42</td>
<td>1.775</td>
<td>0.888</td>
</tr>
<tr>
<td>Cooperation with HQ through frequent interaction</td>
<td>4.46</td>
<td>1.697</td>
<td>0.788</td>
</tr>
<tr>
<td>Business activities are closely linked between HQ and subsidiary</td>
<td>4.62</td>
<td>1.586</td>
<td>0.789</td>
</tr>
<tr>
<td><strong>External Embeddedness - ExtEmb</strong></td>
<td>5.93</td>
<td>0.89</td>
<td>(C’s $\alpha=0.723$, CR=0.834, AVE=0.623)</td>
</tr>
<tr>
<td>Close Business Relationship in terms of sales of goods &amp; services</td>
<td>6.17</td>
<td>1.004</td>
<td>0.687</td>
</tr>
<tr>
<td>Adaptation of resources and activities to counterpart</td>
<td>5.35</td>
<td>1.235</td>
<td>0.785</td>
</tr>
<tr>
<td>Counterpart importance to business for a very long time</td>
<td>6.27</td>
<td>1.087</td>
<td>0.897</td>
</tr>
<tr>
<td><strong>Subsidiary Importance - SubImp</strong></td>
<td>4.32</td>
<td>1.49</td>
<td>(C’s $\alpha=0.853$, CR=0.899, AVE=0.690)</td>
</tr>
<tr>
<td>Subsidiary is important for KAM / orga development for other subsidiaries</td>
<td>4.23</td>
<td>1.906</td>
<td>0.861</td>
</tr>
<tr>
<td>Subsidiary is important for sales strategy development for other subsidiaries</td>
<td>4.46</td>
<td>1.965</td>
<td>0.876</td>
</tr>
<tr>
<td>Subsidiary is important for exchange of best practices for other subsidiaries</td>
<td>4.90</td>
<td>1.537</td>
<td>0.784</td>
</tr>
<tr>
<td>Subsidiary consulted to provide input to global sales strategy</td>
<td>3.67</td>
<td>1.700</td>
<td>0.798</td>
</tr>
<tr>
<td><strong>Sales Activities Division - SalDiv</strong></td>
<td>6.23</td>
<td>0.80</td>
<td>(C’s $\alpha=0.775$, CR=0.869, AVE=0.689)</td>
</tr>
<tr>
<td>Decision on customer segmentation and prioritisation at subsidiary level</td>
<td>6.02</td>
<td>1.213</td>
<td>0.746</td>
</tr>
<tr>
<td>Decision on customer relationship management strategies at subsidiary level</td>
<td>6.25</td>
<td>0.988</td>
<td>0.845</td>
</tr>
<tr>
<td>Decision on price promotions at subsidiary level</td>
<td>6.42</td>
<td>0.776</td>
<td>0.893</td>
</tr>
<tr>
<td><strong>Market Performance - MarkPerf</strong></td>
<td>4.97</td>
<td>1.17</td>
<td>(C’s $\alpha=0.770$, CR=0.853, AVE=0.662)</td>
</tr>
<tr>
<td>Judgement of subsidiary's achievement for increasing sales turnover</td>
<td>5.02</td>
<td>1.407</td>
<td>0.8166</td>
</tr>
<tr>
<td>Judgement of subsidiary's achievement for expanding its market share</td>
<td>4.79</td>
<td>1.333</td>
<td>0.6955</td>
</tr>
<tr>
<td>Judgement of past 5y firm's sales growth compared to main competitors in G</td>
<td>5.12</td>
<td>1.517</td>
<td>0.9142</td>
</tr>
</tbody>
</table>

Table 8-1 - Overview Construct Measurements Reliability and Validity
Finally, each indicator should be reliable itself, which leads the author to assess the outer loadings of the individual indicators of each construct measured. The correlation between the observed indicator and the latent variable should be higher than 0.7 (Henseler et al., 2009) and fairly homogeneous, i.e. with a smaller range from e.g. 0.7 to 0.9 (Chin, 2010). Frequently, standardised outer loadings do not sufficiently reach the 0.7 level (Hulland, 1999), where researchers need to carefully evaluate the subsequent steps. Hair et al. (2014) recommend to not automatically delete indicators from the model, where outer loadings are between 0.4 and 0.7, but suggest to verify whether such deletion would substantially increase composite reliability (see also Henseler et al., 2009). In such cases the indicator should be deleted from the model, whereas indicators with values below 0.4 should certainly be deleted. Analysing the outer loadings of the current research, one finds the items of all constructs other than External Embeddedness and Market Performance sufficiently above the threshold value of 0.7, ranging from 0.746 to 0.893. More critical outer loadings can be found in External Embeddedness ranging from 0.687 to 0.897 as well as Market Performance ranging from 0.6955 to 0.9142. According to Chin (2010), the ranges can still be regarded as acceptable and regarding the lower value threshold, one can argue the difference to 0.7 to be fairly small; secondly, testing the constructs measurements by deleting both low scoring items did not result in an substantial increase in composite reliability. The author decided therefore to keep those indicators for further analysis.

Therefore it can be concluded that the items, and consequently the constructs measured, indicate a high level of internal consistency reliability.

### 8.2.2 Convergent Validity

Since the indicators in a reflective construct ought to be items that measure a particular construct from different angles, convergent validity estimates the convergence of these items (Hair et al., 2014). Fornell and Larcker (1981) originally proposed to measure the average variance extracted (AVE) to assess convergent validity. The established threshold of 0.5 was well exceeded in all constructs, ranging from 0.623 to 0.690 (see Table 8-1 “AVE”), which essentially means, that all constructs explain more than 60% of the variance of their observed indicators.
8.2.3 Discriminant Validity

Discriminant validity will be assessed with two more traditional methods, i.e. cross loadings (Chin, 1998) and the Fornell-Larcker criterion (Fornell and Larcker, 1981), and a newly developed method, the heterotrait-monotrait ratio of correlations (HTMT) (Henseler et al., 2015).

Item-level discriminant validity (Henseler et al., 2015) will be assessed through the cross-loadings in the individual items. First established by Chin (1998), this validity check indicates the loadings of a construct’s indicators in relation to all other construct indicators towards the construct in question, which are suggested to be higher than all other constructs’ indicators. Table 8-2 shows the cross loadings of the current project, whereby no indicator exceeds the focal indicator’s loading (marked grey), i.e. discriminant validity at item level is given.

<table>
<thead>
<tr>
<th>Cross Loadings</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>A101_01</td>
<td>0.683</td>
<td>0.238</td>
<td>0.143</td>
<td>0.221</td>
<td>0.013</td>
</tr>
<tr>
<td>A101_02</td>
<td>0.784</td>
<td>0.174</td>
<td>0.094</td>
<td>0.242</td>
<td>0.164</td>
</tr>
<tr>
<td>A101_03</td>
<td>0.897</td>
<td>-0.040</td>
<td>0.299</td>
<td>0.463</td>
<td>0.142</td>
</tr>
<tr>
<td>A105_01</td>
<td>0.164</td>
<td>0.888</td>
<td>-0.014</td>
<td>-0.304</td>
<td>0.393</td>
</tr>
<tr>
<td>A105_02</td>
<td>0.028</td>
<td>0.788</td>
<td>0.090</td>
<td>-0.220</td>
<td>0.261</td>
</tr>
<tr>
<td>A105_03</td>
<td>0.022</td>
<td>0.789</td>
<td>-0.186</td>
<td>-0.164</td>
<td>0.302</td>
</tr>
<tr>
<td>A201_03</td>
<td>0.163</td>
<td>0.216</td>
<td>0.861</td>
<td>-0.112</td>
<td>0.262</td>
</tr>
<tr>
<td>A201_06</td>
<td>0.218</td>
<td>0.317</td>
<td>0.875</td>
<td>-0.111</td>
<td>0.189</td>
</tr>
<tr>
<td>A202_01</td>
<td>0.122</td>
<td>0.232</td>
<td>0.784</td>
<td>-0.015</td>
<td>0.184</td>
</tr>
<tr>
<td>A202_02</td>
<td>0.016</td>
<td>0.460</td>
<td>0.799</td>
<td>-0.049</td>
<td>0.114</td>
</tr>
<tr>
<td>A303_01</td>
<td>0.154</td>
<td>-0.174</td>
<td>0.373</td>
<td>0.740</td>
<td>-0.087</td>
</tr>
<tr>
<td>A303_02</td>
<td>0.380</td>
<td>-0.217</td>
<td>0.359</td>
<td>0.850</td>
<td>0.013</td>
</tr>
<tr>
<td>A313_01</td>
<td>0.468</td>
<td>-0.312</td>
<td>0.163</td>
<td>0.893</td>
<td>-0.123</td>
</tr>
<tr>
<td>A402_01</td>
<td>0.088</td>
<td>-0.036</td>
<td>0.105</td>
<td>0.237</td>
<td>0.817</td>
</tr>
<tr>
<td>A402_03</td>
<td>0.130</td>
<td>0.077</td>
<td>0.432</td>
<td>0.118</td>
<td>0.695</td>
</tr>
<tr>
<td>A403_01</td>
<td>0.317</td>
<td>-0.068</td>
<td>0.152</td>
<td>0.382</td>
<td>0.914</td>
</tr>
</tbody>
</table>

Table 8-2 – Item Level Discriminant Validity

A second traditionally used criterion for variance-based SEM methods is the so-called Fornell-Larcker criterion. Fornell and Larcker (1981) proposed that “a latent variable shares more variance with its assigned indicators than with any other latent variable” (Henseler et al., 2009, p.299). So one needs to assess a construct’s (latent variable) square roots of AVE, which should show a higher value than the highest correlation between the respective construct and the others to establish discriminant validity. Table 8-3 demonstrates established discriminant validity for the constructs used within this research model.
Due to some statistical limitations of both traditional methods, e.g. the overestimation of indicator loadings and underestimation of structural model paths in variance-based SEM methods, affecting both assessment procedures, a new criterion has only recently been postulated by Henseler et al. (2015). The heterotrait-monotrait ratio of the correlations overcomes this lacking sensitivity, as Henseler et al. (2015, p.121) discuss, and is suggested to assess “the correlations of indicators across constructs measuring different phenomena” in relation to “the correlations of indicators within the same construct”. The HTMT can be used both as a criterion and as a statistical test to assess discriminant validity. The criterion value should not exceed the 0.85 threshold (HTMT\textsubscript{85}) (Henseler et al., 2015), whereas the statistical test measures confidence intervals (through bootstrapping), which should not contain 1 to show established discriminant validity (HTMT\textsubscript{inference}) (Henseler et al., 2015). The authors propose to use the HTMT\textsubscript{85} criterion, which is the most conservative of both variants presented and only if less strict standards are applied to assess discriminant validity, the statistical methods should be applied, i.e. the HTMT\textsubscript{inference}.

In the present research, as demonstrated in Table 8-4, all values are well below the 0.85 threshold value, i.e. the constructs are empirically distinct.

<table>
<thead>
<tr>
<th>Fornell-Larcker Criterion</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 External Embeddedness</td>
<td>0.793</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Internal Embeddedness</td>
<td>0.100</td>
<td>0.823</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Market Performance</td>
<td>0.252</td>
<td>-0.041</td>
<td>0.814</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Sales Activity Division</td>
<td>0.424</td>
<td>-0.288</td>
<td>0.346</td>
<td>0.830</td>
<td></td>
</tr>
<tr>
<td>5 Subsidiary Importance</td>
<td>0.147</td>
<td>0.396</td>
<td>0.214</td>
<td>-0.087</td>
<td>0.831</td>
</tr>
</tbody>
</table>

Table 8-3 – Discriminant Validity at Construct Level

<table>
<thead>
<tr>
<th>HTMT\textsubscript{85} Criterion</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 External Embeddedness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Internal Embeddedness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Market Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Div. Strat. Sales Activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Subsidiary Importance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8-4 – Discriminant Validity with the HTMT\textsubscript{85} Criterion
Conclusively, all construct measures show a discriminant validity by means of several assessment methods applied, which implies the empirical uniqueness of the construct measures (Henseler et al., 2015).

### 8.3 Evaluation of the Structural Model

Having demonstrated the validity and reliability of the data of the outer model, the author now turns to the assessment of the inner, i.e. structural model, “to provide evidence supporting the theoretical model as exemplified by the structural portion of the model” (Chin, 2010, p.674).

#### 8.3.1 Path Coefficients – Hypothesis Testing

Before assessing the structural model’s path coefficients, the collinearity to evaluate possible high correlations between two constructs needs to be tested. Hair et al. (2014) suggests using the variance inflation factor (VIF) with a maximum threshold value of 5 not to be exceeded. The predictor constructs (SUBIMP, SALDIV and MARKPERF) were assessed and all VIF values are below 5 for both the constructs themselves and its associated indicators, therefore multicollinearity is not an issue.

Having computed the PLS-SEM algorithm in SmartPLS (Ringle et al., 2005) the structural path model is estimated, indicating the path coefficients, which in turn reflect the hypothesized relationships in the theoretical model. In order to test the hypothesis, the statistical significance of the six relationships must first be tested, see Figure 8-1. Since the data is not normally distributed, the author runs the nonparametric bootstrapping routine computed in SmartPLS with the recommended 5,000 bootstrap samples, after running the PLS algorithm, testing the significance of the path coefficients. The critical \( t \)-value at 5% two-tailed significance level is 1.96, which means the path coefficient is significantly different from zero (Hair et al., 2014). The \( p \)-values “correspond to the probability of erroneously rejecting the null hypothesis, given the data at hand” (Hair et al., 2014, p.172), where \( p < 0.01 \), \( p < 0.05 \) and \( p < 0.10 \) demarcate the 1%, 5% and 10% probability of error at which the path coefficient is significant.

As summarized in Table 8-5, the relationship between the external embeddedness (EXTEMB) and the division of strategic sales activities (SALDIV) has a path coefficient value of 0.460 (\( t = 1.977 \), \( p = 0.049 \)). As a result, H1, which hypothesizes a strong external embeddedness, leads to a subsidiary level strategic sales activity
performance/decision, is supported and represents the strongest relationship within the model. Essentially, it shows the strength of long grown and potentially mutually adaptive customer relationships towards strategic decision-making. Forces for integration clearly need to be balanced with a potentially overweighting need to locally respond.

In contrast the relationship between EXTEMB and subsidiary importance (SUBIMP), reflecting hypothesis 3 is very weak (path coefficient 0.108) and shows no significance ($t = 0.713, p = 0.476$), therefore H3 needs to be rejected. The results seem to point at a missing perceived relevance of local sales capabilities for the broader organisation. Subsidiary importance is thus not related to the subsidiaries’ strong external relationships with their customers in case of German subsidiaries within this sample.

Hypothesis 2 has a negative relationship hypothesized between internal embeddedness (INTEMB) and SALDIV. There is a significant negative relationship with a path coefficient of -0.324 ($t = 2.548, p = 0.011$) and therefore the hypothesis is supported. It shows that the more the subsidiary is internally embedded within the MNE, the less the subsidiary will be able to decide locally on strategic sales activities. The relationship between INTEMB and SUBIMP can be observed as strong and positive with a path coefficient of 0.385 and measured to be significant ($t = 2.628, p = 0.009$), thus H4 is supported. This finding is also in line with Yamin and Andersson (2011) because the higher the degree of internal embeddedness the higher the degree of subsidiary importance, i.e. the more the subsidiary will be acknowledged for the specific relevant knowledge (here sales knowledge), the better it can be utilized across the MNE.

Finally, looking at the two endogenous constructs, the first path between SUBIMP and SALDIV has a very low negative non-significant relationship (path coefficient = -0.027, $t = 0.197, p = 0.844$) and hypothesis H5 therefore needs to be rejected. It needs to be concluded that the degree of subsidiary importance is not relevant for decisions on strategic sales activities to be further discussed in the next chapter.

However, another strong relationship can be found between SALDIV and subsidiary Market Performance (MARKPERF) with a very significant path coefficient of
0.3456 (at \( t = 3.611, p = 0.000 \)). The author therefore concludes hypothesis 6 to be supported.

Table 8-5 summarises the findings as depicted above.

<table>
<thead>
<tr>
<th>Paths</th>
<th>Standardized Coefficient</th>
<th>t-statistics</th>
<th>p-statistics</th>
<th>Hypothesis supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Ext. Embeddedness → Div. of strat. sales activities</td>
<td>0.460</td>
<td>1.977</td>
<td>0.049</td>
</tr>
<tr>
<td>H2</td>
<td>Int. Embeddedness → Div. of strat. sales activities</td>
<td>-0.324</td>
<td>2.548</td>
<td>0.011</td>
</tr>
<tr>
<td>H3</td>
<td>Ext. Embeddedness → Subsidiary Importance</td>
<td>0.108</td>
<td>0.713</td>
<td>0.476</td>
</tr>
<tr>
<td>H4</td>
<td>Int. Embeddedness → Subsidiary Importance</td>
<td>0.385</td>
<td>2.628</td>
<td>0.009</td>
</tr>
<tr>
<td>H5</td>
<td>Subsidiary Importance → Div. of strat. sales activities</td>
<td>-0.027</td>
<td>0.197</td>
<td>0.844</td>
</tr>
<tr>
<td>H6</td>
<td>Div. of strat. sales activities → Market performance</td>
<td>0.346</td>
<td>3.611</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Table 8-5 – Structural Model Path Coefficients Summary of Results

8.3.2 The Model’s Predictive Capacity

Depending on the objective of the research, the predictive capacity, reflected by the \( R^2 \) value, representing the “exogenous latent variables’ combined effects on the endogenous latent variable” (Hair et al., 2014, p.174), can be of high relevance. Depending on the field of study, thresholds can vary (Hair et al., 2010). Whereas, according to Falk and Miller (1992, p.80) an \( R^2 \) value of > 0.10 is proposed to be
acceptable, with a smaller number of variables explaining the variance, Chin (1998) suggests in his research threshold values for the $R^2$ ranging from 0.67, to 0.33 to 0.19 as substantial, moderate and weak levels. Recommending PLS in the field of international marketing, Henseler et al. (2009, p.303) support this suggestion, however, adding the important comment regarding the number of exogenous latent variables pointing at the predicted endogenous variable, whereby a higher number of exogenous variables should result in “at least substantial level”. On the contrary, endogenous LV explained by a smaller number of exogenous LV may indicate “moderate” $R^2$ values. In their study on strategic management, Birkinshaw et al. (1995) achieved $R^2$ values of 0.36 (with 4 exogenous LV) and 0.12 (with 5 exogenous LV) for business unit (global) integration and business performance respectively, indicating the wide range across the fields.

In the present research $R^2$ values of 0.17, 0.29 and 0.12 were computed for the LV subsidiary importance, division of strategic sales activities and market performance respectively, as presented in Table 8-6. The focal endogenous variable, SALDIV, shows the highest $R^2$ close to what Chin (1998) calls “moderate”. Accordingly the exogenous LV SUBIMP is “weak”, whereas the MARKPERF is above the threshold of 0.1 as defined by Falk and Miller (1992). The low level of predictive capacity of MARKPERF may be attributed to the fact that further factors are also impacting on a subsidiary’s market performance.

Following the recommendations of Chin (2010) and Hair et al. (2014), furthermore the effect size $f^2$ has been computed, which explores the impact of exogenous LV on an endogenous LV. The effect size is established by the following formula, which calculates the endogenous constructs’ $R^2$, when the exogenous LV is included or omitted (Chin, 2010):

$$f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excluded}}}{1 - R^2_{\text{included}}}$$

Cohen (1988) discussed the effect sizes of 0.02, 0.15 and 0.35 to be small, medium and large effects of a predictor variable (exogenous LV) on a dependent variable (endogenous LV). Table 8-6 indicates the results and highlights the effect sizes of the
independent constructs on the dependent constructs. Clearly, one can see in the case of subsidiary importance that internal embeddedness has a medium but larger effect on subsidiary importance than the external embeddedness in line with the path coefficient.

<table>
<thead>
<tr>
<th></th>
<th>R²</th>
<th>f²</th>
<th>Evaluation Effect Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary Importance</td>
<td>0.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>External Embeddedness</td>
<td>0.014</td>
<td>small</td>
</tr>
<tr>
<td></td>
<td>Internal Embeddedness</td>
<td>0.176</td>
<td>medium</td>
</tr>
<tr>
<td>Division of strategic sales activities</td>
<td>0.29</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>External Embeddedness</td>
<td>0.291</td>
<td>high medium</td>
</tr>
<tr>
<td></td>
<td>Internal Embeddedness</td>
<td>0.125</td>
<td>almost medium</td>
</tr>
<tr>
<td></td>
<td>Subsidiary Importance</td>
<td>0.001</td>
<td>very small</td>
</tr>
<tr>
<td>Market Performance</td>
<td>0.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Division of strategic sales activities</td>
<td>0.136</td>
<td>almost medium</td>
</tr>
</tbody>
</table>

Table 8-6 – R² values and effect sizes f²

In the case of the division of strategic sales activities constructs, external embeddedness shows the largest effect size, which is already pointing towards an upper medium effect. Internal embeddedness shows a medium effect on the division of strategic sales activities, whereas subsidiary importance has a very small effect only. Finally, the division of strategic sales activities has an almost medium effect on market performance, being only 0.014 short of the threshold value.

8.3.3 Predictive Relevance of the Model

Finally, in order to test the predictive quality of the model, the author uses the well-known Stone-Geisser’s Q² (Stone, 1974, Geisser, 1974) as suggested by several authors (e.g. Götz et al., 2010, Hair et al., 2014, Chin, 1998, Henseler et al., 2009). The Stone-Geisser criterion will be measured by using the blindfolding procedure, which essentially means to systematically omit a part of the raw data matrix “during the parameter estimations and then attempts to estimate the omitted part using the estimated parameters.” (Chin, 1998, p.317). The author thereby obtains “cross-validated redundancy measures for each endogenous construct” (Hair et al., 2014, p.186) and can now evaluate how “well-observed values are reconstructed by the model and its parameter estimates” (Chin, 1998, p.318). Only measures Q² > 0 are
meant to show predictive relevance of the model. Table 8-7 summarises the results for the present research.

In addition, similar to the effect size $f^2$, the effect size of $Q^2$ can be measured by $q^2$, representing the relative measure of the predictive relevance (Hair et al., 2014), using the following formula:

$$q^2 = \frac{Q^2_{\text{included}} - Q^2_{\text{excluded}}}{1 - Q^2_{\text{included}}}$$

with values of 0.02, 0.15 and 0.35 representing small, medium and large effect sizes, i.e. predictive relevance of the LV in question.

<table>
<thead>
<tr>
<th>Subsidiary Importance</th>
<th>Q^2 redundancy</th>
<th>q^2 Evaluation Effect Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Embeddedness</td>
<td>-0.003</td>
<td>small</td>
</tr>
<tr>
<td>Internal Embeddedness</td>
<td>0.066</td>
<td></td>
</tr>
<tr>
<td>Division of strategic sales activities</td>
<td>0.069</td>
<td>small</td>
</tr>
<tr>
<td>External Embeddedness</td>
<td>0.042</td>
<td>small</td>
</tr>
<tr>
<td>Internal Embeddedness</td>
<td>0.046</td>
<td>small</td>
</tr>
<tr>
<td>Subsidiary Importance</td>
<td>-0.009</td>
<td></td>
</tr>
<tr>
<td>Market Performance</td>
<td>0.049</td>
<td>Division of strategic sales activities</td>
</tr>
</tbody>
</table>

Table 8-7 – Predictive Relevance $Q^2_{\text{redundancy}}$ and effect size $q^2$

As shown in Table 8-7, the predictive relevance of the present model is confirmed, since all $Q^2$ values are > 0, however the effect sizes of the constructs on the endogenous constructs (SALDIV and MARKPERF) are rather small. The predictive relevance is highest for external and internal embeddedness on the division of strategic sales activities, the focal construct of the present research.
Key Findings 8.1:

- The degree of external embeddedness has an influence on the decision-making at local level on the elements of the sales strategy.
- The level of internal embeddedness is negatively related to local decision-making, i.e. with higher levels of internal embeddedness; less purely local decisions will be made.
- Subsidiary importance is influenced by the degree of the internal embeddedness of a subsidiary within the MNE, where higher internal embeddedness leads to higher degrees of subsidiary importance.
- Subsidiary importance is not largely influenced by the degree of external embeddedness and does not influence the degree of local decision-making on strategic sales elements.
- There is a highly significant causal relationship between the degree of local decisions on sales strategy and the subsidiary’s market performance.

8.4 Modifications to the Model

Heterogeneity can occur in any research setting and may be a threat to the PLS-SEM results validity (Hair et al., 2016). Potential differences in sub-groups of respondents need to be evaluated to preclude heterogeneity to ensure a clear interpretation of the results. Therefore a multi-group analysis was considered as the appropriate method also suggested by Hair et al. (2014). Due to the sample size, in particular when divided into the respective sub-groups, a multi-group analysis cannot be executed in its traditional way, i.e. comparing the subgroups for significant differences. According to the statistical power table by Cohen (1992), as discussed in section 6.5.1, most of the subgroups become simply too small to be reliably analysed with PLS. The author decided, however, to still run tests but utilise only the part of the sub-groups identified, which reflects the higher number of respondents and being just about acceptable in size, to allow for the assessment of the potential influencing factors as outlined in chapter 7 (impact of subsidiary size, regional HQ, industry sub-sector). Therefore the sub-groups Food (n=28), subsidiary size >300 (n=31) and for the special contextual case subsidiaries with German HQ (n=28) will be tested.
Furthermore the sub-group regional HQ will be analysed (n=22), which is the only group, which is smaller than its counterpart. All (sub-)models were rigorously tested in accordance with the procedures and measures within SmartPLS, as discussed above, and only those delivering reliable and valid results were further considered, which is the case for all larger sub-groups but the counterpart of regional HQ. This led to the rejection of the model of the sub-group “No regional HQ” (several constructs failed basic requirements, such as Cronbach’s $\alpha$ or discriminant validity).

The resulting path coefficients for the (one-sided) sub-groups will be compared to the main sample and tested for significance with the approach suggested by Keil et al. (2000). The variables necessary for this particular $t$-test were extracted from SmartPLS using the bootstrapping procedure discussed above (5,000 bootstrapping samples), obtaining the path coefficients ($\beta$) and the standard errors ($se$) of those relationships being significant in the main model sample.

The following formula has then been utilised:

$$ t = \frac{\beta_{(1)} - \beta_{(2)}}{\sqrt{\frac{(n_{(1)} - 1)^2}{n_{(1)} + n_{(2)} - 2} \times se_{\beta_1}^2 + \frac{(n_{(2)} - 1)^2}{n_{(1)} + n_{(2)} - 2} \times se_{\beta_2}^2}} \times \sqrt{\frac{1}{n_{(1)}} + \frac{1}{n_{(2)}}} $$

### 8.4.1 Industry Sub-Sector Comparison

The first sub-groups to be checked are the food group (n = 38) vs. the total sample. In both models the path relationships indicated in Table 8-8 are significant in all cases for the total sample and in three cases for the food sample (H1: $t=1.93$, $p<0.05$; H2: $t=2.02$, $p<0.05$; H6: $t=2.37$, $p<0.05$), which shows a not-significant relationship in case of internal embeddedness and subsidiary importance ($t=1.033$, $p>0.05$). The $R^2$-values range between 0.103 and 0.451 in the food sample, which exceeds the minimum threshold level of 0.1 and can thus be accounted for its predictive capacity.
Although the paths are stronger for food firms in particular between external embeddedness and the division of strategic sales activities as well as between internal embeddedness and subsidiary importance, there is no significant variance to be detected statistically. It can therefore be concluded that there are no significant differences between the food sample and the overall sample as shown by using the \( t \)-statistics.

### 8.4.2 Comparison on Subsidiary Size

Three controls were captured from the survey, considering size: the overall number of employees in the MNE, the German subsidiary itself and the relative sales turnover of the German subsidiary in relation to the overall MNE. The descriptive statistics already indicated that all three variables did not show any significant differences in the construct levels, however, the controls were still tested in the model again using group analysis. Computing the groups in SmartPLS, the only group showing a reliable and valid model was the group “subsidiary larger than 300” (indicating a large sized subsidiary with more than 300 employees), again also accounting for the minimum sample sizes needed to reliably run the model in the first place. Results have shown a higher predictive capacity on the division of strategic sales activities and to a smaller extent on market performance (\( R^2 = 0.457 \); \( R^2 = 0.127 \)). Table 8-9 depicts the differences between large sized subsidiaries and the total sample.

<table>
<thead>
<tr>
<th>Paths</th>
<th>( \delta ) Original Model (( n=52 ))</th>
<th>( \delta ) Food (( n=38 ))</th>
<th>Difference (total vs. Food)</th>
<th>( t )-statistics (( df = 88 ))</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Ext. Embeddedness ( \rightarrow ) Div. of strat. sales activities</td>
<td>0.460*</td>
<td>0.591*</td>
<td>0.131</td>
</tr>
<tr>
<td>H2</td>
<td>Int. Embeddedness ( \rightarrow ) Div. of strat. sales activities</td>
<td>-0.324*</td>
<td>-0.368*</td>
<td>-0.44</td>
</tr>
<tr>
<td>H4</td>
<td>Int. Embeddedness ( \rightarrow ) Subsidiary Importance</td>
<td>0.385**</td>
<td>0.253</td>
<td>0.132</td>
</tr>
<tr>
<td>H6</td>
<td>Div. of strat. sales activities ( \rightarrow ) Market performance</td>
<td>0.346***</td>
<td>0.321*</td>
<td>0.025</td>
</tr>
</tbody>
</table>

\*\*\*p<0.000; \*\*p<0.01; \*p<0.05; df (degrees of freedom) = \( n \_1 + n \_2 - 2 \); s. significant, n.s. not significant

Table 8-8 – Group Comparison – Sub-sector Food vs. Total Sample
One path relationship is very close to significance, which is the external embeddedness to the division of strategic sales activities ($t=2.05$, $p$-value <0.05 for the path coefficient), showing a stronger path for larger subsidiaries. The remaining three path coefficients (H2: $t=2.07$, $p$ <0.05; H4: $t=1.24$, $p$ >0.05; H6: $t=2.62$, $p$ <0.01) show a rather small difference, which conclusively also result in only insignificant $t$-values.

### 8.4.3 Comparison on Regional HQ

The path relationships occurring in the group “regional HQ” are among the highest in relation to the other control variables analysed, showing strong causal relationships. In particular, external embeddedness and the division of strategic sales activities and in turn the latter’s relationship to market performance are two path coefficients which potentially could have demonstrated significant differences between the models (see Table 8-10). Likewise the $R^2$ values are considerably high, indicating a higher level of variance explained by the respective exogenous variables - $R^2 = 0.489$ on division of strategic sales activities and $R^2 = 0.281$ for market performance. To conclude, a higher predictive capacity should be interpreted with care considering the low number of respondents in this particular group (n=22), which would need to be validated with a larger sized sample of subsidiaries with regional HQ in place.

<table>
<thead>
<tr>
<th>Paths</th>
<th>β Original Model (n=52)</th>
<th>β large subsidiaries (n=31)</th>
<th>Difference (total vs. Large sub)</th>
<th>$t$-statistics (df = 81)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Ext. Embeddedness ➔ Div. of strat. sales activities</td>
<td>0.460*</td>
<td>0.561*</td>
<td>0.101</td>
</tr>
<tr>
<td>H2</td>
<td>Int. Embeddedness ➔ Div. of strat. sales activities</td>
<td>-0.324*</td>
<td>-0.328*</td>
<td>0.004</td>
</tr>
<tr>
<td>H4</td>
<td>Int. Embeddedness ➔ Subsidiary Importance</td>
<td>0.385**</td>
<td>0.353</td>
<td>0.032</td>
</tr>
<tr>
<td>H6</td>
<td>Div. of strat. sales activities ➔ Market performance</td>
<td>0.346***</td>
<td>0.357**</td>
<td>0.011</td>
</tr>
</tbody>
</table>

**$p$<0.000; **$p$<0.01; *$p$<0.05, df (degrees of freedom) = $n_1$+$n_2$-2; s. significant, n.s. not significant

Table 8-9 – Group Comparison – Subsidiary Size vs. Total Sample
Considering the relatively high path coefficients and $R^2$ values, a deeper analysis was conducted on the data available for the subsidiaries with RHQ.

<table>
<thead>
<tr>
<th>Multi-item Construct</th>
<th>Total Sample (n=52)</th>
<th>Regional HQ (n=22)</th>
<th>No Regional HQ (n=30)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Embeddedness</td>
<td>5.93</td>
<td>5.85</td>
<td>5.99</td>
</tr>
<tr>
<td>Internal Embeddedness</td>
<td>4.50</td>
<td>4.98**</td>
<td>4.14**</td>
</tr>
<tr>
<td>Subsidiary Importance</td>
<td>4.32</td>
<td>4.80*</td>
<td>3.97*</td>
</tr>
<tr>
<td>Div. Strat. Sales Activities</td>
<td>6.23</td>
<td>5.99*</td>
<td>6.40*</td>
</tr>
<tr>
<td>Market Performance</td>
<td>4.97</td>
<td>4.80</td>
<td>5.10</td>
</tr>
</tbody>
</table>

Table 8-10 – Group Comparison – Regional HQ vs. Total Sample

The results show significant differences on internal embeddedness, subsidiary importance and to a lower extent on the division of strategic sales activities (Table 8-11). Given the proximity of the regional HQ in relation to the HQ itself, it seems logical that the degree of internal embeddedness is higher in subsidiaries with RHQ. In the same vein, referring to the results mentioned above, subsidiary importance is relating to the higher level of internal embeddedness.

The lower degree of local decision-making on strategic sales activities in subsidiaries with an RHQ can be interpreted as the lessened necessity to constantly fight for local decisions grounded in the fact that RHQ is closer to the business. Such closeness, which could also be seen reflected in the external embeddedness results, where lower
degrees of EXTEMB are measured in subsidiaries with RHQ, suggest a certain degree of understanding (of the local customer portfolio) and potentially levels of trust. It may thus result in a decreased necessity to also display power through local decision-making.

The following Table 8-12, shares the comparison on the mean values for the elements of the sales strategy.

<table>
<thead>
<tr>
<th>Sales Strategy Elements</th>
<th>Total Sample (n=52)</th>
<th>No Regional HQ (n=30)</th>
<th>Regional HQ (n=22)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segmentation / Prioritization</td>
<td>6.02</td>
<td>6.20</td>
<td>5.77</td>
</tr>
<tr>
<td></td>
<td>1.21</td>
<td>0.93</td>
<td>1.51</td>
</tr>
<tr>
<td>Customer Relationship Strategy</td>
<td>6.25</td>
<td>6.37</td>
<td>6.09</td>
</tr>
<tr>
<td></td>
<td>0.99</td>
<td>0.89</td>
<td>1.11</td>
</tr>
<tr>
<td>Discounts TradeTerms &amp; Conditions</td>
<td>6.21</td>
<td>6.43</td>
<td>5.91</td>
</tr>
<tr>
<td></td>
<td>1.23</td>
<td>0.94</td>
<td>1.51</td>
</tr>
<tr>
<td>Price Promotions</td>
<td>6.42</td>
<td>6.60</td>
<td>6.18</td>
</tr>
<tr>
<td></td>
<td>0.78</td>
<td>0.56</td>
<td>0.96</td>
</tr>
</tbody>
</table>

Table presents: mean value and standard deviation; measurement scale (local decision) 1 (min) to 7 (max)

Table 8-12 – RHQ mean values of the Sales Strategy Elements

The results point to lower levels of local decision-making in comparison to the total sample, however, still displaying a predominantly locally driven sales strategy, through all the elements identified. The largest difference to the “non-RHQ” sample lies within discounts, trade terms and conditions; the smallest lies in customer relationship strategy. It once more underlines the importance of a locally driven customer relationship strategy, where almost all participants selected very high degrees of local decision-making.

Comparing furthermore the results between RHQ-driven subsidiaries vs. those subsidiaries without an RHQ on the status of the sales strategy implementation (see Table 8-13), two interesting findings can be observed. While subsidiaries with RHQ have a less well-documented sales strategy per se, the level of pay-for-performance implementation is higher (see highlighted figures in Table 8-13). The finding suggests that the sheer existence of a closer-to-local-business governance function (RHQ) may account for clear central guidelines, which subsidiaries do not seem to feel necessary to be explicitly documented in comparison to less tightly coordinated affiliates. On the other hand such relatively close proximity may be perceived as an
additional pressure to deliver pay-for-performance, as the perceived level of control may be higher.

<table>
<thead>
<tr>
<th>Status Strategy Implementation</th>
<th>Total Sample (n=52)</th>
<th>No Regional HQ (n=30)</th>
<th>Regional HQ (n=22)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent is your sales strategy well documented?</td>
<td>4.81</td>
<td>5.23*</td>
<td>4.23*</td>
</tr>
<tr>
<td></td>
<td>1.75</td>
<td>1.60</td>
<td>1.82</td>
</tr>
<tr>
<td>Your sales objectives, strategy and strategic activities can be described as excellent</td>
<td>4.83</td>
<td>5.00</td>
<td>4.59</td>
</tr>
<tr>
<td></td>
<td>1.52</td>
<td>1.29</td>
<td>1.79</td>
</tr>
<tr>
<td>The governance of your sales objectives, strategy and strategic activities can be described as excellent</td>
<td>5.06</td>
<td>5.17</td>
<td>4.91</td>
</tr>
<tr>
<td></td>
<td>1.66</td>
<td>1.53</td>
<td>1.85</td>
</tr>
<tr>
<td>To what extent does your subsidiary ensure a pay-for-performance system?</td>
<td>5.25</td>
<td>5.13</td>
<td>5.41</td>
</tr>
<tr>
<td></td>
<td>1.49</td>
<td>1.55</td>
<td>1.44</td>
</tr>
</tbody>
</table>

Table presents: mean value and standard deviation; measurement scale 1 (min) to 7 (max)

***p<0.000; **p<0.01; *p<0.05

Table 8-13 – Comparison – RHQ Status Sales Strategy Implementation

Conclusively, focusing on the comparison of the path coefficients between both the regional HQ group (“yes”) and the total sample statistically, where no t-value is significant, no clear differences exist between the groups. There is, however, an interesting finding potentially pointing at an important relevance of regional HQs regarding the sales function. Regional HQ are by definition somewhat closer to the local business, thus being able to absorb local differences and adjusting centrally proposed strategic directions accordingly. Likewise, most likely there are higher levels of “trust” involved between the subsidiary and the RHQ, allowing for smaller amounts of potential conflicts and lessened fear, sales to be controlled by the HQ.

8.4.4 Comparison on Country of Origin

The last group to be analysed is the special situation faced in this survey, where about 30% of firms from the overall sample have both HQ and subsidiary located in Germany. Slightly above 50% of the respondents have their HQs also located in Germany (n=28). The results from the model demonstrate only two significant path coefficients in the “HQ Germany” group, which are external embeddedness and
division of strategic sales activities as well as the following path to market performance ($t=2.04$, $p < 0.05$ and $t=2.61$, $p < 0.01$ respectively). R$^2$ values are relatively high for subsidiary importance and the division of strategic sales activities as well as above threshold level for market performance (0.33, 0.46, 0.12 respectively).

Table 8-14 indicates the differences between the sub-group of subsidiaries with German HQ and the total sample. However, also here the two relationships with the relatively high difference in strength, show no significant differences between the two groups.

<table>
<thead>
<tr>
<th>Paths</th>
<th>β Original Model ($n=52$)</th>
<th>β German HQ &quot;yes&quot; ($n=28$)</th>
<th>Difference (total vs. German HQ)</th>
<th>t-statistics (df = 78)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Ext. Embeddedness</td>
<td>Div. of strat. sales activities</td>
<td>0.460*</td>
<td>0.651*</td>
</tr>
<tr>
<td>H2</td>
<td>Int. Embeddedness</td>
<td>Div. of strat. sales activities</td>
<td>-0.324*</td>
<td>-0.344</td>
</tr>
<tr>
<td>H4</td>
<td>Int. Embeddedness</td>
<td>Subsidiary Importance</td>
<td>0.385**</td>
<td>0.558</td>
</tr>
<tr>
<td>H6</td>
<td>Div. of strat. sales activities</td>
<td>Market performance</td>
<td>0.346***</td>
<td>0.342**</td>
</tr>
</tbody>
</table>

***p<0.000; **p<0.01; *p<0.05, df (degrees of freedom) = n1+n2-2; s. significant, n.s. not significant

Table 8-14 – Group Comparison - German HQ vs. Total Sample

**Key Findings 8.2:**

- The control variables – industry sector, subsidiary size, HQ location as well as regional HQ – do not significantly influence the model’s results.
- A higher level of differences to the total sample exists comparing the results of regional HQ versus the total sample with the following findings:
  - External embeddedness influences the degree of local sales strategy decision-making significantly to a larger extent in case of the existence of an RHQ.
  - There is a stronger causal relationship between the degree of local decision-making and market performance of the subsidiary in case of the existence of a RHQ.
8.5 Summary

The preceding chapter rigorously applied the systematic approach to analysing data with the PLS method in two steps, suggested by Hair et al. (2014), as discussed in Chapter 6. The first step concerns the “outer model”, which assesses the measurement model. Therefore, the models’ reliability and validity was established as a first step. Having achieved satisfactory results from the measurement (outer-) model assessment, the structural (inner-)model was then assessed and the hypotheses tested, whereby two hypotheses had to be rejected and four hypotheses were supported. The next section discussed the model’s predictive capacity and relevance, succeeded by the discussion on potential cases of heterogeneity, which could be rejected in all cases.

The subsequent chapter will discuss the results from the analysis above and compares these findings with previous studies, assessing the meaning of these findings for multinational FMCG manufacturers and the sales function in particular.
9. **Discussion – Highlighting the Relevance of Context in IB**

9.1 **Introduction: Study Findings in Relation to Extant IB Knowledge**

The purpose of this chapter is to discuss the findings presented in chapters 7 and 8. Based on the aims and objectives of this research presented in the introductory chapter and the conceptual research model depicted in Figure 5-2, this chapter discusses the research results. The aim of this research was to investigate deeply into the subsidiary’s sales function to add and complement the extant literature in the identified fields of IB (I/R framework, network perspective, subsidiary importance and related subsidiary market performance) as well as to build a bridge to the so far still under-researched field of sales strategy.

The first major findings relate to the concepts of network embeddedness, the division of the strategic sales activities and subsidiary market performance. In line with extant literature, a high degree of external network embeddedness reflects a deep level of customer relationships, which is beneficial for a firm’s performance. Sales functions in FMCG subsidiaries historically built strong and deeply embedded local relationships with their customers, which also result in deep knowledge and capabilities in the sales function. In comparison, the historically rather isolated sales function, with a tendency to avoid transparency within and across functions as well as sister subsidiaries, resulted in a lower level of internal embeddedness and a negative relationship towards the division of strategic sales activities. These findings resulted in the indicated subsidiary’s high level of local decision-making, which has a strong positive impact on its market performance, which is also in line with existing literature.

A deeper analysis into the sales strategy (strategic activities) has shown supportive factors, suggesting the simple formalisation of the sales strategy as well as the provision of a central strategic framework, which is supposed to be locally adapted fitting local customer needs and requirements accordingly. Both factors positively influence customer and internal relationships and as a result subsidiary market performance.

The second major finding relates to the concept of subsidiary importance, which offers unexpected findings rooted in the functional and country context of this study.
Subsidiaries in the present study seem to be unable to bring special sales capabilities forward to influence strategic decisions internally and to attract sister subsidiaries to make use of the acquired knowledge/capabilities. Instead sales knowledge seems to stay more local and the strength of the German economy as well as the importance of local business relationships may be the driver of the subsidiary’s role. This finding attests that the more context-specific subsidiary knowledge (in relation to the sales function) is, the less relevant it may be perceived to be to other subsidiaries and units operating in different market contexts, thus overriding the role typically being derived from organisational performance.

<table>
<thead>
<tr>
<th>Paths</th>
<th>Total Sample (n=52)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Ext. Embeddedness</td>
<td>Div. of strat. sales activities</td>
</tr>
<tr>
<td>H2 Int. Embeddedness</td>
<td>Div. of strat. sales activities</td>
</tr>
<tr>
<td>H3 Ext. Embeddedness</td>
<td>Subsidiary Importance</td>
</tr>
<tr>
<td>H4 Int. Embeddedness</td>
<td>Subsidiary Importance</td>
</tr>
<tr>
<td>H5 Subsidiary Importance</td>
<td>Div. of strat. sales activities</td>
</tr>
<tr>
<td>H6 Div. of strat. sales activities</td>
<td>Market performance</td>
</tr>
</tbody>
</table>

Table 9-1 – Summary Statistical Results of Conceptual Research Model

Table 9-1 summarises all hypothesised relationships as an overview. The chapter discusses the research findings, starting with the subsidiary’s market performance. Then the findings on the subsidiary importance will be discussed and finally a reflection on the group comparisons provided. Section 9.5 summarises the chapter.

### 9.2 Subsidiary Market Performance

Following the concepts of subsidiary market and organisational performance (Andersson et al., 2001b), as discussed in chapter 3, this research offers interesting results. Findings from the research suggest that decisions on strategic sales activities are predominantly taken from a local perspective, which in turn leads to a strong and highly significant relationship to perceived market performance, supporting H6. High levels of external embeddedness and thus deep relationships, suggesting a deep level of knowledge of customer requirements, which are ideally reflected in the high levels of local decision-making on strategic sales activities, and eventually lead to an
increase in subsidiary market performance. There is thus hardly a division of strategic sales activities visible to date between HQ and subsidiary, because the subsidiary is predominantly deciding and performing the strategic sales activities locally, reflecting lower levels of corporate embeddedness. In explaining the impact on subsidiary market performance, two perspectives will be discussed in the following: the aspect of embeddedness in relation to market performance and the strategy standardisation perspective.

**9.2.1 Balancing Levels of Network Embeddedness**

Extant IB literature discusses the importance of external relationships (embeddedness) for a subsidiary’s market performance through the ability to access and absorb special resources or knowledge (Forsgren et al., 1999, Andersson et al., 2002, Andersson et al., 2007, Ciabuschi et al., 2014). Taking the deep embeddedness, i.e. the long grown customer relationships, vs. arm’s length relationships (Andersson et al., 2002) in the current study into account, this study also confirms these earlier empirical findings. With a deeper level of knowledge on customer demands and needs as well as knowing and mutually exchanging on the strategic directions enables manufacturers to make bespoke solutions resulting in a customer-minded decision-making (Andersson and Forsgren, 2000). The distinctive capability regarding customer relationship management is in turn leading to higher levels of satisfaction and likely close cooperation, which results in growing subsidiary market performance, which is also in line with the findings of Birkinshaw (1996). Thus, the present research results confirm earlier findings, in that external embeddedness impacts on subsidiary market performance (Andersson et al., 2002, Andersson et al., 2001b).

More recent literature also points to the importance of internal embeddedness as a likewise critical factor leading towards market performance, even if indirectly. Ciabuschi et al. (2014) realise the importance and the difference both types of embeddedness may have on subsidiary performance in relation to innovation. Ciabuschi et al. (2014) describe internal embeddedness to be an indicator of how well a subsidiary can influence strategic investment decisions regarding innovations, therefore being an indirect contributor to subsidiary performance. The present case shows an upper-medium level of internal embeddedness, which significantly relates to subsidiary importance, however, does not then seem to contribute to market
performance, even indirectly. This may relate to a weaker organisational performance (Yamin and Andersson, 2011), which is the impact a subsidiary has on the MNE through sharing knowledge and special capabilities. According to IB literature (Ciabuschi et al., 2014, Andersson et al., 2001b), there is a tendency for a strong market performance to correlate with organisational performance, where other subsidiaries and also HQ is recognising the special capabilities, which are leading towards an increased market performance, which does not seem to materialise in this case (see deeper discussion in section 9.3).

From the contextual perspective of this study, one reason for the relatively low levels of internal embeddedness per se may simply be grounded in the fact that sales (people) is known for the resistance to transparency in the past (Binckebanck and Höltter, 2012), which seems to be reflected here. Nevertheless, as Storbacka et al. (2009, p.892) also discussed, “sales strategies have implications for the sales process and for the interface of sales not just with customers but also within the organisation”, therefore internal relations also need to be investigated and understood from the sales function’s perspective. In particular, in the light of the increased customer demand for global/international transparency within the FMCG sector, the level of internal embeddedness should increase to ensure internal communication to be most effective. It suggests the need to enhance the ability to make use of local capabilities and knowledge regarding the sales function.

In line with previous research (Birkinshaw and Pedersen, 2009), internal embeddedness could therefore have a more ‘balancing effect’ on the predominantly local decision-making, once it has reached higher levels of depth and particularly in the case of an existing high level business (external) network relationships. The current research still shows a high level of local decision-making, which is strengthened by the negative relationship of internal embeddedness and the division of strategic sales activities. It seems that the strength of the external embeddedness gives more weight to local decision-making than internal policies or strategies to adhere to. It potentially points to an imbalance of both types of embeddedness, the external ties being stronger to a certain extent. High external embeddedness is usually associated with weak HQ control and high degrees of autonomy (Andersson and Forsgren, 1996), whereas high levels of closeness in internal relationships are related to high levels of HQ influence. In the case of a weak external but strong...
internal embeddedness, the sales strategy decided at local level would most likely be less successful due to lacking insights into the retailers’ strategies, needs and requirements. Potentially, such a situation could lead the FMCG subsidiary into an unfavourable local negotiation role not understanding local customer priorities, hence may eventually lead to a reduced market performance.

With the increasing need for integration, balancing HQ strategic efforts through higher levels of cooperation and interaction with the strong external relationships seems to be an important pattern to be better understood regarding the sales function. For the majority of cases following a more local (“multinational”) sales strategy (see Table 7-9, section 7.4.3.2), there is probably a high level of local market focus in place, leading to relatively low internal embeddedness and to high levels of external embeddedness. The findings from a small group within the analysis also suggest that currently for those few subsidiaries who are already experiencing global sales strategies, i.e. HQ providing at least a strategic sales activities framework to their subsidiaries, both internal and external embeddedness are deeper (internal embeddedness significantly deeper with global strategy, see Table 7-9). As the result shows similar levels of local strategic decision-making, it is probable that internal and external embeddedness are rather complementary to each other, as Ciabuschi et.al. (2014) also suggest. It seems that with an increasing level of internal embeddedness, where the subsidiary adopts an HQ strategic framework (with elements such as key performance indicators and guidelines bringing global customers into perspective especially), combined with a high level of existing deep customer relationships, therefore knowing which elements to adapt or potentially modify, may result in a similar level of local decision-making, however, a higher impact in market performance. Despite the limiting fact of only a small number of respondents belonging to this group (n=10), it potentially suggests a trend, which needs further research in the years to come.

It may mean that subsidiaries being connected deeply in both internal and external networks – dual embeddedness – may find themselves in a more favourable situation, which is in line with findings in the literature, e.g. Ciabuschi et al. (2014). External embeddedness is ultimately needed for market success and the acquired knowledge can be paired with internal goals more adequately, which in turn is vital for the strategic role of the subsidiary. Ultimately it relates back to the ideal balance of
integration efforts and local responsiveness, which from the author’s perspective could be achieved through a balanced (ideally high) level of both internal and external network relationships.

9.2.2 Sales Strategy and Global Framework Provision

One aim of this research is also to shed some light on the sales function and more particularly on the sales strategy. Therefore, some additional questions alongside the model have been included to contribute to the sparse literature in the field, also bridging sales literature to existing IB concepts. Section 7.4.3.1 highlighted some findings from the analysis in relation to the sales strategy as such. The key findings were: 1) having high levels of sales strategy implementation (i.e. documentation and standardised with customers) leads to deeper customer relationships and increased market performance; 2) more globally oriented sales strategies show higher levels of market performance with a more balance level of internal and external embeddedness; 3) a strategic framework (at most), providing a common understanding, should be provided centrally, ready to be locally adapted to the specific needs and requirements of the local markets (in contrast to typical marketing strategies).

From an international (marketing) strategy perspective, leaning more closely to the marketing and sales literature, the findings point to an increased level of perceived subsidiary market performance in case of a formalised (i.e. standardised and ‘truly’ implemented) sales strategy. The increased perceived market performance arises mainly due to higher levels of external embeddedness stemming from the adapted customer-oriented local decision-making. Clearly, it is very likely that a formalised or documented sales strategy is also strengthening customer relationships in cases of consolidations. A formalisation at subsidiary level helps to create and maintain transparency internally and may provide, in the case of a customer portfolio approach, a defensible conditions system (Belz and Reinhold, 1999) externally. Formalisation of strategic sales activities can therefore even prevent subsidiaries from a loss of market performance; as in the case of customer consolidations business disruption could be minimised due to such transparency and structure. Business disruptions typically arise from seemingly unfair treatment (prices, conditions, etc.) between customers – not following a coherent strategy.
The finding on formalisation of the sales strategy is somehow in line with the conclusions that Zou and Cavusgil (2002), Cavusgil and Zou (1994) and Kotulla (2012) provide. The authors found a significant positive effect between an implemented, standardised global marketing strategy and a firm’s global market performance. On the contrary, lacking strategic focus and strategic planning would lead to poor performance (Cavusgil and Zou, 1994). Function and scope (subsidiary vs. global market performance) are arguably different, though the tendency to have a structured approach in place, leading towards improved market performance results, can be regarded as more general.

Alongside the formalisation of a sales strategy, the study also finds a promising tendency to increase subsidiary market performance by implementing an adapted version of a global strategic framework as discussed in chapter 7. This finding is in line with Theodosiou and Leonidou (2003) and Cavusgil and Zou (1994), who are proponents of balancing strategic directions between standardisation and adaptation from a contingency perspective and find a positive link to performance. In the present case, ultimately the strategic framework should lead to transparency, which arises with a common understanding of: a) terminology, b) KPIs, as well as c) top management conviction towards the strategic importance of sales.

Bridging sales literature to IB literature, these findings are of major relevance. In line with dedicated sales literature (Ingram et al., 2002, Homburg et al., 2008b, Backhaus et al., 2011), this research confirms the findings as discussed in chapter 4 regarding the strategic elements of which a sales strategy should comprise: customer segmentation/prioritisation; customer relationship management strategy; discounts, trade terms and conditions; price promotions; and target and resource allocations. Both the survey results and in particular the interview partners have allocated the greatest importance to these elements. In addition, the research showed that the elements price promotions and customer relationship management strategies are most sensitive to global strategic guidelines (framework), which are seen as the local tools differing due to, for example, legal and market requirements in the case of price promotions (Gedenk, 2011, Theodosiou and Leonidou, 2003) and cultural and relational peculiarities in the case of relationship strategies. Therefore, MNEs seem to be most successful locally when operating a strategic framework, where the emphasis on local needs is highest in price promotions and customer relationship
strategies and the emphasis on integration is higher in segmentation/prioritisation; discounts, trade terms and conditions and target/resource allocation.

It seems that such a framework, providing the major cornerstones of the strategy – which are in essence the strategic activities or elements as described earlier – will be adapted to the specific situation, needs and requirements faced locally in the given frame. It follows that operating a global strategic framework to be adapted and detailed locally, which is thereby balancing needs for integration and responsiveness, positively influences market performance. Neither the sales literature nor the IB literature regarding the specific functional view has shown research, to the authors’ best knowledge thus far, into the sales function and strategy operating in an MNE. Striving for sales strategy formalisation and providing a global strategic framework could be seen as potential success factors of the MNE and the subsidiary in particular and are therefore indeed major findings of this study.

9.3 Subsidiary Importance

The most counterintuitive and intriguing finding, as briefly touched upon above, is the lack of relevance of subsidiary importance towards strategic decision-making and consequently market performance. Whereas existing literature points to the positively influencing character of a subsidiary’s special capabilities towards MNE strategic decisions, stemming predominantly from knowledge acquisition through its external business partners (Yamin and Andersson, 2011), the findings from this research suggest a very minor relevance of the subsidiary’s role in relation to the MNE regarding strategic decision-making.

What does that mean? On the surface, it suggests that the subsidiaries studied are deciding upon strategic sales activities by themselves without linking the decision-making to guidelines provided centrally or strategic decisions or even influencing these. It seems purely based on the strong customer relationships in the market, i.e. driven by the subsidiary’s level of external embeddedness.

Relating this finding back to the IB literature, authors are arguing for the need to take both internal and external embeddedness into account, to being able to influence strategic decisions at MNE level (Andersson et al., 2007, Yamin and Andersson, 2011). Authors even bring forward the importance of internal embeddedness as a predictor of the level of influence a subsidiary can exert within the MNE (Ciabuschi
et al., 2014). The findings of the current study seem to exert contradictory observations, where there is at least an upper-medium level of internal embeddedness, which also positively relates to subsidiary importance; however, subsidiary importance has no effect on the decision-making process. This finding is also contrasts with the study of Yamin and Andersson (2011), who found a negative relationship between internal embeddedness and subsidiary importance for product and production development.

Interestingly, and also contrary to extant IB literature, the study shows that the external embeddedness is only very weakly related to subsidiary importance. Authors found direct and strong relationships between (technical) embeddedness (Andersson et al., 2002) and subsidiary importance or use external embeddedness as a “predictor of the variation in influence between subsidiaries” (Andersson et al., 2007, p. 816). So typically, a subsidiary’s external relationships are seen as a vital source of distinctive capabilities evolving from specific market knowledge as well as providing special resources for the MNE, which seems different in the present case.

It seems that the process towards and the ultimate impact of subsidiary importance seems to be different in the current study. The potential influence towards strategic decision-making seems not to be driven by the importance of special sales capabilities to other subsidiaries (which is in itself based on a subsidiary’s internal and external network strength). The driving forces seem to be resting in the context of this research, both from a functional, i.e. sales perspective, including the depth of customer relationships and the specific country context of Germany.

9.3.1 The Functional Context

From a functional perspective, the knowledge and capabilities built through external relationships may not be perceived as relevant to the broader organisation, which seems to dilute the effect of external embeddedness on subsidiary importance as shown in the present case. Sales knowledge seems to be perceived as highly country-specific, such as customer relationship management or pricing schemes, and therefore seen as being potentially less valid for sister subsidiaries. From the perspective of subsidiary roles, the concept of subsidiary special competencies or even subsidiaries potentially evolving into centres of excellence is, in contrast to other functions, as typically researched in IB (Andersson and Forsgren, 2000, Holm and Pedersen, 2000), such as R&D, seemingly not relevant to the sales function.
Regarding the lack of an influential role of internal embeddedness, the reluctance towards central decisions / cooperation potentially rests in the history of the sales function in the FMCG sector, where HQs almost invariably were not involved in sales related decisions. The absence of HQ interest in this particular function led to country-specific sales approaches, which have only been disrupted by the advent of international customers. Country-spanning customers needed to be treated somewhat differently, ideally with HQ support through the commonly known IKAMs (international key account managers) or GAMs (global account managers) (Zupancic, 2008, Wilson and Weilbaker, 2004). It seems that the sales function is still in its transition phase towards a global approach, where so far isolated solutions for particular challenges were built such as the GAM, still struggling for the most appropriate and efficient structure. From an IB perspective, one could argue, whether the sales function (in an isolated view) at all has been able so far to create and deepen internal embeddedness solidly.

Another argument for the rather weak internal embeddedness and the lack of subsidiary importance could be the prevailing functional power, which authors like Mudambi et al. (2014) bring forward. In a small sub-sample (n=10, referring to Table 7-9, section 7.4.3.2) of subsidiaries exerting already a more global sales strategy, subsidiary importance increases significantly, which may point to the transition phase the sales function is currently undergoing. This may indicate that the subsidiary’s knowledge and competencies regarding sales strategy have become recognised and shared within the MNE, seemingly breaking with the traditional lack of transparency in sales. According to Mudambi et al. (2014), strategic power is typically developed from upstream functions, such as R&D, whereas business-related power is typically related to downstream functions (e.g. sales). The sales function is still mostly a downstream function, which could be a reason for the lack of influence of subsidiary importance to the division of strategic sales activities between HQ and subsidiary. If the MNE or sister subsidiaries find this knowledge and these competencies to be relevant and recognize it, then the subsidiary may turn functional into strategic power, which in turn may eventually lead to influencing strategic decisions through subsidiary importance. In the present research, this is obviously

25 The results only refer to a small sub-group in the sample, which therefore needs to be approached with care.
not yet the case. The process seems to be different to the empirical studies conducted thus far, developing from a more ‘isolated’ operational sales function and evolving into a vital value adding strategic sales function within the MNE’s value chain.

9.3.2 The Country Context

A second reason for a lack of subsidiary importance stemming from its capabilities could indeed be the sheer size and level of sophistication of the German economy and market, i.e. the special context chosen for this research study. Germany is a vital market for FMCG manufacturers, which potentially may lead to a different perceived role within the MNE network and in particular in relation to the HQ. A subsidiary’s role regarding the sales strategy may not stem from its organisational performance, that is its capabilities being recognised and valued by the larger MNE but the subsidiary’s role may be driven predominantly by its relationships to and in the German market. Taking the responding subsidiaries’ strength of the external embeddedness within the German market into account is supporting this argument.

The results suggest subsidiaries have only medium degrees of internal embeddedness, which may mean that it is even perceived to distract from exerting an influence on the sales strategy globally. Therefore, the division of decisions on strategic sales activities between HQ and subsidiary could be mainly driven by the context of the German market. Arguably, it could be related back to what Bouquet and Birkintshaw (2008) termed “weight” of a particular subsidiary, referring to the perceived strategic significance of the local market. So, HQ’s attention to the local market (as one component of ‘weight’, the other being subsidiary strength) may undermine the subsidiary importance, which does not then seem to play a role influencing an MNE’s strategic decisions, such as who decides on strategic sales activities.

In sum, both functional and country contexts have a significant impact on the findings currently discussed in IB, leading to contradictory results regarding the concept of subsidiary importance. It seems thus of high relevance to consider the particular context in IB research, which implies a cautionary perspective on generalising findings across functions, industries and countries.
9.4 Reflection on Group Comparisons

This section discusses briefly the results of the group comparisons conducted. Four groups are discussed briefly here: the sub-sector comparison, the subsidiary size, subsidiaries with and without RHQ as well as the location of the subsidiary’s HQ. Table 9-2 summarizes the group comparison analysis, showing all relevant relationships.

<table>
<thead>
<tr>
<th>Paths and Groups analysed</th>
<th>Total Model (all subsidiaries) (n=52)</th>
<th>Subsidiaries in Food sector (n=38)</th>
<th>Subsidiaries with Regional HQ (n=22)</th>
<th>Subsidiary size &gt;300 (n=31)</th>
<th>Subsidiaries with HQ in Germany (n=28)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Ext. Embeddedness ➔ Div. of strat. sales activities</td>
<td>+ s.</td>
<td>+ s.</td>
<td>+ s.</td>
<td>+ s.</td>
<td>+ s.</td>
</tr>
<tr>
<td>H2 Int. Embeddedness ➔ Div. of strat. sales activities</td>
<td>- s.</td>
<td>- s.</td>
<td>- n.s.</td>
<td>- s.</td>
<td>- s.</td>
</tr>
<tr>
<td>H3 Ext. Embeddedness Subsidiary Importance ➔</td>
<td>+ n.s.</td>
<td>+ n.s.</td>
<td>+ n.s.</td>
<td>+ n.a.</td>
<td>+ n.s.</td>
</tr>
<tr>
<td>H4 Int. Embeddedness Subsidiary Importance ➔</td>
<td>+ s.</td>
<td>+ n.s.</td>
<td>+ n.s.</td>
<td>+ n.a.</td>
<td>+ n.s.</td>
</tr>
<tr>
<td>H5 Subsidiary Importance ➔ Div. of strat. sales activities</td>
<td>- n.s.</td>
<td>- n.s.</td>
<td>+ n.s.</td>
<td>- n.s.</td>
<td>+ n.s.</td>
</tr>
<tr>
<td>H6 Div. of strat. sales activities ➔ Market performance</td>
<td>+ s.</td>
<td>+ s.</td>
<td>+ s.</td>
<td>+ s.</td>
<td>+ s.</td>
</tr>
</tbody>
</table>

<>/4 relationship; s. significant, n.s. not significant

Table 9-2 – Overview Group Comparisons

Regarding the sub-sector comparisons, food, near- and non-food MNEs were sub-grouped to find potential heterogeneity in the responding sample. Food firms have stronger paths in both relationships: first, external embeddedness and the division of strategic sales activities as well as, second, between internal embeddedness and subsidiary importance. Both differences may be rooted in the dominance of local business in the past decades, where food firms were especially late in internationalising due to strong legal barriers between countries (especially before the EU). As food-producing MNEs are predominantly German-rooted, strong path dependence to the home country – Germany in this case – seems to exist. The level of internal embeddedness seems higher than in other firms; although Yamin (2005) argues that internal relationships are more “given” rather than path dependent as opposed to external network relationships, which are growing over time, i.e. are path dependent. Nevertheless, there seems to be a link between the national-rooted existence and strong internal ties within the MNE. As the results show no significance, heterogeneity can be precluded.
Regarding subsidiary size, the path between external embeddedness to the division of strategic sales activities is close to being significant. This could be related to the potential larger breadth of value chain activities being locally available and thus easier to incorporate in the customer contact – deepening the relationship through several multifunctional ‘partners’ involvement in customer relationships. Subsidiaries in such a position may also therefore be able to more promptly respond and interact with customers versus a more remote or less specialised operating function. However, also in this case there is no heterogeneity issue, as all results are insignificant showing only slight, negligible variability to the ‘original’ model.

Regarding the RHQ, it seems that the existence of a regional HQ can potentially positively influence subsidiary market performance by being closer to the market and being able to somehow pre-adapt centrally developed strategic elements to the respective region. Subsidiaries are then following an already regionally adapted (i.e. reflecting the regional customer structure and needs) version of the strategic framework, which potentially responds even better to local customer needs. Since the comparison group is fairly small, this can only be an indicative finding, which needs further and deeper research in the future.

The last group needs to be critically reflected upon as about 50% of the responding sample has a German HQ. As with the first group (industry sub-sector), two paths are stronger than the full sample’s paths, the external embeddedness to division of strategic sales activities and internal embeddedness to subsidiary importance. The arguments are essentially applicable here too, as in this case also the proximity may be relevant as well as the path dependency, which both account for a closer relationship to the HQ. Similarly, HQ seems to then also be increasingly interested in the subsidiary competencies, which may therefore be more easily exchanged, i.e. the subsidiary importance becomes a higher relevance. Regarding the external embeddedness, the author would argue the path dependence and therefore depth of local business relationships have a strong implication to the high and significant relationship to the decision-making. In relation to the HQ, which is located as close to the subsidiary’s customers and therefore even more likely to be included at times of difficult negotiations, the local decision-making is most likely accepted. Such proximity maybe even suggests higher levels of perceived control at HQ, leading subsidiaries to decide more freely without being controlled.
Conclusively, there are no heterogeneity issues found in all group comparisons analysed, which otherwise could threaten the validity of the PLS-SEM results (Hair et al., 2014).

9.5 Summary

The results of the empirical research and analysis brought about some important new perspectives as well as some major contributions to existing theories, research in IB and most importantly adding knowledge and establishing a link to the sales literature.

Regarding the subsidiary market performance, three main findings were discussed. First, supporting existing literature, the strength of external embeddedness, i.e. strong customer relationships, lead to higher levels of perceived market performance. A balanced internal and external embeddedness may furthermore lead to increased performance results. Second, having a strategic framework in place, which defines broadly the sales strategy globally to be adapted and detailed locally, leads to increased transparency within the MNE, influencing market performance at subsidiary level. The third finding is closely related as it regards the formalisation of the sales strategy, which positively influences the strength of the customer relationship and consequently may lead to increased market performance. An additional finding, which needs to be further closely researched may potentially be the existence of an RHQ, which may positively influence a subsidiary’s market performance due to its proximity to the subsidiary’s market regarding the potentially even more regionally adapted strategic framework provided.

The results on subsidiary importance were rather unexpected as it showed no influence on the strategic decision-making. Reasons may be found in the context of this research, both on a functional and a country level. From a functional perspective, the sales function still acts more locally due to its natural resistance to being transparent in their activities, while in addition, sales knowledge may also be perceived to be highly local. Clearly, sister subsidiaries may perceive the national sales knowledge to be less relevant to their operations. From a country context perspective, subsidiary importance may be overwritten by the sheer importance of the German economy in terms of size relation of this market to an MNE.

The chapter closes with a short review on the group comparisons, which suggests no heterogeneity issues found in the groups analysed.
10. Conclusion

10.1 Introduction

This thesis explored the sales function at the subsidiary level within the FMCG industry in the context of Germany. The main aim was to investigate deeply at subsidiary level how the strategic sales activities are currently decided, i.e. how the MNE is coping with the decision-making dilemma between global integration and local responsiveness. The focal strategic sales activities were investigated per se as well as the function’s relationships towards its customers and internally in order to understand the subsidiary’s role within the MNE regarding strategic decision-making. To further understand the influencing role of the subsidiary, the author investigated the subsidiary importance to the broader MNE. Finally, the relationship between the actual strategic sales decision at local or global levels and the respective subsidiary’s market performance was empirically researched.

The following sections will revisit the research questions outlined in the introductory chapter and thereby recapitulate the main findings of this study. The implications will be discussed both theoretically and managerially. Finally, limitations and recommendations for future research will be depicted.

10.2 Revisiting the Research Questions

Although the decision-making dilemma between global integration and local responsiveness is a broadly discussed field, to the author’s best knowledge no research has yet investigated the sales function in the field of IB. The current research, focusing on the sales functions in subsidiaries of MNEs in the FMCG sector located in Germany, aimed at investigating the following two main research questions outlined in Chapter 1, which will be referred to in the following sections.

Question 1: To what extent are strategic sales activities divided between HQ and subsidiary in the FMCG industry? and sub-question 1a. Which strategic sales activities are carried out by the MNE HQ and/or subsidiaries in the FMCG sector?

The research leads to empirical evidence that there is little division of decision-making between subsidiary and HQ taking place. The responding sample (52 subsidiaries located in Germany) show that the strategic sales activities per se are divided only to a certain extent between subsidiary and HQ, as most strategic
decisions take place at local level. However, as interpreted from the data (statistically and qualitatively interview) analysed, there is most likely a strategic framework being provided by HQ or RHQ to ensure necessary levels of standardisation regarding the strategic elements across countries and across customers within one country. Such standardisation ensures common terminology and KPIs across sales functions at subsidiary level and eventually high levels of transparency necessary to negotiate with international or consolidating customers. However, the still low levels of sales strategy implementation are striking, which upon higher levels of implementation potentially lead to a more transparent sales function internally with somewhat higher levels of subsidiary market performance in return.

Empirical evidence is provided on the strategic elements per se, which are customer segmentation/prioritisation, customer relationship management strategy, discounts, trade terms & conditions, pricing (focus on price promotion in this study due to the high sensitivity of the topic otherwise as discussed in chapter 4) and sales targets and budget allocation. Managers confirmed these elements, whereby customer relationship management strategy and price promotions are seen as predominantly almost purely local decisions. Decisions on customer segmentation/prioritisation, discount, terms & conditions as well as on sales targets, resource and budget allocations are already indicated as being influenced by central decisions to achieve transparency in the light of international customers.

Turning to research sub-question 1b. Does the overall MNE strategic orientation have an impact on the division of strategic sales activities and if so how does the overall strategy impact the division of sales activities?

The results confirm the current findings of Johnson (1995) and Swoboda et al. (2014), where all four strategy types as defined by Bartlett and Ghoshal (1989) were found with a dominance of multinational strategic orientation typical for the FMCG sector (Harzing, 2000) with an increasing tendency towards a global sales strategy. One could argue that the multinational strategic orientation even fuelled the rather local character of the sales function traditionally and helps to explain the rather high scores on local decision-making still observed. In the minority of the cases researched, subsidiaries with a global or international strategic orientation, the results show a tendency for more central sales strategy decision-making, as expected from empirical findings in strategic research. Those firms already at a level of
“transnationality” (n=10) demonstrate a high level of local decisions taken. Despite the small sub-samples, the research can support the conclusion that having a balanced level of global integration efforts and local responsiveness measures seems to be the ideal state to having still locally adapted customer-related sales strategies in place. It also supports the perspective of a strategic framework being centrally provided rather than strategic decisions per se being taken by HQ/RHQ.

Regarding question 1.c. Does subsidiary embeddedness in internal and external networks influence the division of strategic sales activities between HQ and subsidiary?

Focusing on the deep customer relationship as a vital and decisive factor for deciding on strategic sales activities at a local level, one needs to conclude from the empirical research conducted that in particular the external embeddedness plays a crucial role in this regard. First and foremost, it supports the findings from the literature (e.g. Forsgren et al., 2005, Andersson et al., 2007) recognising a high level of external embeddedness as essential in terms of (customer) knowledge acquisition and thus competence development. Secondly, it strengthens the ability to respond locally to specific customer needs. Internal embeddedness in contrast seems relatively low in the sample, which could be rooted in the characteristics of the sales function, traditionally being resistant to working transparently.

However, in the few cases with a relatively strong internal relationship, which potentially enables the subsidiary to spread sales competencies throughout the MNE, if seen and valued by the wider MNE (Yamin and Andersson, 2011), a deep customer relationship can lead to a balanced decision-making. Ciabuschi et al. (2014) refer to a complementary dual internal and external embeddedness, where both forces for integration as well as to local responsiveness can be somewhat balanced. It can be therefore concluded that a strong internal relationship does not necessarily contrast with the strong relationships to a subsidiary’s customers.

A balanced internal and external embeddedness may also imply a meaningful influence on strategic decisions with the MNE from a subsidiary role perspective, if the competences as mentioned above are visible and useful to the wider MNE. Yamin and Andersson (2011) termed it subsidiary importance, which as a result of this research is unexpectedly not a relevant factor of a subsidiary’s strategic
influence to central HQ strategy development. It thus cannot be considered a factor for determining a strategic role of the subsidiary in this particular case. Potential reasons could be the sales function’s rather national-focused tradition only slowly allowing for global integration efforts and the country context of this study. In particular, it may be Germany’s market size and level of market sophistication, which may lead to a subsidiary’s role being mainly driven by the external relationships of the subsidiary in the German market and thus being influential to HQ’s strategic decision-making.

The second main research question refers to the normative perspective of this research: How does the division of the strategic sales activities between HQ and subsidiary affect subsidiary market performance in Germany?

Focusing on the relationship between either the local or central strategic decision-making on strategic sales activities and the subsidiary’s market performance. It can be concluded that a strong external embeddedness, i.e. tight customer relationships, is decisive for a subsidiary’s market performance (Forsgren et al., 1999). Furthermore, the formalisation of the sales strategy may lead to a more transparent and structured, standardised approach, which eventually leads to increased market performance (Kotulla, 2012, Zou and Cavusgil, 2002), as well as that a regional HQ may positively impact on this relationship due to its proximity and therefore increased levels of market (customer) knowledge. Finally, the strong and highly significant causal relationship between local strategic decision-making and the subsidiary’s market performance, under the tendency towards an implementation of a global sales strategy, suggests the conclusion that a central strategic framework adapted to a local strategic decision may lead to increased levels of market performance.

10.3 Implications of the Results

Research in the area of sales and in particular connected to strategic decision-making in particular in the IB environment has so far only sparsely taken place and certainly has its empirical challenges. Although gathering primary data from rather research-resistant sales managers is considered to be rather difficult (Binckebanck and Hölter, 2012), the author achieved a comparatively reasonable effective response rate of 20.6% (52 useable surveys). The support of two reputable agencies, GfK and the
Markenverband, as well as the rather short questionnaire in both modes - on-line and mail formats - certainly helped the author to gain these results. Paired with the results from the interviews, the results were interpreted and contribute to the academic and managerial knowledge.

10.3.1 Theoretical Contributions

From a theoretical perspective, the author aims to contribute to both, the IB as well as the sales literature. Starting with the contributions to the IB literature the author would like to mention two main topics referring to the subsidiary market performance, embracing the network perspective and the concept of subsidiary importance.

First, the main findings and contributions from a network perspective, in particular in relation to the subsidiary market performance, are the following. From a business network perspective, the research confirms the findings of earlier studies. Regarding external embeddedness, the role of its knowledge acquisition capability as well as the ability to locally respond to customers are confirmed, whereas the necessity of higher degrees of internal embeddedness contributes to competence development within the MNE, which is also confirmed by extant literature. The relatively low degree of internal embeddedness in the main sample seems to be influenced by contextual factors, i.e. the sales functions’ natural resistance to transparency. However, there is some minor evidence for a complementary perspective, where both internal and external embeddedness should be seen as balancing forces towards a strategic decision-making, respecting both global integration efforts and local responsiveness. Ultimately it should lead to increased performance levels. The author adds to the empirical field in terms of the sales function – as a downstream value chain activity – which, to the author’s best knowledge, has so far not yet been researched being one of the increasingly important functions.

The current research furthermore adds and contributes to the subsidiary performance-related literature, pointing particularly at the functional perspective, suggesting a strategic framework (strategic elements) to be established as well as formalising the sales strategy to enhance subsidiary market performance. Establishing a strategic framework, however, is closely linked to and built upon an ideally complementary situation of strong internal and external network embeddedness and potentially the existence of a regional HQ. The industry could
utilise regionalisation to be able to cope with local market demands more readily (Rugman, 2000, Rugman and Verbeke, 2004), a field to be considered for further investigation in future research.

Regarding the concept of *subsidiary importance*, the most important finding is the lack of relevance of subsidiary importance to the division of strategic decision-making between HQ and subsidiary. It points to the relevance of context in IB research, seen from two perspectives – the *function* and the *country*. Regarding the country, in the case of a significantly large, important economy like Germany, the business relations external to the MNE are seemingly more influential to strategic decision-making within the MNE than the role of the subsidiary stemming from its special competencies. In addition, it may be that even the functional context influences the result, as sister subsidiaries may perceive sales knowledge to be rather local, thus potentially perceived to be less relevant as a source of competency-building knowledge. Subsidiaries in the case of the sales function still need to develop and visualise competencies developed in the area. This research thereby also broadens the constructs’ traditional indicators to the sales perspective.

In short, the presented research adds to and complements existing literature and empirical findings in the area of IB, by:

- supporting findings regarding the *network* perspective from a downstream value chain activity’s point of view
- adding to previous findings regarding *subsidiary* market *performance* with the impacting result of standardised functional strategies as well as the need for a global framework to be locally adapted
- adding empirical knowledge to the concept of subsidiary importance, where both the *context* of this research (sophisticated and economically large enough market to influence an MNE’s overall results) and the missing acknowledgement of *sales function* as a potential strategic competency possibly account for the lacking relevance of this concept.

Second, the current research also contributes to the existing *sales literature* as well as aiming to bridge both *IB* literature and the field of sales in particular from a strategic perspective. With the confirmation of the elements of a sales strategy, this research contributes to the sparse research in this field. Linking the sales function and the
strategic activities to the IB field by discussing the ‘ideal’ balance between global integration and local responsiveness adds, to the author’s best knowledge, new findings and thus knowledge to the sales literature. Furthermore, it also adds the perspective of the very peculiar industry, the FMCG sector, where the sales function is predominantly in a middle-men position (B-B-C, see chapter 4). It implies a special situation, where the sales function to date was seen less as a strategic function, however, it now needs to move towards a more strategic approach quickly to cope with the retailer side developments as outlined in chapter 4. Clearly, findings on the division of strategic sales activities in the setting of an MNE shed light on the strategic side of a sales function. It thus adds to the under-researched sales strategy literature as it focuses on sales as a function as such rather than sales being seen as a merely people-related research field.

In short, the research findings shed light on the sales function:

- in connection to the IB literature and theories, representing sales as one of the increasingly important (long forgotten) value chain activities of an MNE – completing the missing downstream perspective
- within the field of sales, providing empirical support to literature and findings regarding the sales strategy, contributing to the literature on what constitutes a global sales strategy.

The author thus aims to deliver valuable results to the IB but also sales communities. MNEs need to constantly evaluate and weigh their decisions between coping with the necessity to standardise and the need to adapt to local peculiarities. Driven by the contingency perspective this builds the major theme of the I/R literature. Including the network perspective sheds light on the potential degree of dependency of, for example, the subsidiary on its key customers, keeping its critical resources within the subsidiary, drawing on the resource dependency theory and social exchange theory. It thereby opens the perspective of the strategic role a subsidiary may play within the MNE to actually shape an MNE’s strategic approach and decision-making.

**10.3.2 Managerial Implications**

Within the FMCG sector, the author from experience and also the interviews conducted, realised a lack of strategic thinking within the sales function, which was expressed by the consistently high interest in this topic. Both the interview partners
and those respondents contacted directly, enquiring for their e-mail addresses, were eagerly discussing the ‘best way’ to approach a global sales strategy. Although there is no such thing as a ‘best way’ from a managerial perspective, this research points to three major implications relevant for sales managers in the field of the FMCG industry.

First, although very simple, a properly formulated and implemented sales strategy, including the mind-set of a sales strategy being advantageous in customer relationships, is essential to withstand upcoming challenges in the industry. Purely operational and transactional management of the sales force and customers is clearly becoming a competitive disadvantage in the future.

FMCG MNEs need to be prepared to have a clearly structured, somewhat standardised strategic framework throughout their subsidiaries for gaining transparency on the trade terms and conditions spent in case of retailer consolidation or buying group formation. Only then can manufacturers withhold or at least minimise the demand for cross-country conditions and price comparisons. In addition, the ability to defend prices, terms and conditions provided within a certain country across retailers (local consolidations) or across countries (international consolidations and particularly European buying groups development) potentially saves manufacturers from somewhat unbalanced negotiations.

Secondly, the findings suggest in the case of a global strategy that at the most, either HQ or RHQ should provide a framework towards a global sales strategy, rather than a rigid global strategy to be implemented locally. One of the main reasons is – as the research results imply – the long grown customer relationships in the respective countries, which are fundamental to trusting relationships with high levels of exchange and adaptation between retailer and manufacturer. It forces the subsidiary to higher levels of adaptation of a globally provided strategy, i.e. more flexibility and room for local adaptation from a respective global strategic framework. A recommendation can be provided towards the potential degrees of global integration vs. local adaptation within the strategic elements, which is shown in Table 10.1 and the summarizing Figure 10.1. The results highlight that more central decisions (or at least frameworks towards a decision) should be taken for strategic elements like discounts, trade terms & conditions, customer segmentation and prioritisation as well as more general sales target and resource allocation. The latter strategic element was
shown to be the ‘least global’ element of these three. In contrast, both customer relationship management strategy and price promotions are clearly to be recommended to be decided at local, i.e. subsidiary level.

<table>
<thead>
<tr>
<th>Strategic Sales Elements</th>
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<tbody>
<tr>
<td><strong>Need for Integration</strong></td>
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<tr>
<td>- discounts, trade terms &amp; conditions</td>
</tr>
<tr>
<td>- customer segmentation / prioritisation</td>
</tr>
<tr>
<td>- target &amp; resource allocations</td>
</tr>
<tr>
<td><strong>Need for local responsiveness</strong></td>
</tr>
<tr>
<td>- customer relationship management strategy</td>
</tr>
<tr>
<td>- price promotions</td>
</tr>
</tbody>
</table>

Table 10-1 – Recommended Strategic Element Split

A standardised use of KPIs and terminology may also lead to increased efficiency in the actual negotiation by becoming aware of the amounts spent on a certain condition in relation to a threshold to be established by each condition to be spent. Due to the sensitivity of the topic, more detailed survey questions on the strategic elements and conclusively a deeper recommendation to be derived could not be provided, as it potentially would have negatively affected the effective response rate.

Finally, the research results reveal a tendency to a positive influence of a regional HQ regarding a global sales strategy (see also Figure 10-1). An RHQ is far closer to the subsidiaries than the HQ itself, which already leads to the assumption of knowledge being much closer to the local markets than at HQ levels. In the case of the vastly different customer structures present in the FMCG sector, reaching from a mainly distributor-related, rather traditional trade-driven local business model, such as in most parts of Asia or Africa, towards an environment with predominantly modern trade, where manufacturers have direct customer, i.e. retailer, relationships, such as in Europe, an RHQ has simply a market-driven perspective for the dominant business model. It may serve as a further filter of HQ-driven frameworks or even detailed strategies, which then need to be broken down or at best regionally adapted, e.g. towards the specifics of modern trade retailers within the region of Europe. As suggested by the research results, a coordinating RHQ may lead to enhanced market performance.
Conclusively, sales managers should have a sales strategy implemented providing transparency and potentially leading to efficiency gains through such transparency. The sales strategy ideally follows a global framework provided by the HQ of the manufacturing MNE within the FMCG industry or potentially already adapted to a certain extent to the local market demands by an RHQ.

10.4 Limitations and Recommendations for Future Research

As already indicated on several occasions, this research has some limitations, which the author would like to discuss briefly in combination with future research opportunities where applicable.

First, in order to investigate whether the country context is overly relevant, one needs to run further research projects in several other, ideally both smaller and bigger countries of varying economic importance. Additionally, the market situation regarding the retailer structure could potentially have an influence on strategic decisions, therefore another research project could be cross-country research explicitly comparing countries which are fundamentally different in their retail structure, such as Russia with predominantly traditional trade (through distributors) and few large international modern trade retailers, the UK with predominantly international retailers and almost purely modern trade, Italy with its very cluttered, still traditional market or France being more similar to Germany, with a few international retailers and many domestic retail chains. The findings could then be retested to check if they are supported, serving as fundamental to a more broadly
strategy development support for managers. Theoretically, it would further enhance the knowledge base on the sales function within the industry and in comparison to other industries.

Secondly, as the sales function within the FMCG sector seemingly still is in its transition phase towards global integration, there is a need to revisit the research questions in some years to see the evolution of the sales function into a globally integrated strategic function.

Thirdly, the results of this research are specific to the FMCG industry, which may limit the applicability to other industry sectors, thus the possibility to generalise from the data. The FMCG industry is rather specific in terms of its structure being a B-B-C market, where manufacturers need to deliver products demanded by the market through convincing retailers of its value added in the mostly commodity goods sector. It is because of this peculiarity that the industry was chosen for this research. Nevertheless, potentially, the broader consumer goods industry may benefit from the results, as the dependencies towards retailers are similar albeit less intense in most cases, adding the direct consumer relation to the distribution model.

Fourthly, regarding the rather small sample size, the author undertook several activities to ensure reliability. In recruiting the otherwise rather reluctant sales managers, reputable agencies participated in and supported this research, which led to a relatively satisfactory effective response rate. The data analysis method - PLS-SEM - was suitable for research with an exploratory character and delivering statistically robust results for smaller samples, which in addition may be non-normally distributed, was chosen. Reliability was proven in the analysis; the complementary use of the interviews conducted improved this situation. Nevertheless, future research could deepen findings by trying to focus on sub-groups, such as those subsidiaries with a regional HQ, to reach more respondents and thereby continuing to research into this aspect with a reliable group size.

Furthermore, the author could have included a larger group of HQ counterbalancing surveys, which has been limited to the discussed HQ sample size due to time and budget constraints. A future research avenue could take up this dyadic approach to go even deeper into the strategic decision-making division, understanding the relationships even more closely.
Fifthly, the author would like to point to the construct level, where subsidiary market performance was chosen at the perceptual level. This is due to the fact that subsidiaries in Germany do not need to report their results, being part of a larger organisation, like an AG, or having chosen a business model where public reporting is not obligatory, e.g. GmbH. Nevertheless, authors like Andersson et al. (2001b) found a rather high correlation between perceptual and financial performance measures. Furthermore, the complexity of the perceptual data surveyed was partly overcome through inclusion of the HQ sample, which resulted in similar comparable data. In addition, the overall MNE performance could have been surveyed, however, due to the complexity of this research and the clear focus on the subsidiary level, this aspect was excluded.

Finally, this research precludes the new sales channel online – which will definitely be a game changer for some companies along the way – in particular with those existing customers who are now developing into multi-channel providers. Here the sales function needs to react strategically, how to best integrate this channel into the sales strategy developed for conventional retailers being confronted with different measures of product placement, distribution and promotion. The scope would simply have been too large, due to the complexity of the online topic, which should be researched in its own right. This is clearly a recommendation for future research.
11. Bibliography


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12. Appendices
### 12.1 Summary I/R Literature Review

Table 12-1 – Overview relevant I/R-related literature

<table>
<thead>
<tr>
<th>Authors (Year)</th>
<th>Level of Analysis</th>
<th>Perspective on I/R</th>
<th>Main Findings</th>
<th>Method</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fan et al. (2012)</td>
<td>Firm level</td>
<td>Reviewing pressures influencing international business strategy based on the I/R framework</td>
<td>- <em>pressures</em> influencing international business strategies (global integration, local responsiveness and hybrid factors); - pressures can also be grouped into “perceived factors” (p.15), which reflects contingency perspective: organisational, industrial and environmental contingencies.</td>
<td>Qualitative; cross-level, in-depth interviews (23 semi-structured), CEO or general manager levels at both sides within MNE: HQ and their Australian subsidiaries</td>
<td>9 industries: e.g. oil &amp; gas, manufacturing, banking &amp; financial services, electricity</td>
</tr>
<tr>
<td>Johnson (1995)</td>
<td>Firm level</td>
<td>Testing the I/R classification of Prahalad and Doz (1987)</td>
<td>- understand <em>industry pressures</em>; - all three strategies (globally integrated, locally responsive, multifocal) appear in the industry and can lead to equal performance.</td>
<td>Quantitative; mail survey; 19.2% response rate from 1800 random listed businesses in the industry, in the US</td>
<td>Single global industry context; Construction equipment industry</td>
</tr>
<tr>
<td>Roth and Morrison (1990)</td>
<td>Business unit level</td>
<td>Testing the I/R framework (classification of three strategies by Prahalad and Doz (1987))</td>
<td>- supporting the three strategies (globally integrated, locally responsive, multifocal) identified by Prahalad and Doz (1987) through respective business units found within a global industry; - understanding <em>industry pressures</em> in regards to the I/R.</td>
<td>Quantitative; Mail survey to CEO or presidents of 322 business units; 147 responses, in the US</td>
<td>Global industry: e.g. civil aircraft, semiconductor, electro-medical apparatus, machinery</td>
</tr>
<tr>
<td>Meyer and Su (2015)</td>
<td>Subsidiary level</td>
<td>Use I/R with a contingency (fit) perspective</td>
<td>- investigates into subsidiary performance relation to strategy type according to Bartlett and Ghoshal (1998) – focusing on transnational type; - transnational strategy is found to positively impact on subsidiary performance (if wholly-owned).</td>
<td>Quantitative; survey to subsidiaries of foreign MNEs in Poland and Hungary with 345 responses (13% response rate)</td>
<td>diverse</td>
</tr>
<tr>
<td>Authors (Year)</td>
<td>Level of Analysis</td>
<td>Perspective on I/R</td>
<td>Main Findings</td>
<td>Method</td>
<td>Industry</td>
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<tr>
<td>Swoboda et al. (2014)</td>
<td>Firm level, HQ perspective</td>
<td>Use I/R as conceptual basis by examining international strategies of retailers</td>
<td>- retailers use all four strategy types (international, global, multinational, transnational); - strategy preferences differ across retail sectors (food/non-food); - performance differs between the types;</td>
<td>Quantitative; survey in-depth interviews with 112 managers of 90 retail HQ in Austria, Switzerland and Germany (47% response rate)</td>
<td>Retailing industry</td>
</tr>
<tr>
<td>Meyer and Estrin (2014)</td>
<td>Subsidiary level</td>
<td>Use and extend the I/R framework at the subsidiary level with E (export orientation)</td>
<td>- adding a further dimension to the I/R framework at subsidiary level: “export orientation” (“not all subsidiaries are local market oriented”, p.14)</td>
<td>Quantitative; survey 306 responses – subsidiaries in Poland and Hungary</td>
<td>diverse</td>
</tr>
<tr>
<td>Oh and Rugman (2012)</td>
<td>Firm level</td>
<td>Testing forces for integration (in the light of “regional economic integration”)</td>
<td>- need to decompose integration strategies into global and regional activities of MNEs; - 60% of the observed MNEs act regionally; - globally integrated up-and downstream activities are less frequent; - concerned with response to pressures on regional/global levels</td>
<td>Quantitative, secondary data on 187 large European MNEs</td>
<td>Across industries (e.g. banking, airlines, retailer, automotive, consumer goods)</td>
</tr>
<tr>
<td>Lin and Hsieh (2010)</td>
<td>Subsidiary level</td>
<td>Use the I/R framework at subsidiary level according to Taggart (1997)</td>
<td>- to apply the I/R framework at subsidiary level and relate it to organisational variables (fit between implementation variables – operational capabilities/procedural justice and subsidiary roles as defined in I/R); - a positive relation has been found between subsidiary fit to the ideal role and its performance</td>
<td>Quantitative; survey, 62 responses (41.6% response rate)</td>
<td>Manufacturing industry: engineering (e.g. electronics, machinery, vehicle and parts), chemicals (e.g. pharmaceuticals, cosmetics) and others</td>
</tr>
<tr>
<td>Venaik et al. (2004)</td>
<td>Business unit level (at subsidiary)</td>
<td>Review of I/R literature in the light of operationalisation of the Prahalad and Doz (1987) - framework</td>
<td>- researching both pressures to I/R and the response to it; - discussing the definition of dimensions and conceptualisations and how these are measured (reflective vs formative)</td>
<td>Quantitative, survey, 728 subsidiaries with separate questionnaires per unit – 191 responses from unit heads (26% response rate)</td>
<td>Manufacturing (consumer and industrial markets) and service sectors</td>
</tr>
<tr>
<td>Authors (Year)</td>
<td>Level of Analysis</td>
<td>Perspective on I/R</td>
<td>Main Findings</td>
<td>Method</td>
<td>Industry</td>
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<tr>
<td>Kim et al. (2003)</td>
<td>Business function level: R&amp;D, Manufacturing, Marketing</td>
<td>Use I/R as theoretical base from a contingency and organisational fit perspective</td>
<td>- investigated coordination and control within the MNE and its impact on performance; - found people &amp; information-based modes to be more effective than formalization- and centralisation-based modes</td>
<td>Quantitative; survey to general managers; 161 responses (26% response rate), MNEs with about 13 foreign subsidiaries on average</td>
<td>Integrated global manufacturing industries (e.g. machines, transport, instrument and electronic industries)</td>
</tr>
<tr>
<td>Grein et al. (2001)</td>
<td>Firm level</td>
<td>Test I/R typologies in connection with marketing mix strategy</td>
<td>- examine the relationship between marketing strategies and market share; - considers the different responses to pressures in both areas – Europe and Japan</td>
<td>Quantitative, secondary data</td>
<td>Japanese and European automobile manufacturers</td>
</tr>
<tr>
<td>Devinney et al. (2000)</td>
<td>Firm level</td>
<td>Expand the I/R dimensions – transactional completeness (IRC)</td>
<td>- main question: “how to create and manage a successful international enterprise” (p. 674); concerned with the response to pressures (“why managers make choices they do”, p. 693); - transactional completeness: the pressure to outsource or internalise parts of the value chain</td>
<td>Conceptual paper</td>
<td>n/a; uses examples from telecommunications industry and consumer electronics</td>
</tr>
<tr>
<td>Harzing (2000)</td>
<td>Subsidiary level</td>
<td>Test typology of Bartlett and Ghoshal (1998)</td>
<td>- enlarged the empirical base to test the 4 (3) strategic MNE typologies by Bartlett and Ghoshal (1998); 3 types (global, multinational and transnational) differ on “a number of important characteristics” (p. 115); relationship established between strategy, org. design and subsidiary characteristics</td>
<td>Quantitative, survey with 166 responding subsidiaries of 37 MNEs</td>
<td>8 industries (electronics, computers, motor vehicles, petroleum products, food and beverages, pharmaceuticals, paper and industrial chemicals)</td>
</tr>
<tr>
<td>Authors (Year)</td>
<td>Level of Analysis</td>
<td>Perspective on I/R</td>
<td>Main Findings</td>
<td>Method</td>
<td>Industry</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------</td>
<td>-------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>------------------------------------------------</td>
</tr>
<tr>
<td>Kasper et al. (2009)</td>
<td>Firm level</td>
<td>Apply and connecting I/R framework with knowledge-management</td>
<td>- differences in knowledge sharing practices between strategy types: transnational high intensity, global low intensity of knowledge sharing; quality of shared knowledge differs too</td>
<td>Qualitative; multiple case study with interviews at 3 sites of 8 MNEs – 72 interviewees</td>
<td>Consultancy, IT services, capital goods industry, high tech, logistics</td>
</tr>
<tr>
<td>Birkinshaw et al. (1995)</td>
<td>Industry and firm level</td>
<td>Pressures on global strategy (i.e. using integration as a perspective)</td>
<td>- investigated on influence of structural determinants and competitive factors on strategy development and its performance outcome; strategy has been measured to be responsive to the factors; some industries were “under-globalised” others “optimally globalized” (p.650)</td>
<td>Quantitative; survey 124 responses (using PLS)</td>
<td>10 industries</td>
</tr>
<tr>
<td>Leong and Tan (1993)</td>
<td>Firm level</td>
<td>Testing Bartlett and Ghoshal (1998) typologies</td>
<td>– all types are represented, however, transnational the least and multinational the most followed by international and global; characteristics need to be further distinguishing; early study</td>
<td>Quantitative, survey at a seminar – 131 executives; large MNEs with about 1,000 employees worldwide</td>
<td>Electronics, computers, chemical industry</td>
</tr>
</tbody>
</table>
12.2 Additional Data on the FMCG Industry

<table>
<thead>
<tr>
<th>Food</th>
<th>Near Food</th>
<th>Non-Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>bakery/baked products</td>
<td>baby care and food</td>
<td>cleaning equipment</td>
</tr>
<tr>
<td>beer</td>
<td>body care products</td>
<td>clothing, textile goods</td>
</tr>
<tr>
<td>confectionery</td>
<td>cleansing products</td>
<td>computer/mobile phones</td>
</tr>
<tr>
<td>convenience products (wet)</td>
<td>detergents</td>
<td>consumer electronics</td>
</tr>
<tr>
<td>convenience products (dry)</td>
<td>hair care</td>
<td>household electronics</td>
</tr>
<tr>
<td>deli food</td>
<td>health &amp; fitness products</td>
<td>household aids</td>
</tr>
<tr>
<td>fresh products</td>
<td>household products</td>
<td>sports equipment</td>
</tr>
<tr>
<td>frozen food</td>
<td>household wrapping products</td>
<td>stationary</td>
</tr>
<tr>
<td>grease &amp; oil</td>
<td>hygiene, sanitation products</td>
<td>toys</td>
</tr>
<tr>
<td>hot drinks</td>
<td>oral care products</td>
<td>others</td>
</tr>
<tr>
<td>ice-cream</td>
<td>pet food and care</td>
<td></td>
</tr>
<tr>
<td>non-alcoholic beverages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>spirits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>spread</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tobacco</td>
<td></td>
<td></td>
</tr>
<tr>
<td>white line (dairy products)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>wine &amp; sparkling wine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;yellow line&quot;</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 12-2 – Overview Industry Segments within the FMCG Industry

<table>
<thead>
<tr>
<th>FMCG product example (Miracle, 1965)</th>
<th>FMCG product characteristics (Miracle, 1965, p.20)</th>
<th>Typical customer/reseller types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group I: Cigarettes, candies, razor blades, soft drinks,</td>
<td>“high frequency of purchasing”</td>
<td>Supermarkets, convenience stores</td>
</tr>
<tr>
<td>Group II: dry groceries, pharmaceuticals, small</td>
<td>“rapidity of consumption”</td>
<td>Hypermartks, Drugstores</td>
</tr>
<tr>
<td>hardware items</td>
<td>low unit value</td>
<td>Kiosks, newspaper stands</td>
</tr>
<tr>
<td></td>
<td>low levels of time and effort</td>
<td>Branded flagship store or door to door</td>
</tr>
<tr>
<td></td>
<td>spent at purchase</td>
<td></td>
</tr>
<tr>
<td></td>
<td>low technical complexity</td>
<td></td>
</tr>
</tbody>
</table>

Table 12-3 – FMCG product characteristics

Adapted from Miracle (1965)
12.3 Empirical Research Material

12.3.1 The Interview Guide

The author used this guide for the semi-structured interviews, it thus served only as a frame to the interview conducted. The guide was divided into 5 sub-parts:

**General Questions:**

- Which are the current issues and topics to make firms think about
  - their sales strategy
  - in particular the global sales strategy or sales approach?
- What are you associating with the concept of a global sales strategy in the FMCG sector?
- How should a sales strategy look like? Which are the important elements a sales strategy contain and why?
- Have you experienced a company within the FMCG sector with a successful global sales strategy? If so, what do you think are the success factors?
- Why can company’s like P&G seemingly be successful with their strategy and others are struggling?
- What do you think about the sales function developing increasingly into a centralised value chain activity?
  - Where do you think there may be limits?
  - Which strategic elements do you think are suitable for a global/central approach, which aren’t?
- How do you see the role of sales in regards to being a value adding function compared to marketing? (competitive advantage)

**Decisions on standardization/adaptation:**

- Which experiences have you gathered, when firms need to decide to globally integrate or locally differentiate certain activities?
  - Which were typical topic, problems or challenges you could observe
  - Have you experienced firms, who developed successfully into a balanced approach
    - If so, how? Success factors?
  - Did you experience firms where standardization/centralization has failed?
    - If so, what has been done wrongly from your perspective?
    - Why do you think firms fail?
- Which factors should be taken into account, when thinking about such a fundamental challenge to centralize/standardize the sales function/strategy?
- Which factors do you think are most important and influence such decisions and the ultimate implementation as well as hopefully the resulting success (e.g. internal structure, external relationships, role of the subsidiary)
- How would you handle the heterogeneity across countries (e.g. Russia with more traditional model – mainly distributors, some modern trade – vs. UK or Germany with highly consolidated modern trade structures)
- How do you manage the pressure to integrate being exposed by the retailers?
Role of the subsidiary within the MNE network

• Assuming a successful subsidiary with a considerable size, how do you think about the role of power between HQ and subsidiary? Experiences?
• According to your experiences and opinion, which role does the strength of internal ties between subsidiaries and HQ play? (e.g. frequency of exchange, degree of adaptation of certain processes)
• Which measures would you consider the HQ to take in order to convince an important subsidiary of a central sales strategy? How would you incorporate the subsidiary’s potential expert knowledge in the field?
• Did you ever experience, that relationships external to the subsidiary are closer than relationships internal to the MNE?
  o If so, do you have an example? What were the reasons?
  o Does this have an influence on the attitude of the subsidiary? How does it materialise?
  o How should HQ handle this phenomenon?

External Customer Relationships

• Do you see a relationship between a strong local customer relationship (embeddedness) in a country (e.g. Germany) and the relative independency to the HQ?
  o The stronger the customer relationship the stronger the independency, the less global/central the strategy?
  o The higher the share of national customers (vs international retailers, the stronger the independency, the less local/central the strategy?
• Do you think a tight local embeddedness has an impact on the division of the decision-making on the strategic sales activities between HQ and subsidiary?
  o If so, how?
• How could a subsidiary convince its HQ that the local sales strategy is a suitable approach to strategic customer management?
• How would you deal with such a situation in the perspective of the HQ?

Performance

• How do you think, a sales strategy impacts on market performance (sales turnover, market share, relative sales growth vs. Competitors)
• How do you think would a global (standardized) sales strategy impact on market performance?
• Which elements of the sales strategy do you think are the key drivers to performance? Why?
12.3.2 The Accompanying Letter

Research Project / Doctoral Thesis:
Global Sales Strategy – Successful in Germany?

Sales strategy research within the international consumer goods sector:

Background: increasing external pressure through international retailers for centralisation of sales organisations and increasing internal need for transparency

Questions:
Do we need global/regional or local sales organisations to be successful? What is the current situation in Germany? How to handle international customers?

Your Benefit!
You will receive a management report, allowing you to benchmark your organisation with all participating consumer goods firms

Valuable insights into current practices regarding the sales strategy

Determination of strategic element’s potential on impacting market performance

Your Support! Taking part in the survey!
The survey will take max. 20 minutes of your time, will be anonymous and kept confidential

Environment: multinational consumer goods organisations with subsidiaries’ sales offices in Germany

Participants: general managers, sales directors or senior sales managers in subsidiaries in Germany

Contact:
PhD Candidate at the Manchester Business School
Harriet A. Reichstein-Scholz
Mail Harriet.Reichstein-Scholz@postgrad.mbs.ac.uk
Tel +49 172 3032682

Kindly supported by:

Figure 12-1 – Attachment to Markenverband Pre-Mail on 6th July 2015

12.3.3 Full indicator list - Subsidiary Importance and Division of Strategic Sales Activities

<table>
<thead>
<tr>
<th>Construct</th>
<th>Indicators</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidiary Importance</strong></td>
<td>To what extent is your subsidiary important for other sister subsidiaries’:</td>
<td>Yamin and Andersson (2011),</td>
</tr>
<tr>
<td>7-point-Likert scale</td>
<td>A201_1 … product development</td>
<td>Garcia-Pont et al. (2009)</td>
</tr>
<tr>
<td>(1 “very small” to 7 “very high”)</td>
<td>A201_2 … production development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A201_3 … key account management/organisation development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A201_4 … customer relationship management development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A201_5 … discount, terms and conditions scheme development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A201_6 … sales strategy development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A202_1 To what extent is your subsidiary important for the exchange of sales related best practices to other sister subsidiaries?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A202_2 To what extent has your subsidiary been asked to provide input to a centralized global sales strategy development?</td>
<td></td>
</tr>
<tr>
<td>Division of strategic sales activities</td>
<td>A303_01 to what extent is the decision on <em>customer segmentation and prioritization</em> being taken at subsidiary level?</td>
<td>Cavusgil and Zou (1994), Panagopoulos and Avlonitis (2010)</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------</td>
</tr>
<tr>
<td>7-point-Likert scale</td>
<td>A303_02 to what extent are decisions on <em>customer relationship management strategies</em> (e.g. the quality of relationships) taken at subsidiary level?</td>
<td></td>
</tr>
<tr>
<td>(1 “not at all” to 7 “to a great extent”)</td>
<td>A311_01 The decision on <em>discounts, trade terms and conditions</em> is taken at subsidiary level</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A313_01 The decision on <em>price promotions</em> are taken by the subsidiary</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A314_02 The subsidiary decides locally on sales <em>targets</em> and decides the size of the <em>sales budget</em></td>
<td></td>
</tr>
</tbody>
</table>

Table 12.4 – Full Indicator List

12.3.4 The Online Survey

The online questionnaire published in SoSciSurvey.de from 6th July 2015 - mid September 2015:
Welcome to our research project: Sales Strategy

You are a general manager, sales director or a senior sales manager in a subsidiary of a multinational organization operating in Germany. Are you a manager at headquarter or regional headquarter? In that case please follow this link: headquarter survey

Please answer all questions, there is no "right" or "wrong" answer for all questions in the survey. This survey is anonymous in nature and answers are kept strictly confidential.

Your benefit: you will receive an executive management report. More information can be found at the end of the survey. Do not hesitate to contact us in case of any questions you might have.

Definition of terms:

Customer - exclusively exemplifies the retailer in this study
Headquarter - is the corporate centre of a multinational corporation, where all important functions are coordinated
Regional headquarter - is used to describe the functional- or regional oriented sub-headquarter
Subsidiary - is a national organisation or a multinational corporation coordinated by a corporate headquarter

CONFIDENTIALITY

This study was approved by the ethical committee of the Manchester Business School in June 2015. All information will be kept strictly confidential. Only aggregate level analysis will be used in publications.

Thank you very much! With best regards,
Harriet A. Reichstein-Schulz
Manchester Business School
c/o Prof. Mo Yamin
Booth Street West
Manchester, M15 6PB
UK
3. In which country is your headquarter located?
- [ ] Belgium
- [ ] Denmark
- [ ] Germany
- [ ] France
- [ ] Ireland
- [ ] Japan
- [ ] Netherlands
- [ ] Austria
- [ ] Sweden
- [ ] Switzerland
- [ ] Spain
- [ ] UK
- [ ] USA
- [ ] Other: __________________

4. Please indicate the segment(s) you are operating in:
Please note: should your subsidiary sell products in more than one segment, please choose the most important segments.
- [ ] Food
  - [ ] baby care & food
  - [ ] health & fitness products
  - [ ] hair care
  - [ ] household products
  - [ ] household wrapping products
  - [ ] body care products
  - [ ] oral care products
  - [ ] hygiene, sanitation products
  - [ ] cleaning products
  - [ ] pet food & hygiene
  - [ ] detergents
- [ ] Non Food
- [ ] Others

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7% completed
Part 1: The following five questions focus on your external and internal business relationships.

5. As a subsidiary manager, please think about your local external business relationships, e.g. with customers / retailers or suppliers. Having your largest customers / retailers in mind, how would you evaluate the following statements:

- You have a close business relationship in terms of sales of goods and services. (1-7 ratings)
- You have adapted your resources and activities very much to this counterpart.
- The counterpart has been important for the business for a very long time.

6. Which different functional areas are involved in the direct contact with these customers? Please think about the largest customers / retailers again and select:

- general manager
- sales department
- administration
- purchasing department
- marketing department
- shopper & customer marketing
- production
- supply chain department
- research & development department
- finance department
- others, please specify: [blank]

[Survey completion details]

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15% completed
7. Having the relationship with your largest customers / retailers in mind, which other external counterparts are you operating with and how important are they regarding your customer (retailer) relationship?

<table>
<thead>
<tr>
<th></th>
<th>not important</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>promotional agency (e.g. in-store promotions)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>media agency (e.g. special promotional advertisement)</td>
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<tr>
<td>institutions (e.g. Markenverband)</td>
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<td>market research agency (e.g. GfK, Nielsen)</td>
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<tr>
<td>sales force agency</td>
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<td></td>
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<td>POS agency (e.g. special shop furniture)</td>
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<tr>
<td>customer loyalty programmes (e.g. Payback)</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>online agency</td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

8. Please indicate to what extent the relationship between your subsidiary and headquarter had caused **mutual adaptation** over a range of activities.
Please think about your relationships within your organization (with headquarter and sister subsidiaries).

<table>
<thead>
<tr>
<th></th>
<th>no influence</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>extremely influential</th>
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<tr>
<td>sales practices</td>
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<td></td>
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<td></td>
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<td>marketing practices</td>
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<td>distribution practices</td>
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<td>management systems and practices</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Back | Next

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Back | Next

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22% completed
9. With regard to your corporate counterpart and the sales function, please evaluate the following statements:

<table>
<thead>
<tr>
<th>Statement</th>
<th>totally disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>totally agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters has fully supported your interest in developing a sales strategy.</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>The cooperation with headquarters has been characterized by frequent interaction.</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Business activities and practices are closely linked (interrelated) between headquarters and subsidiary.</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

Part 2: The following questions focus on your subsidiary's role within the larger multinational organization.

10. In your role as a subsidiary manager, to what extent is your subsidiary important for other sister subsidiaries? ...

<table>
<thead>
<tr>
<th>Question</th>
<th>very small</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>... product development?</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>... production development?</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>... key account management / organization development?</td>
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<td>○</td>
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<td>○</td>
<td>○</td>
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<td>○</td>
</tr>
<tr>
<td>... customer relationship management development?</td>
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<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>... discount, terms and conditions scheme development?</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>... sales strategy development?</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

Harriet Rechstein-Scholz, Manchester Business School
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26% completed

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30% completed
To what extent is your subsidiary important for the exchange of sales related best practices to other sister subsidiaries?

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>to a great extent</th>
</tr>
</thead>
</table>

To what extent has your subsidiary been asked to provide input to a centralized global sales strategy development?

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>to a great extent</th>
</tr>
</thead>
</table>

Part 3: The following questions relate to your sales strategy.

11. Please think about your local sales strategy and evaluate the following statements:

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>to a great extent</th>
</tr>
</thead>
</table>

To what extent is your sales strategy well documented?

Your sales objectives, strategy and strategic activities can be described as excellent.

The governance of your sales objectives, strategy and strategic activities can be described as excellent.

To what extent does your subsidiary ensure a pay for performance system?
12. Let us now turn to the strategic elements of a sales strategy. To what extent do the following statements describe what is currently practiced in your organization?

To what extent is the decision on customer segmentation and prioritization being taken at subsidiary level?

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>not at all</td>
<td>O</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to a great extent</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
</tbody>
</table>

Decisions on customer relationship management strategies (e.g. the quality of relationships) are taken at subsidiary level.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>not at all</td>
<td>O</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to a great extent</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
</tbody>
</table>

13. Thinking about your three most important customers, to what extent do the following statement best describe your relationship? Please select:

- we have a solid, purely TRANSACTION based customer relationship strategy
- we have a SOLUTION ORIENTED customer relationship strategy
- we have a COOPERATING partnering customer relationship strategy
- we have a mutual / COLLABORATIVE customer relationship strategy

14. When we set relationship objectives and develop selling models for a customer, we consider the cost and value associated with this customer.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>cost and value consideration</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
</tbody>
</table>
15. Please evaluate the following statements in regards to discount, terms and conditions

<table>
<thead>
<tr>
<th>Not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>The decision on discounts, trade terms and conditions is taken at subsidiary level.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headquarters provides a standardized discount, trade terms and conditions scheme.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. Please evaluate the following statements in regards to price promotions

<table>
<thead>
<tr>
<th>Not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>The decision on price promotions are taken by the subsidiary.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headquarters provides standardized price promotions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. Please evaluate the following statements in regards to target and resource allocation

<table>
<thead>
<tr>
<th>Not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters assigns sales targets to the subsidiary.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The subsidiary decides locally on sales targets and decides the size of the sales budget.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
18. Which of the following strategic elements would you consider most critical to be managed / decided centrally at headquarters?
Please rank the elements, whereby 1 means 'very critical' and 5 means 'less critical'. Please allocate ranks only once.

<table>
<thead>
<tr>
<th>Strategic Element</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer segmentation / prioritization</td>
<td></td>
</tr>
<tr>
<td>Customer relationship management strategies</td>
<td></td>
</tr>
<tr>
<td>Discount, terms and conditions scheme</td>
<td></td>
</tr>
<tr>
<td>Price promotions</td>
<td></td>
</tr>
<tr>
<td>Target and resource allocation</td>
<td></td>
</tr>
</tbody>
</table>

19. To what extent does your subsidiary follow...

<table>
<thead>
<tr>
<th>Fully Differentiated (Local)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Standardized (Global)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

... a global, standardized sales strategy?

20. Reflecting the past years, to what extent did the degree of standardization / differentiation change?

<table>
<thead>
<tr>
<th>Years Ago</th>
<th>Fully Differentiated (Local)</th>
<th>Fully Standardized (Global)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 years ago</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3-5 years ago</td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 5 years ago</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
21. Do you have a regional headquarters? (e.g. European headquarter, which operates between subsidiary and corporate headquarter) Please name the country, where the regional headquarters is located.

- Yes
- No
- Country: [blank]

22. Does your subsidiary’s regional headquarter manage / govern the centralized sales strategy?

- Yes, our sales strategy is managed / governed at regional headquarter
- No, our sales strategy is managed / governed at corporate headquarters
- No, our sales strategy is managed / governed by our subsidiary

Part 4: The following questions focus on market performance. Please provide your evaluation of the subsidiary’s market performance. We are only asking for relative performance evaluation to avoid the exchange of sensitive data.

23. Which are your most important performance indicators for your sales organization? Please rank (1 very important to 4 less important) and allocate ranks only once:

- Sales turnover
- Sales quantity
- Market share (value)
- Profit

24. Based on your current sales strategy, how do you judge your subsidiary’s achievements for:

<table>
<thead>
<tr>
<th>achievements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>increasing its sales turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>increasing its sales quantity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expanding its market share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>growing its profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Back Next
Part 5: The final nine questions are of general nature regarding your organization.

26. To what extent does your company's corporate strategy allow you to...
Please think about your organization’s general strategic orientation through headquarter.

- try to adapt products and practices to tastes and values in different locations world-wide?
- operate in different locations by competing on a local basis?
- treat markets in each location separately?

27. To what extent does your company at headquarter level...

- define its competitive position on a global basis.
- have operations in different locations world-wide that are closely linked and interconnected.
28. To what extent are decisions taken on the following issues for the subsidiary by the headquarter, the subsidiary itself, or both:

<table>
<thead>
<tr>
<th>decisions at headquarter level</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>jointly</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>decisions at subsidiary level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of new products or services</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Restructuring of the subsidiary organization involving creation and elimination of departments</td>
<td>☐</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Hiring and firing of subsidiary's top managers</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☒</td>
<td>☐</td>
</tr>
</tbody>
</table>

29. Please indicate, which of the following value adding activities your subsidiary performs.

- ☐ product sales & after-sales service
- ☐ marketing
- ☐ shopper & customer marketing
- ☐ sale of professional services
- ☐ logistics / distribution
- ☐ manufacturing
- ☐ provision of strategic services (e.g. regional headquarters)
- ☐ research & development
- ☐ “back-office” support

---

Harriet Reischlein-Scholz, Manchester Business School
+49-172-3032682, Harriet.Reischlein-Scholz@postgrad.mbs.ac.uk

78% completed

Harriet Reischlein-Scholz, Manchester Business School
+49-172-3032682, Harriet.Reischlein-Scholz@postgrad.mbs.ac.uk

91% completed
30. Please indicate the year of establishment.

When was your subsidiary established? 

When was your company established?

31. How many people does your company employ?

Total number of employees 

Number of employees in subsidiary 

32. What is the status of your subsidiary?

☐ wholly owned

☐ joint venture

☐ others, please indicate: 

33. What is the relative size of the subsidiary in relation to the parent (in sales turnover)?

<table>
<thead>
<tr>
<th>less than 1%</th>
<th>between 1-10%</th>
<th>10-20%</th>
<th>20-30%</th>
<th>30-40%</th>
<th>40-50%</th>
<th>more than 50%</th>
</tr>
</thead>
</table>

relative sales turnover in relation to the total company’s turnover

85% completed

Henri Rechsteiner-Schulz, Manchester Business School
+44-172-3323652, Henri.Rechsteiner-Schulz@postgrad.mbs.ac.uk
34. What is your subsidiary's relative position in the industry? (please, consider the market segment you are operating in)

very low | 1 | 2 | 3 | 4 | 5 | 6 | 7 | very high
--- | --- | --- | --- | --- | --- | --- | --- |
Our local market share is very high relative to our major competitors.
We have been able to build a global leadership position in our industry.

Information regarding the executive management report

Do you wish to receive an executive management report in early summer 2016? The report will detail current "best practices" and enables you to benchmark your current situation with the industry's current practice regarding the sales strategy. Furthermore its potential impact on market performance will be highlighted in regards to several division models.

Your e-mail address will be treated anonymously and will not be linked to the answers given in the preceding survey. All information will be kept strictly confidential.

☐ I am interested in the results of this study. Please send me an abstract by e-mail.
Information regarding the executive management report

Do you wish to receive an executive management report in early summer 2010? The report will detail current "best practices" and enables you to benchmark your current situation with the industry's current practice regarding the sales strategy. Furthermore its potential impact on market performance will be highlighted in regards to several division models.

Your e-mail address will be treated anonymously and will not be linked to the answers given in the proceeding survey. All information will be kept strictly confidential.

Yes, I am interested in the results of this study. Please send me an abstract by e-mail.

Name

E-mail address

Thank you for your participation!

By participating, you have contributed to the success of this research project.

Hamlet Reichstein-Scholz, Manchester Business School
+49-172-3052052, Hamlet.Reichstein-Scholz@postgrad.mbs.ac.uk

98% completed

Hamlet Reichstein-Scholz, Manchester Business School
+49-172-3052052, Hamlet.Reichstein-Scholz@postgrad.mbs.ac.uk
### 12.4 Additional Data on Respondents

#### Total Years of Employment in Current Company

<table>
<thead>
<tr>
<th>Subsidiary Level</th>
<th>&lt; 1 year</th>
<th>1 - 2 years</th>
<th>3 - 5 years</th>
<th>6 - 9 years</th>
<th>&gt; 10 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td># of respondents</td>
<td>3</td>
<td>5</td>
<td>13</td>
<td>8</td>
<td>23</td>
<td>52</td>
</tr>
<tr>
<td>in %</td>
<td>5.8</td>
<td>9.6</td>
<td>25.0</td>
<td>15.4</td>
<td>44.2</td>
<td>100</td>
</tr>
<tr>
<td>Online Sample</td>
<td>0</td>
<td>4</td>
<td>9</td>
<td>3</td>
<td>14</td>
<td>30</td>
</tr>
<tr>
<td>Mail Sample</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>9</td>
<td>22</td>
</tr>
</tbody>
</table>

#### HQ Level

<table>
<thead>
<tr>
<th># of respondents</th>
<th>in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>30.7</td>
</tr>
<tr>
<td>3</td>
<td>23.1</td>
</tr>
<tr>
<td>3</td>
<td>46.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 12-5 – Respondent’s Total Years of Employment

#### HQ Country

<table>
<thead>
<tr>
<th>HQ Country</th>
<th># of Respondents</th>
<th>in % of total (n=253)</th>
<th># of Respondents</th>
<th>response rate in %</th>
<th>in % of total (n=52)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>91</td>
<td>36.0%</td>
<td>28</td>
<td>30.8%</td>
<td>53.8%</td>
</tr>
<tr>
<td>USA</td>
<td>41</td>
<td>16.2%</td>
<td>6</td>
<td>14.6%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>14</td>
<td>5.5%</td>
<td>3</td>
<td>21.4%</td>
<td>5.8%</td>
</tr>
<tr>
<td>France</td>
<td>17</td>
<td>6.7%</td>
<td>3</td>
<td>17.6%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>20</td>
<td>7.9%</td>
<td>3</td>
<td>15.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>3</td>
<td>1.2%</td>
<td>2</td>
<td>66.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td>UK</td>
<td>12</td>
<td>4.7%</td>
<td>2</td>
<td>16.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1</td>
<td>0.4%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1</td>
<td>0.4%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Finland</td>
<td>2</td>
<td>0.8%</td>
<td>1</td>
<td>50.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Denmark</td>
<td>4</td>
<td>1.6%</td>
<td>1</td>
<td>25.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>11</td>
<td>4.3%</td>
<td>1</td>
<td>9.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Poland</td>
<td>1</td>
<td>0.4%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Israel</td>
<td>1</td>
<td>0.4%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>South Korea</td>
<td>1</td>
<td>0.4%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Turkey</td>
<td>1</td>
<td>0.4%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>3</td>
<td>1.2%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>China</td>
<td>3</td>
<td>1.2%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Belgium</td>
<td>4</td>
<td>1.6%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Austria</td>
<td>5</td>
<td>2.0%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Sweden</td>
<td>7</td>
<td>2.8%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
<td>4.0%</td>
<td>1</td>
<td>100.0%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

| Total            | 253              | 100                   | 52               | 20.6               | 100                  |

Table 12-6 – Respondents by Country of HQ
### 12.5 Statistical Power Table

Sample Size Recommendation in PLS-SEM for a Statistical Power of 80%

<table>
<thead>
<tr>
<th>Maximum number of arrows pointing at a construct</th>
<th>Significance Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum $R^2$</td>
</tr>
<tr>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>0.10</td>
<td>0.25</td>
</tr>
<tr>
<td>158</td>
<td>75</td>
</tr>
<tr>
<td>176</td>
<td>84</td>
</tr>
<tr>
<td>191</td>
<td>91</td>
</tr>
<tr>
<td>205</td>
<td>98</td>
</tr>
<tr>
<td>217</td>
<td>103</td>
</tr>
<tr>
<td>228</td>
<td>109</td>
</tr>
<tr>
<td>238</td>
<td>114</td>
</tr>
<tr>
<td>247</td>
<td>119</td>
</tr>
<tr>
<td>256</td>
<td>123</td>
</tr>
</tbody>
</table>

Table 12-7 – Statistical power

Source: Hair et al. (2014, p. 21)