

Katharina Kretschmer

Performance Evaluation of Foreign Subsidiaries

mir-Edition

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Katharina Kretschmer

Performance Evaluation of Foreign Subsidiaries

With a foreword by Prof. Dr. Stefan Schmid

GABLER EDITION WISSENSCHAFT

Bibliografische Information der Deutschen Nationalbibliothek
Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der
Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über
<<http://dnb.d-nb.de>> abrufbar.

Bibliographic information published by the Deutsche Nationalbibliothek
The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie;
detailed bibliographic data are available in the Internet at <http://dnb.d-nb.de>.

Dissertation, ESCP-EAP Europäische Wirtschaftshochschule Berlin, 2007

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Abonnenten von mir – Management International Review erhalten auf die in der mir-Edition
veröffentlichten Bücher 10% Rabatt.

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1. Auflage 2008

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Lektorat: Claudia Jeske / Jutta Hinrichsen

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Umschlaggestaltung: Regine Zimmer, Dipl.-Designerin, Frankfurt/Main

Gedruckt auf säurefreiem und chlorfrei gebleichtem Papier

Printed in Germany

ISBN 978-3-8349-1149-0

Vorwort der Herausgeber

Die internationale Geschäftstätigkeit ist für Unternehmen, die davon berührten Länder und die Weltwirtschaft zum Schlüsselfaktor des Erfolgs geworden. Die Herausgeber beabsichtigen mit der Schriftenreihe **mir-Edition**, die multidimensionalen Managementanforderungen der internationalen Unternehmenstätigkeit wissenschaftlich zu begleiten. Die **mir-Edition** soll zum einen der empirischen Feststellung und der theoretischen Verarbeitung der in der Praxis des internationalen Managements beobachteten Phänomene dienen. Zum anderen sollen die hierdurch gewonnenen Erkenntnisse in Form von systematisiertem Wissen, Denkanstößen und Handlungsempfehlungen verfügbar gemacht werden.

Diesem angewandten Wissenschaftsverständnis fühlt sich seit nunmehr dreißig Jahren auch die in über 40 Ländern gelesene und jüngst von 1380 US-Professoren als "best rated journal" im internationalen Management platzierte internationale Fachzeitschrift **mir** - Management International Review - verpflichtet. Während dort allerdings nur kurzgefasste Aufsätze publiziert werden, soll hier der breitere Raum der Schriftenreihe den Autoren und Lesern die Möglichkeit zur umfänglichen und vertieften Auseinandersetzung mit dem jeweils behandelten Problem des internationalen Managements eröffnen. Der Herausgeberpolitik von **mir** entsprechend, sollen auch in der Schriftenreihe innovative und dem Erkenntnisfortschritt dienende Beiträge einer kritischen Öffentlichkeit vorgestellt werden. Es ist beabsichtigt, neben Forschungsergebnissen, insbesondere des wissenschaftlichen Nachwuchses, auch einschlägige Werke von Praktikern mit profundem Erfahrungswissen im internationalen Management einzubeziehen.

Das Auswahlverfahren sieht vor, dass die Herausgeber gemeinsam über die Veröffentlichung eines in der Reihe erscheinenden Werkes entscheiden. Sie laden zur Einsendung von Manuskripten in deutscher oder englischer Sprache ein, die bei Auswahl jeweils in der Originalsprache publiziert werden.

Die Herausgeber hoffen, mit dieser Schriftenreihe die fachliche Diskussion und praktische Lösung von Problemen des internationalen Managements zu stimulieren, und wünschen der **mir-Edition** eine positive Aufnahme in den Zielgruppen von Wissenschaft, Praxis und Studium des internationalen Geschäfts.

Klaus Macharzina, Martin K. Welge,
Michael Kutschker, Johann Engelhard

Foreword of the Editors

Recognizing the importance of international business for firms, countries and the global economy at large, the Series aims at covering the managerial requirements, objectives and tools of international business activity from the standpoint of applied research. The goal of **mir-Edition** is to explore and analyze the real world phenomena of international management and to offer on a more general level systematic knowledge and advice in terms of practical recommendations to problem solution.

This basic understanding of research has also guided the editorial policy of **mir** - Management International Review - which has had its readers in more than 40 countries for thirty years. While in the Journal naturally there is only room for relatively short treatment of the respective subject matters the Series opens up the possibility for comprehensive and in-depth study and discussion of international management problems. Similar to the editorial policy of **mir** the volumes of the Series should contribute in an innovative manner to the progress of discovery both in the theoretical and practical dimension. It is therefore intended to include in the Series excellent academic contributions, particularly of the young generation of researchers, but also experiential works of distinguished international managers.

Similar to the high aspiration level which has been achieved in **mir** and which has led to the Journal being ranked number one in International Management by 1380 US professors recently, only contributions of very high quality will be accepted in the Series. The selection decision will be made collectively by the Editors. Manuscripts are invited in English and German; they will be published in the original form.

The Editors sincerely hope to stimulate the discussion and to assist in the solution of problems in the area of international management by way of the Series. They wish that **mir-Edition** will receive a positive welcome among the major target groups which comprise academics, students and managers in international business.

Klaus Macharzina, Martin K. Welge,
Michael Kutschker, Johann Engelhard

Foreword

In International Business (IB) and International Management (IM) literature headquarters-subsidary relationships have been an important topic for many decades. In some publications they are analyzed from the perspective of the hierarchically structured MNC, in other publications they are studied from the perspective of the network MNC. It is surprising, however, that the literature on headquarters-subsidary relationships has not taken a central question into account: How are MNC subsidiaries evaluated when it comes to their performance, and does the role of a subsidiary have an influence on performance evaluation? The present contribution by Katharina Kretschmer aims at filling this gap.

The research on which this publication is based is part of the research programme at my department which is devoted to exploring the management of foreign subsidiaries. Katharina Kretschmer shares the assumption that foreign subsidiaries can play various roles within the MNC. She uses the prominent typologies by Bartlett/Ghoshal and Gupta/Govindarajan to establish the link between the role of an MNC subsidiary and the way performance evaluation is carried out. To accomplish her objectives, Katharina Kretschmer develops a systematic conceptual framework on different components of performance evaluation. She formulates theoretically grounded propositions which are, later on, confronted with empirical data.

By using a case study approach, involving two German MNCs in a transnational industry, Katharina Kretschmer's contribution is manifold. First, unlike many other authors in the subsidiary role typology field within IB/IM research, Katharina Kretschmer studies various subsidiaries within MNCs (instead of analyzing subsidiaries across MNCs). Second, Katharina Kretschmer succeeds in finding empirical evidence for the fact that subsidiaries within an MNC are indeed having various roles. Third, the research carried out confirms that the role of a subsidiary can have an influence on the performance evaluation.

The contribution of the current research is also highly relevant for management practice. While it was discovered during the research process that MNC subsidiaries have various roles and hence are also evaluated differently, managers did not always actively and deliberately use the differentiation potential. Instead, there is still reason to believe that some elements of performance evaluation are not fully linked to the role a subsidiary has. In other words: In the future, MNC top-management could benefit from even more considering the relationship between the subsidiary role and the related consequences. Good parents know that their children may differ, and hence they approach them differently. The same holds true for MNCs: Headquarters

should not treat all subsidiaries alike – also when it comes to performance evaluation.

I am sure that, given its high relevance, its obvious quality, and its innovativeness, the work by Katharina Kretschmer will not only influence future research in the IB/IM field, but can also be very valuable for management practice.

Berlin, July 2008

Stefan Schmid

Preface

This thesis has been accepted as Ph.D.-Thesis at the ESCP-EAP European School of Management Berlin in 2007. Only minor formal corrections have been made for this publication. The thesis has been written during my work as research and teaching assistant at the Chair of International Management and Strategic Management at ESCP-EAP Berlin. I would like to use this preface to thank all persons who accompanied and supported this project.

First of all, I would like to express my gratitude to my academic teacher and "Doktorvater" Prof. Dr. Stefan Schmid. He was always available and approachable as a discussion partner, provided fruitful ideas and came up with the right comments at the right time. By asking the relevant questions he guided this project into the right direction. Prof. Schmid did not only supervise my dissertation project, but constantly exemplified enthusiasm and joy to do research and teach students through his own life. Thereby, he inspired me throughout my exciting and instructive years at the Chair of International Management and Strategic Management. Thanks a lot!

I am also much obliged to Prof. Dr. Michael-Jörg Oesterle who did not hesitate to act as second reviewer for my thesis. He already influenced the first milestones of this project when commenting my presentation at our joint doctoral colloquium. Prof. Oesterle provided helpful comments and was always concerned that the wood remained visible despite for all the trees. Thank you very much!

The empirical part of this thesis is based on case studies with two multinational corporations. I am grateful for the support and energy the responsible persons put into this project. I would like to thank every single interview partner who took the time for lengthy and detailed discussions. Thank you for supporting this academic research project! Without these discussions the important and very interesting insights into how subsidiaries are evaluated in management practice would not have been possible. Conducting the interviews required a significant amount of travel which, of course, beared cost. The "Förderverein Kurt Fordan" provided me with a generous scholarship which made it possible to design the empirical research in an optimal way. For this and the opportunity to be part of a special network of entrepreneurial young people, I would like to express my gratitude to Kurt Fordan.

In addition, I would like to thank my fellow research and teaching assistants who supported me extensively in a number of ways: On the one hand, they took over my duties and responsibilities at the Chair of International Management and Strategic Management so that I could spend half a year working exclusively on my thesis. On the other hand, they provided me with helpful comments and ideas for my own

research. Furthermore, they revised selected chapters of this thesis with patience and attention so that Prof. Schmid's (very high) demands concerning structure and formal requirements could be met. My thanks go to: Dipl.-Psych. Andrea Daniel, Dipl.-Kffr. Julia Maurer, Dr. Matthias Daub, Dipl.-Kfm. Mario Machulik, Dipl.-Kffr. Monika Dammer, Dipl.-Kfm. Philipp Grosche, Dipl.-Kffm. Stephan Schulze, Dipl.-Kffr. Swantje Hartmann and Dipl.-Kfm. Thomas Kotulla. In this respect, I would also like to thank Renate Ramlau and Dipl.-Kffr. Bernadette Müller for their support!

Input regarding structure, form and content is not sufficient to finalize a thesis: The required motivation and persistency were triggered by my family, my partner Matthias Hefter and my friends who accompanied my challenging journey called "Ph.D.-thesis". Special thanks go to my parents who were sceptical about this project at first, but then supported it in all respects and with all possible efforts. They provided the necessary backing and support for this project to become a success. This thesis is dedicated to my parents and grandparents.

Bonn, July 2008

Katharina Kretschmer

Overview of the Contents

- 1 Introduction1**
 - 1.1 Performance Evaluation of Foreign Subsidiaries as a Management Problem1**
 - 1.2 Research Background and Research Questions2**
 - 1.3 Outline of the Study.....4**

- 2 Defining Performance Evaluation and Its Role as Control Mechanism.....7**
 - 2.1 Performance Evaluation as Control Mechanism.....7**
 - 2.2 The Concept of Performance Evaluation.....17**
 - 2.3 An Integrative Concept of Performance Evaluation24**

- 3 Review of the Literature on Performance Evaluation of Foreign Subsidiaries.27**
 - 3.1 Objectives and Methodology of the Literature Review.....27**
 - 3.2 Descriptive Contributions on Performance Evaluation of Foreign Subsidiaries30**
 - 3.3 Explanatory Contributions on Performance Evaluation of Foreign Subsidiaries35**
 - 3.4 Conclusions and Implications of the Literature Review.....42**

- 4 The Research Framework.....45**
 - 4.1 A Contingency Framework of Role-Specific Performance Evaluation.....45**
 - 4.2 Propositions on Role-Specific Performance Evaluation68**

- 5 The Empirical Study.....91**
 - 5.1 Research Design.....91**
 - 5.2 Operationalization of the Elements of the Contingency Framework.....99**
 - 5.3 Data Collection.....118**
 - 5.4 Data Analysis122**
 - 5.5 Review of the Research Approach129**

- 6 Empirical Findings133**
 - 6.1 Empirical Findings on “Eucom”133**
 - 6.2 Empirical Findings on “Gloneer”181**
 - 6.3 Comparison of the Role-Specific Performance Evaluation at Eucom and Gloneer.....289**

- 7 Contributions, Limitations and Implications for Future Research.....293**

Contents

Figures	XVII
Tables	XIX
1 Introduction	1
1.1 Performance Evaluation of Foreign Subsidiaries as a Management Problem	1
1.2 Research Background and Research Questions	2
1.3 Outline of the Study.....	4
2 Defining Performance Evaluation and Its Role as Control Mechanism.....	7
2.1 Performance Evaluation as Control Mechanism.....	7
2.1.1 Control	7
2.1.2 Performance as Achievement of Legitimate Goals	12
2.1.3 Evaluation as Control Step	16
2.2 The Concept of Performance Evaluation.....	17
2.2.1 The Role of Performance Evaluation within the Control Mix.....	18
2.2.2 The Content of Performance Evaluation.....	20
2.2.3 The Process of Performance Evaluation	22
2.3 An Integrative Concept of Performance Evaluation	24
3 Review of the Literature on Performance Evaluation of Foreign Subsidiaries.....	27
3.1 Objectives and Methodology of the Literature Review.....	27
3.2 Descriptive Contributions on Performance Evaluation of Foreign Subsidiaries	30
3.2.1 Topics of Descriptive Contributions	31
3.2.2 Differentiation of Performance Evaluation in Descriptive Contributions.....	32
3.2.3 Methodologies and Research Design of Descriptive Contributions	34
3.3 Explanatory Contributions on Performance Evaluation of Foreign Subsidiaries	35
3.3.1 Topics of Explanatory Contributions	35
3.3.2 Differentiation of Performance Evaluation in Explanatory Contributions.....	36
3.3.3 Methodologies and Research Design of Explanatory Contributions	40
3.4 Conclusions and Implications of the Literature Review.....	42

- 4 The Research Framework.....45**
- 4.1 A Contingency Framework of Role-Specific Performance Evaluation.....45**
- 4.1.1 Contingency Theory as Theoretical Background45
 - 4.1.1.1 Introducing Contingency Theory46
 - 4.1.1.2 Excluding Other Organization Theories48
- 4.1.2 Developing a Contingency Framework of Role-Specific Performance Evaluation52
 - 4.1.2.1 General Contingency Framework of Role-Specific Performance Evaluation52
 - 4.1.2.2 Selection of Role Typologies to Specify the Contingency Factor.....54
 - 4.1.2.3 Identification of Two Relevant Role Typologies59
 - 4.1.2.4 Specified Contingency Framework of Role-Specific Performance Evaluation64
- 4.1.3 Review of the Contingency Framework65
- 4.2 Propositions on Role-Specific Performance Evaluation68**
- 4.2.1 Performance Evaluation of Subsidiaries in Bartlett and Ghoshal’s Role Typology69
 - 4.2.1.1 Predictions for the Strategic Importance of the Market69
 - 4.2.1.2 Predictions for the Competence of the Local Organization72
 - 4.2.1.3 Propositions on the Impact of the Subsidiary Roles on Performance Evaluation.....74
 - 4.2.1.3.1 Strategic Leader74
 - 4.2.1.3.2 Contributor75
 - 4.2.1.3.3 Implementer77
 - 4.2.1.3.4 Black Hole78
- 4.2.2 Performance Evaluation of Subsidiaries in Gupta and Govindarajan’s Role Typology79
 - 4.2.2.1 Predictions for Knowledge Inflow80
 - 4.2.2.2 Predictions for Knowledge Outflow81
 - 4.2.2.3 Propositions on the Impact of the Subsidiary Roles on Performance Evaluation.....84
 - 4.2.2.3.1 Integrated Player84
 - 4.2.2.3.2 Global Innovator86
 - 4.2.2.3.3 Local Innovator.....87
 - 4.2.2.3.4 Implementor88

5	The Empirical Study	91
5.1	Research Design	91
5.1.1	Rationale for a Qualitative Case Study Approach.....	91
5.1.2	The Multiple Case Design.....	93
5.1.2.1	Introduction on the Case Design.....	93
5.1.2.2	The Selection of Business Units as Cases	94
5.1.2.3	The Selection of Subsidiaries as Units of Observation	96
5.2	Operationalization of the Elements of the Contingency Framework	99
5.2.1	Operationalization of the Role Typologies	99
5.2.1.1	Operationalization of Bartlett and Ghoshal’s Subsidiary Roles	100
5.2.1.1.1	Background of the Classifying Dimensions	100
5.2.1.1.2	Strategic Importance of the Market	102
5.2.1.1.3	Competence of Local Organization	104
5.2.1.2	Operationalization of Gupta and Govindarajan’s Subsidiary Roles..	107
5.2.2	Operationalization of the Performance Evaluation Concept	111
5.2.2.1	Operationalization of the Role of Performance Evaluation within the Control Mix.....	111
5.2.2.2	Operationalization of the Content of Performance Evaluation	114
5.2.2.3	Operationalization of the Process of Performance Evaluation	116
5.3	Data Collection	118
5.4	Data Analysis	122
5.5	Review of the Research Approach	129
6	Empirical Findings	133
6.1	Empirical Findings on “Eucom”	133
6.1.1	Introducing Eucom and Its Subsidiaries.....	133
6.1.2	The German Subsidiary of Eucom.....	135
6.1.2.1	The Roles of the German Subsidiary – Contributor and Global Innovator.....	136
6.1.2.2	The Evaluation of the Performance of the German Subsidiary	139
6.1.3	The Spanish Subsidiary of Eucom.....	148
6.1.3.1	The Roles of the Spanish Subsidiary – Implementer and Local Innovator.....	148
6.1.3.2	The Evaluation of the Performance of the Spanish Subsidiary	152
6.1.4	The Finnish Subsidiary of Eucom	158
6.1.4.1	The Roles of the Finnish Subsidiary – Strategic Leader and Global Innovator.....	158
6.1.4.2	The Evaluation of the Performance of the Finnish Subsidiary	162

6.1.5	Discussion of the Performance Evaluation at Eucom	170
6.1.5.1	Performance Evaluation of the Eucom Subsidiaries in Bartlett and Ghoshal's Role Typology	170
6.1.5.1.1	Performance Evaluation of the Strategic Leader	170
6.1.5.1.2	Performance Evaluation of the Contributor	172
6.1.5.1.3	Performance Evaluation of the Implementer	173
6.1.5.2	Performance Evaluation of Eucom Subsidiaries in Gupta and Govindarajan's Role Typology	174
6.1.5.2.1	Performance Evaluation of the Integrated Player	174
6.1.5.2.2	Performance Evaluation of the Global Innovator	175
6.1.5.2.3	Performance Evaluation of the Local Innovator	176
6.1.6	Standardization versus Role-Differentiation in Performance Evaluation at Eucom	177
6.2	Empirical Findings on "Gloneer"	181
6.2.1	Introducing Gloneer and Its Subsidiaries	181
6.2.2	The Gloneer Subsidiary "Germany L"	186
6.2.2.1	The Roles of Germany L – Strategic Leader and Local Innovator ...	186
6.2.2.2	The Evaluation of Germany L's Performance	190
6.2.3	The Gloneer Subsidiary "USA L"	198
6.2.3.1	The Roles of USA L – Strategic Leader and Local Innovator	198
6.2.3.2	The Evaluation of USA L's Performance	199
6.2.4	The Gloneer Subsidiary "Switzerland"	206
6.2.4.1	The Roles of "Switzerland" – Contributor and Local Innovator	206
6.2.4.2	The Evaluation of "Switzerland's" Performance	210
6.2.5	The Gloneer Subsidiary "Germany S"	216
6.2.5.1	The Roles of Germany S – Contributor and Local Innovator	216
6.2.5.2	The Evaluation of Germany S' Performance	218
6.2.6	The Gloneer Subsidiary "Sweden"	224
6.2.6.1	The Subsidiary "Sweden" – Contributor and Local Innovator	224
6.2.6.2	The Evaluation of "Sweden's" Performance	226
6.2.7	The Gloneer Subsidiary "Germany P"	231
6.2.7.1	The Roles of Germany P – Contributor and Global Innovator	232
6.2.7.2	The Evaluation of Germany P's Performance	235
6.2.8	The Gloneer Subsidiary "Great Britain"	241
6.2.8.1	The Roles of "Great Britain" – Implementer and Local Innovator	241
6.2.8.2	The Evaluation of "Great Britain's" Performance	244
6.2.9	The Gloneer Subsidiary "China"	250

6.2.9.1	The Roles of “China” – Black Hole and Implementor	251
6.2.9.2	The Evaluation of “China’s” Performance	255
6.2.10	The Gloneer Subsidiary “India”	263
6.2.10.1	The Roles of “India” – Black Hole and Implementor.....	263
6.2.10.2	The Evaluation of “India’s” Performance.....	265
6.2.11	Discussion of the Performance Evaluation at Gloneer.....	270
6.2.11.1	Performance Evaluation of the Gloneer Subsidiaries in Bartlett and Ghoshal’s Role Typology	271
6.2.11.1.1	Performance Evaluation of the Strategic Leaders	271
6.2.11.1.2	Performance Evaluation of the Contributors.....	274
6.2.11.1.3	Performance Evaluation of the Implementer	277
6.2.11.1.4	Performance Evaluation of the Black Holes	277
6.2.11.2	Performance Evaluation of Gloneer Subsidiaries in Gupta and Govindarajan’s Role Typology	279
6.2.11.2.1	Performance Evaluation of the Global Innovator	280
6.2.11.2.2	Performance Evaluation of the Local Innovators	281
6.2.11.2.3	Performance Evaluation of the Implementors	283
6.2.11.3	Standardization versus Role-Differentiation in Performance Evaluation at Gloneer	284
6.3	Comparison of the Role-Specific Performance Evaluation at Eucom and Gloneer	289
7	Contributions, Limitations and Implications for Future Research.....	293
Appendices	301
References	331

Figures

Figure 1: The Determination of Performance in Relation to Organizational Goals	14
Figure 2: Control Objects and Their Requirements.....	20
Figure 3: Conceptual Framework of Performance Evaluation.....	24
Figure 4: Contingency Framework of Performance Evaluation of Foreign Subsidiaries	39
Figure 5: Basic Framework of Contingency Theory	46
Figure 6: General Contingency Framework of Role-Specific Performance Evaluation of Foreign Subsidiaries	53
Figure 7: Bartlett and Ghoshal's Role Typology.....	63
Figure 8: Gupta and Govindarajan's Role Typology	63
Figure 9: Specified Contingency Framework of Role-Specific Performance Evaluation	65
Figure 10: Research Design	99
Figure 11: Initial Category Schema for the Analysis of Role-Specific Performance Evaluation.....	125
Figure 12: Final Category Schema for the Analysis of Role-Specific Performance Evaluation.....	126
Figure 13: Legal Organization of Eucom.....	134
Figure 14: The Roles of the Eucom Subsidiaries	135
Figure 15: The Level of Competence of the German Subsidiary of Eucom	138
Figure 16: Knowledge Inflows and Knowledge Outflows at the German Subsidiary of Eucom	139
Figure 17: The Level of Competence of the Spanish Subsidiary of Eucom	150
Figure 18: Knowledge Inflows and Knowledge Outflows at the Spanish Subsidiary of Eucom	152
Figure 19: The Level of Competence of the Finnish Subsidiary of Eucom.....	160
Figure 20: Knowledge Inflows and Knowledge Outflows at the Finnish Subsidiary of Eucom	162
Figure 21: Role-Specific Performance Evaluation at Eucom According to Bartlett and Ghoshal's Role Typology.....	177
Figure 22: Role-Specific Performance Evaluation at Eucom According to Gupta and Govindarajan's Role Typology	178
Figure 23: Legal Organization of Gloneer	182
Figure 24: The Roles of the Gloneer Subsidiaries (I/II).....	184
Figure 25: The Roles of the Gloneer Subsidiaries (II/II)	185

Figure 26: The Competence Level of the Gloneer Subsidiary Germany L 188

Figure 27: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary Germany L 190

Figure 28: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary USA L 199

Figure 29: The Competence Level of the Gloneer Subsidiary "Switzerland" 208

Figure 30: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary "Switzerland" 210

Figure 31: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary Germany S 218

Figure 32: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary "Sweden" 226

Figure 33: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary Germany P 234

Figure 34: The Level of Competence of "Great Britain" 243

Figure 35: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary "Great Britain" 244

Figure 36: The Competence Level of the Gloneer Subsidiary "China" 253

Figure 37: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary "China" 255

Figure 38: Knowledge Inflows and Knowledge Outflows at the Gloneer Subsidiary "India" 264

Figure 39: Role-Specific Performance Evaluation at Gloneer According to Bartlett and Ghoshal's Role Typology 285

Figure 40: Role-Specific Performance Evaluation at Gloneer According to Gupta and Govindarajan's Role Typology 286

Tables

Table 1:	Synopsis of Definitions of Control	9
Table 2:	Synopsis of Definitions of Coordination	11
Table 3:	Performance Approached from Various Perspectives	16
Table 4:	Organizational Control	25
Table 5:	Overview of Relevant Descriptive Studies (in Chronological Order).	29
Table 6:	Overview of Relevant Explanatory Studies (in Chronological Order).	30
Table 7:	Simplified Comparison of the Suitability of Selected Organization Theories.....	49
Table 8:	Overview of Role Typologies	56
Table 9:	Selected Role Typologies	60
Table 10:	Criticism of Traditional Contingency Approaches	66
Table 11:	Bartlett and Ghoshal's Role Typology Dimensions and Performance Evaluation	74
Table 12:	Predictions on Role-Specific Performance Evaluation of Strategic Leaders, Contributors, Implementers and Black Holes	79
Table 13:	Gupta and Govindarajan's Role Typology Dimensions and Performance Evaluation.....	84
Table 14:	Predictions on Role-Specific Performance Evaluation of Integrated Players, Global Innovators, Local Innovators and Implementors	89
Table 15:	The Classifying Dimensions of the Role Typologies Presented by Bartlett, Ghoshal and Nohria.....	102
Table 16:	Potential Measures of Strategic Importance of the Market	104
Table 17:	Measurement Approaches for the Level of Competence	106
Table 18:	Potential Measures of the Level of Competence	107
Table 19:	Measurement Approaches for Knowledge Flows.....	109
Table 20:	Possible Measures of Knowledge Inflows and Outflows	110
Table 21:	Possible Operationalizations of the Control Mix.....	113
Table 22:	Possible Content of Performance Evaluation.....	115
Table 23:	Possible Operationalizations of the Process of Performance Evaluation	117
Table 24:	Strengths and Weaknesses of Interviews as Data Collection Technique	119
Table 25:	Comparison of Two Interview Modes.....	122
Table 26:	Comparison of Approaches to Content Analysis.....	123
Table 27:	The Control Mix Used for Eucom's German Subsidiary.....	143

Table 28: The Content of Performance Evaluation of Eucom’s German Subsidiary 145

Table 29: The Performance Evaluation Process of Eucom’s German Subsidiary 147

Table 30: The Control Mix Used for Eucom’s Spanish Subsidiary 155

Table 31: The Content of Performance Evaluation of Eucom’s Spanish Subsidiary 156

Table 32: The Performance Evaluation Process of Eucom’s Spanish Subsidiary 157

Table 33: The Control Mix Used for Eucom’s Finnish Subsidiary 166

Table 34: The Content of Performance Evaluation of Eucom’s Finnish Subsidiary 167

Table 35: The Performance Evaluation Process of Eucom’s Finnish Subsidiary 170

Table 36: Appropriateness of the Propositions on the Performance Evaluation of Strategic Leaders at Eucom..... 171

Table 37: Appropriateness of the Propositions on the Performance Evaluation of Contributors at Eucom 173

Table 38: Appropriateness of the Propositions on the Performance Evaluation of Implementers at Eucom 174

Table 39: Appropriateness of the Propositions on the Performance Evaluation of Integrated Players at Eucom..... 175

Table 40: Appropriateness of the Propositions on the Performance Evaluation of Global Innovators at Eucom..... 176

Table 41: Appropriateness of the Propositions on the Performance Evaluation of Local Innovators at Eucom..... 176

Table 42: The Control Mix Used for the Gloneer Subsidiary Germany L 193

Table 43: The Content of Performance Evaluation of the Gloneer Subsidiary Germany L 195

Table 44: The Performance Evaluation Process of the Gloneer Subsidiary Germany L 197

Table 45: The Strategic Importance of the Market and the Level of Competence of the Gloneer Subsidiary USA L..... 198

Table 46: The Control Mix Used for the Gloneer Subsidiary USA L 202

Table 47: The Content of Performance Evaluation of the Gloneer Subsidiary USA L 203

Table 48: The Performance Evaluation Process of the Gloneer Subsidiary USA L 205

Table 49: The Control Mix Used for the Gloneer Subsidiary “Switzerland” 213

Table 50: The Content of Performance Evaluation of the Gloneer Subsidiary “Switzerland” 214

Table 51: The Performance Evaluation Process of the Gloneer Subsidiary “Switzerland”216

Table 52: The Strategic Importance of the Market and the Level of Competence of the Gloneer Subsidiary Germany S217

Table 53: The Control Mix Used for the Gloneer Subsidiary Germany S.....221

Table 54: The Content of Performance Evaluation of the Gloneer Subsidiary Germany S.....222

Table 55: The Performance Evaluation Process of the Gloneer Subsidiary Germany S.....224

Table 56: The Strategic Importance of the Market and the Level of Competence of the Gloneer Subsidiary “Sweden”225

Table 57: The Control Mix Used for the Gloneer Subsidiary “Sweden”228

Table 58: The Content of Performance Evaluation of the Gloneer Subsidiary “Sweden”229

Table 59: The Performance Evaluation Process of the Gloneer Subsidiary “Sweden”231

Table 60: The Strategic Importance of the Market and the Level of Competence of the Gloneer Subsidiary Germany P232

Table 61: The Control Mix Used for the Gloneer Subsidiary Germany P.....237

Table 62: The Content of Performance Evaluation of the Gloneer Subsidiary Germany P239

Table 63: The Performance Evaluation Process of the Gloneer Subsidiary Germany P.....241

Table 64: The Control Mix Used for the Gloneer Subsidiary “Great Britain”247

Table 65: The Content of Performance Evaluation of the Gloneer Subsidiary “Great Britain”248

Table 66: The Performance Evaluation Process of the Gloneer Subsidiary “Great Britain”250

Table 67: The Control Mix Used for the Gloneer Subsidiary “China”258

Table 68: The Content of Performance Evaluation of the Gloneer Subsidiary “China”260

Table 69: The Performance Evaluation Process of Gloneer’s Subsidiary “China”262

Table 70: The Strategic Importance of the Market and the Level of Competence of the Gloneer Subsidiary India264

Table 71: The Control Mix Used for the Gloneer Subsidiary “India”267

Table 72: The Content of Performance Evaluation of Gloneer’s Subsidiary “India”268

Table 73: The Performance Evaluation Process of Gloneer’s Indian Subsidiary ..270

Table 74: Appropriateness of the Propositions on the Performance Evaluation of Strategic Leaders at Gloneer272

Table 75: Appropriateness of the Propositions on the Performance Evaluation of Contributors at Gloneer (I/II)275

Table 76: Appropriateness of the Propositions on the Performance Evaluation of Contributors at Gloneer (II/II)276

Table 77: Appropriateness of the Propositions on the Performance Evaluation of Implementers at Gloneer277

Table 78: Appropriateness of the Propositions on the Performance Evaluation of Black Holes at Gloneer278

Table 79: Appropriateness of the Propositions on the Performance Evaluation of Global Innovators at Gloneer280

Table 80: Appropriateness of the Propositions on the Performance Evaluation of Local Innovators at Gloneer281

Table 81: Appropriateness of the Propositions on the Performance Evaluation of Implementors at Gloneer283

Table 82: Comparison of the Performance Evaluation of Eucom’s and Gloneer’s Strategic Leaders289

Table 83: Comparison of the Performance Evaluation of Eucom’s and Gloneer’s Contributors and Global Innovators290

Table 84: Comparison of the Performance Evaluation of Eucom’s and Gloneer’s Implementers291

Table 85: Comparison of the Performance Evaluation of Eucom’s and Gloneer’s Local Innovators292