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# Subsidiary's Embeddedness of Italian SMEs in Central and Eastern European Countries (CEECs)<sup>o</sup>

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## Abstract

*This paper is focused on relationships which involves the subsidiary both, at an internal (mainly with the headquarter) and at an external level (with economic actors at a local level, i.e. customers and suppliers). In so doing, corporate and external embeddedness (Andersson and Forsgren, 1996) are investigated under a network based approach.*

*To reach this aim, the level of autonomy and control perceived by the subsidiary and the range of value chain activities managed at local level are used as proxy of the degree of corporate embeddedness. At the same time, the number, frequency, and type of relations activated with local supplier and customers and the number and types of cooperation agreements with local enterprises are used to investigate external embeddedness.*

*The attention is focused on Italian SMEs internationalized in the Central and Eastern European Countries (CEECs). With this respect, the sample is composed by firms that widely differ in terms of location, size, year of subsidiary establishment, and industry.*

*The main evidence resulting from the analysis is that in the CEECs – and particularly in the more developed countries within the Region (such as Poland) – is emerging a phenomenon we define “re-localization”. By this term we describe a rising number of firms that is progressively transferring in these countries a wider range of activities, including the more value added ones. The delocalization of less value added activities (typically high-labour intensive and not complex manufacturing) was generally considered the main strategic aim for companies in the CEECs. Our data, on the contrary, seems to demonstrate that such a delocalization do not represent the ultimate result of the internationalization process, but only a step of a wider process. A process aimed at transferring abroad the whole value chain activities in order to serve the local market. Therefore, the internationalization of most of the analysed firms is market-oriented, i.e. aimed at looking for a new market, able to replace the Italian one.*

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## **Subsidiary Embeddedness of Italian Small- Medium-sized Firms in Central and Eastern European Countries (CEECs)**

### **INTRODUCTION**

This paper aims at analysing the embeddedness of subsidiaries of Italian small and medium-sized companies operating in central and eastern European Countries (CEECs). Such embeddedness is investigated with respect to corporate (that is, relationships with the headquarter) and external level (that is, relationships with other economic actors, such as suppliers, customers and competitors). In so doing we decided to specifically analyse variables influencing the two types of subsidiary embeddedness, while previous studies were more focused on the relationship between subsidiary embeddedness (especially the external one) and its performance or headquarter control on it (see, among others, Andersson and Forsgren 1996 ~ Andersson and Pahlberg 1997 ~ Andersson, Forsgren and Pedersen 2001 ~ Andersson, Forsgren and Holm 2002).

The research objective was chosen because of several factors. With specific respect to the external embeddedness, several scholars demonstrated that external relationships represent the usual strategy Italian smaller organizations adopted in order to increase their size on the internal market (see for instance, Lorenzoni and Ornati 1988). Such a strategy seems to be quite spontaneous, especially at early stages of firm history. However, when time goes by though, the planning phase get more and more considerable and the evolution towards a network structure needs to be supported by strategic decisions. As a consequence, we were interested in verifying if such a strategy was replicated also at an international level. Secondly, it is widely recognised (as briefly summarized in the next paragraph) the impact of subsidiary (corporate and local) embeddedness on its own performance. Thirdly, in the last years a huge amount of Italian companies decided to operate in CEECs: according to ICE

(2006) the number of Italian subsidiaries in CEECs increased of 26.1% in the period 2001-2005, from 1.604 up to 2.023. While at the very beginning, the strategic aim was exclusively cost reduction based, actually - at least in the most developed of such countries (such as, Poland) - the strategy seems to be more market enlargement based.

The paper is structured in four main sections. The first one contains a brief literature review on both, subsidiary embeddedness and foreign direct investments on CEECs. In the second paragraph, adopted methodology is discussed and sample main features are presented. In the third section, hypothesis are developed and verified with respect to variables affecting corporate embeddedness. In the fourth paragraph, hypothesis are developed and verified with respect to variables affecting external embeddedness. Some managerial and research implications complete the paper.

## **1. LITERATURE REVIEW**

### 1. Subsidiary embeddedness

Management of multinational companies (MNCs) – especially of large ones - have attracted the interest of scholars for many decades. However less attention was paid, for a long time, to one actor of such organizations: the subsidiary. As correctly noted by Birkinshaw and Hood (1998), researches on MNC subsidiary management started only at the beginning of '80s (see for instance, Hedlund 1981 ~ Picard 1980 ~ Otterbeck 1981 ~ Garnier 1982). Since that time a lot of research was conducted on very different aspects related to MNC subsidiary management. Such contributions may be classified in three main streams of research (Birkinshaw and Hood 1998):

- a) headquarter-subsidiary relationship: such a stream analyze aspects of dyadic relationships between subsidiary and headquarter. This type of studies assume a hierarchical point of view and consequently consider subsidiaries controlled by the

headquarter. Obtained results are generally considered not totally conclusive, especially with respect to elements as centralisation and control;

- b) subsidiary role: such a stream of research raise up with the emergence – during the ‘80s of alternative conceptions of MNC, mainly heterarchies, transnationals and networks. The adoption of such new points of view induced to conceptualize subsidiaries as organizational units having very different roles. As a consequence, influence of industry sector, local business environment and relationships with sisters subsidiaries became relevant for researchers. As a consequence, the subsidiary was conceptualized as a node within a complex network of relationships, both inside and outside the MNC (see, among others, Hedlund 1981 ~ Ghoshal and Bartlett ~ 1991 ~ Snow, Miles and Coleman Jr. 1992 ~ Nohria, Gulati and Ghoshal 1994);
- c) subsidiary development: differently from the previous two streams of research, this one deals with a dynamic question and not a static one. More specifically, the research aims is to investigate how and why activities managed by the subsidiary change over time. Also this stream of research builds on a conceptualization of MNCs as networks but it takes into account also elements as resources and capabilities.

Within the second research stream (subsidiary role) a specific focus was given to the concept of subsidiary embeddedness (see, among others, Andersson and Forsgren 1996 ~ Andersson and Pahlberg 1997 ~ Andersson, Forsgren and Pedersen 2001 ~ Andersson, Forsgren and Holm 2002). Such a concept was derived by Granovetter (1985) according to whom the behaviour of individuals can be explained by the characteristics of the networks within which a person is embedded. As a consequence, it is assumed that the behaviour of subsidiaries are constrained by their embeddedness in ongoing relationships.

As a consequence, it may be assumed that analyzing relationships operated by the subsidiary is possible to define its role within the MNC and the strategy adopted by the latter in the local

market. With this respect, it should be necessary to investigate all relationships the subsidiary manage with each type of actors, being them internal or external to the MNC. With this respect an useful framework may be presented by the the perspective of the N-form organizations presented by Nohria, Gulati and Ghoshal (1994). According such authors, in order to understand the managerial strategies of a MNC it would be worthy investigate the following types of relationships:

- among headquarters and the subsidiary (in the CEECs);
- among such a subsidiary and eventual others;
- with the network set by the subsidiary in the country of localization.

With respect to the second level of analysis (relationships among sisters subsidiaries), it must be noted that our research is focused mainly on micro and small firms. As a consequence, a lot of them has only very few subsidiaries and often only the one we investigated. Therefore, we assume that is enough to pay attention to the relationships with the headquarter and those with the local network. With this respect in our paper we decide to focus on the so called corporate and external embeddedness (Andersson and Forsgren 1996). By the first term (corporate embeddedness) we mean exchange relationships with the headquarter that go beyond administrative links related to the belongings to the MNC. On the contrary, by external embeddedness we mean all relationships with organizational actors other than the MNC.

Studies conducted on external and corporate embeddedness put in evidence some variables explaining such phenomenon. With respect to the latter (corporate embeddedness), for instance, Andersson and Forsgren (1996) conclude that the higher the degree of corporate embeddedness, the greater the amount of headquarter control.

## 2. Foreign direct investments in CEECs

As earlier stated, in this paper we aim to investigate the subsidiary external and corporate embeddedness with respect to organizations placed in CEECs. With this respect, it is useful to take into account results raised up from prior research on variables affecting the localization of foreign direct investments (FDIs) in such geographical area. With this respect, it must be noted that such a type of studies were generally focused on location decision within United States, the European Union and China. Moreover, they generally use samples from US and Japanese firms. However a recent contribution from Majocchi and Strange (2006) clearly pointed out that the localization decision of Italian firms in CEECs may be mainly explained on the basis of five main elements:

- a) market size,
- b) market potential growth,
- c) availability of labour (even if not necessarily skilled),
- d) the openness of the economy to foreign trade,
- e) decisions of previous investors.

Such results broadly confirm the findings of similar studies related to other geographical areas. However, they demonstrate the relevance of some variables, namely trade and market liberalisation – which are generally considered less relevant. This evidence is consistent with Bevan, Estrin and Meyer (2004) findings. According to those authors, FDIs to transition economies are generally pushed by elements like:

- a) development of private-owned business in place of state-owned companies,
- b) development of banking sector,
- c) liberalization of foreign exchange and trade,
- d) development of legal institutions.

Since investigated CEECs appear to be very different with respect to variables considered in the two earlier summarized studies, we expect that at least external embeddedness may differ among subsidiaries placed in different countries.

## **2. OBJECTIVES DATA AND METHODOLOGY**

On the basis of the theoretical framework previously described, we aim to analyse variables influencing corporate and external embeddedness of a sample of small and medium Italian enterprises which carried out investments in the CEECs.

As earlier stated, findings by Andersson and Forsgren (1996) demonstrated that corporate embeddedness is strictly related to the level of control operated by the headquarter on the local subsidiary. As a consequence, it seems possible to assume that such a phenomenon (corporate embeddedness) may be investigated also considering the level of autonomy perceived from the latter. At the same time the level of autonomy is also related to the number of value chain activities operated by the subsidiary.

With respect to external embeddedness, it must taken into account that a subsidiary's environment consists of several types of direct exchange relationships. Moreover, there are also a huge number of indirect exchange relationships which are connected with the former. As a consequence the number of relationships to be investigated raise up dramatically. Accordingly with previous works (see, among others, Andersson and Forsgren 1996 ~ Andersson and Pahlberg 1997 ~ Andersson, Forsgren and Pedersen 2001 ~ Andersson, Forsgren and Holm 2002), we decided to focus our attention only on the following actors of the subsidiary's local network: customers, suppliers and business partners.

The analysed sample is composed by 72 enterprises – classified as micro, small or medium depending on the number of employees. These enterprises are part of a larger sample of 89 enterprises which fully and exhaustively answered to the questionnaire sent to 969 different

firms<sup>1</sup>. We thus obtained an answer rate of about 10%, quite similar to the average of the best international surveys (Harzing 1997). Considering the large number of questions in the questionnaire and the objective complexity of some of them, the result achieved can be considered satisfactory.

The most relevant features of the investigated sample are summarized in the Table 1.

[INSERT TABLE 1 ABOUT HERE]

### 3. CORPORATE EMBEDDEDNESS

As mentioned above, one of the two aims of this paper is to verify, first the existence of corporate embeddedness and then to analyse the way subsidiaries of Italian small and medium-sized enterprises develop relationships at an internal level (with the headquarter and the others subsidiaries). In order to do this, we considered 3 variables, that is worth taking into account for such analysis.

#### 1. Autonomy degree perceived by the subsidiary itself

As regards this proxy, data, if altogether considered, do not lead to specific conclusions (Fig. 1).

[INSERT FIGURE 1 ABOUT HERE]

However, it is necessary to remember that investigated enterprises deeply differ for several characteristics. As a consequence, we check if some of such features impact on the subsidiary perception of its autonomy from the headquarter.

In other words, we are going to verify the following hypothesis:

- H1.** The greater the headquarter size, the larger the number of subsidiaries defining their autonomy level as important or very important.
- H2.** The older the subsidiary, the bigger its autonomy.
- H3.** The more developed the country of localization, the bigger the subsidiary autonomy.

**H4.** Subsidiary autonomy is bigger as internationalization is aimed at looking for new markets, lower as internationalisation is low cost resources seeking.

Doing so, we discovered that the greater the headquarter size, the larger the number of subsidiaries defining their autonomy level as important or very important is. Moreover, this is typical for Italian SMEs, where often happens, that most of the power is concentrated in the hands of one subject: the owner. The data in table 2 fully confirm hypothesis 1.

[INSERT TABLE 2 ABOUT HERE]

At the same time, a positive correlation was discovered between the perceived autonomy degree and the subsidiary year of establishment. Such an evidence, besides being corroborated by Prahalad and Doz (1987), leads to concept of subsidiary life cycle (Birkinshaw and Hood 1998) and establishment chain (Johanson and Vahlne, 1977).

As regards the existence of relations between the subsidiary autonomy and its industrial sector<sup>2</sup>, it is worth noting that we do not find any relationship among these two aspects of analysis.

More interesting results raised up analysing the correlation among the autonomy degree and the country where the investment took place. With this respect, we noted that enterprises located in Poland, Slovenia, and Czech Republic face a greater autonomy (Tab. 3) compared with ones located in other countries. In order to better investigate such an aspect, we decided to focus our attention on two countries: Poland and Romania, for which we collected more empirical results. These two countries were chosen because of the huge number of investigated firms and of the different economic conditions. As regards the latter aspect, is difficult to quantify the development degree of a country. Economic development is continuously evolving. The typical proxy used (IMF, World Economic Outlook 2006), to compare economy size across countries, is the per capita GDP based on PPP (purchasing-power-parity) considered at current international dollar. At present, the per capita GDP of Poland is \$ 13.797, and for Romania is \$ 9.446, it means almost 5.000 dollars per capita more

for Polish. Moreover, considering the different rate of economic development of these two countries is also reflected in the different timing of entrance in the European Community. While Poland entered in 2004, Romania only on January 2007.

Turning back to hypothesis 3, as regards autonomy we note that, while 78% of the Polish subsidiaries declare to enjoy a more than considerable strategic autonomy, the percentage drops to 42% when we consider the Romanian subsidiaries.

[INSERT TABLE 3 ABOUT HERE]

The gap might be explained considering that Italian enterprises which invested in Romania were mainly attracted by cost savings opportunities, while those ones which set up subsidiaries in Poland were also driven by market reasons (Tab. 4).

[INSERT TABLE 4 ABOUT HERE]

Focusing our attention on the purposes companies declared to move their internationalization process in the CEECs, we concentrated on the research of low labour costs and on attractiveness of the local market. With this respect it must be noted that only 20% of interviewed companies declared that their internationalization strategy was aimed to both objectives, showing a substantial dichotomy between such strategic goals. We noted that 56% of the subsidiaries pursuing a market oriented strategy declared an autonomy level of 4 or 5 out of 5 levels, while among ones moved by efficiency reasons, only 27% showed a relevant autonomy. Finally, it is particularly significant that over 50% of the enterprises belonging to countries that joined the European Union only in January this year declared to aim to cost savings against 24% of enterprises of older member states.

## 2. Control exerted on the foreign subsidiary by the Italian headquarter

The second variable we used to analyse the headquarter-subsidary relationships is the intensity of control exerted on the foreign subsidiary by the Italian headquarter and the tools under which this control is exerted. The importance of the variable “control” has been already

pointed out in the literature review, when referring to Andersson and Forsgren (1996). Under this point view, we note that this variable has been considered marginal by 29% of subsidiaries, while important or very important from 61% of the investigated companies (See Fig. 2).

[INSERT FIGURE 2 ABOUT HERE]

Moreover, taking into account what we found as regard the autonomy rate of the subsidiary, we are going to verify the following hypothesis:

**H5.** The older the subsidiary, the lower the control exerted by its Italian headquarter.

**H6.** The more developed the country of localization, the looser the control exerted on the subsidiary.

Moreover, headquarter control is looser as internationalisation is aimed at looking for new markets and tighter as internationalisation is low-cost seeking?

**H7.** The looser the control exerted on the subsidiary, the more widespread the use of profitability and sales targets.

**H8.** Control tools adoption, through production plans and output quality controls is higher in subsidiaries performing manufacturing activities.

In so doing, we faced that the control rate is inversely proportional to the foreign subsidiary's maturity, as in the case of the subsidiary autonomy and confirmed hypothesis 5. At the same time, we noted that the larger the headquarter, the tighter the control exerted on subsidiaries is. The latter result may be explained by the fact that medium-sized enterprises may easily allocate managers to control foreign subsidiaries, while micro and small companies has less resources to devote to such a task.

With respect to the destination country, it came out that almost every single Romanian subsidiary (79%) declared to face a more than considerable control, against 52% of Polish ones (Table 5). This further confirms the already mentioned dichotomy between the internationalization aims carried out in these two countries by Italian enterprises, and verify hypothesis 6.

[INSERT TABLE 5 ABOUT HERE]

Based on such results, we carried out other analysis to verify the relationship between the control rate exerted by the headquarter and the strategic objectives pursued entering CEECs. As showed in Table 6, the control degree is much more curbed whereas local enterprise were started up for commercial purposes rather than cost reduction ones.

[INSERT TABLE 6 ABOUT HERE]

To verify hypothesis 7, another investigation was done regarding the specific tools adopted to implement control on subsidiaries (Fig. 3).

[INSERT FIGURE 3 ABOUT HERE]

Subsidiaries that declared to undergo a scarce or barely significant control from the headquarter managers, seem strongly to rely on profitability and sales targets as control tools (37%) (Confirming hypothesis 7). Moreover data collected show how the control is looser in subsidiaries aimed at local market penetration. Quality controls, on the contrary, resulted more significant for micro and medium sized enterprises, where the small ones seemed to pay more attention to the profitability and sales goals.

As easily expected, the monthly financial report, output quality controls, and periodic production plans turned to be the most diffused tools for manufacturing companies. Such evidence confirms hypothesis 8.

Finally, older subsidiaries (the 40% of firms established before the nineties) are controlled thorough periodic production goals, while financial reports are used to track the performances of more recently established companies (Tab. 7).

[INSERT TABLE 7 ABOUT HERE]

### 3. Activities carried out by the subsidiary and contribution to the corporate value chain

It is extremely interesting – with respect to our research aims – that the 55% of young subsidiaries (the ones established after 2001) has obtained from the headquarter the mandate to manage activities for the entire group. This results seems to be consistent with the idea of a

recent change in the internationalization strategies of Italian SMEs operating in the CEECs. More specifically, it seems they are moving toward a networked architecture where each subsidiary act as a “node” with a specific role within one field. As a consequence, it could also expected that a second degree internationalization process might occur in the next future (Holm 1994).

Focusing our attention on the value chain activities performed by local subsidiaries, we are going to test the following hypothesis:

**H9.** The most diffused activities are the operative ones.

**H10.** The greater is the company, the wider is the range of activities performed.

**H11.** The older is the subsidiary, the wider is the range of activities performed.

**H12.** There is a relation among the range and the type of value chain performed activities and the perceived level of autonomy.

**H13.** The more developed the country of localization, the wider the range of activities performed by the subsidiary.

As expected, the most diffused activities are the operative ones (43% of the analysed cases), followed by the sales (21%), while R&D and finance are extremely rare (Fig. 4).

[INSERT FIGURE 4 ABOUT HERE]

A further analysis demonstrated that, as expected, subsidiaries belonging to micro firms usually perform only production - and eventually sales, while those depending by medium and small companies performs a wider range of value chain activities. As regards a time perspective, it seems possible to verify the presence of a “subsidiary life cycle” (Cotta Ramusino and Onetti 2006): more specifically, while the younger ones tend to be exclusively focused on production and procurement, the older ones often perform also marketing and treasury management. Almost all subsidiaries established between 1990 and 2000 declared to perform quite all value chain activities, entirely confirming the establishment chain theory (Johanson and Vahlne 1977) and our hypothesis 11.

Unexpectedly, it seems there is not a clear relation among the range – and the type of value chain performed activities and the perceived level of autonomy. Besides, firms that undergo a tight control by the managers' headquarter often perform also “high end” activities such as marketing. Therefore hypothesis 12 is not confirmed.

Another relevant results derived by a country based analysis. More specifically, while only two Romanian subsidiaries (12%) declare to perform activities different than production, more than 30% of Polish ones performs other value chain activities (Tab. 8). Such evidences verify the hypothesis under which the more developed the country of localization, the wider the range of activities performed by the subsidiary.

[INSERT TABLE 8 ABOUT HERE]

#### 4. EXTERNAL EMBEDDEDNESS

In order to analyse the external embeddedness, we focused the attention on transactions carried out by the subsidiary with local players, mainly suppliers and customers. Such transactions were investigated with respect to the number of involved players, time frequency, and exchange contents, that we sum up in a single variable called “quality of relationship with local enterprises”. In so doing, a significant openness to trade relationship with local enterprises was discovered, regarding both sales and supply (Fig. 5).

[INSERT FIGURE 5 ABOUT HERE]

##### 1. Quality of the relationship with local enterprises

Once stated that these relationships exist, we try to investigate:

**H14.** The older the subsidiary, the wider and deeper the exchange with local actors.

**H15.** The bigger the parent company, the higher the level of exchange with local actors.

**H16.** The greater the subsidiary perceived autonomy, the wider the exchange with local actors

**H17.** The less the subsidiary autonomy, the more involved the parent company in the definition of products features.

Deeply analysing this variable, we noted that the older the subsidiary the wider is the exchange with local players (from 71% of eldest companies to 55% of most recent, these data fully confirm hypothesis 14). The result under discussion seems to be consistent with the idea of a learning process by the local subsidiary. This step by step approach is mainly explained by the quite relevant “psychic distance” existing between Italy and the most of CEECs (Johanson and Wiedersheim-Paul 1975). This would be confirmed also by the positive correlation between the parent company dimension and the subsidiary trade intensity with local actors. With this respect is worthy that other variables - such as the subsidiary perceived autonomy and the degree of personal control by the headquarter – resulted to be not relevant for the phenomenon explanation.

Verified the presence of relationships at a local level, the attention was focused on the number of involved actors. In so doing, we discovered that the majority of investigated subsidiaries keep up to 10 supply relationships, demonstrating that the external network is generally at an embryonic level. At the same time, it must be pointed out that most of enterprises which have up to 10 purchase relationships were set in the second half of the 90s; while subsidiaries that keep relationships with over 50 local suppliers were generally set up between 1990 and 1995. Such results would confirm the idea of a learning process at the subsidiary level, while the degree of control and the perceived autonomy are less relevant in explaining this phenomenon (Fig. 6).

[INSERT FIGURE 6 ABOUT HERE]

Another element taken into account was related to the qualitative aspect of the relationship between the subsidiary and the local supplier. In so doing, a quite relevant level of satisfaction was verified, as demonstrated by the fact that 35% of investigated companies declare to have long term relationships (more than five years) with their suppliers.

Moreover, exchanges regard not only goods, but also technology and information: this happens exclusively in the case of small and micro companies. With respect to acquired products, in nearly half of cases (40-45%) they are defined on the basis of the Italian parent's guidelines, regardless headquarters dimension and subsidiary's establishment year. Furthermore, the less the subsidiary's autonomy from its headquarter is, the more involved is the parent company in the definition of products features.

Furthermore, data regarding relations carried out by subsidiaries and local customers (Fig. 7), show once again that the number of these relations is still very low, with roughly 30% of investigated enterprises keeping regular sales relations with local clients (and - anyway - less than 10) (Fig. 7).

[INSERT FIGURE 7 ABOUT HERE]

A more deepened analysis shows that most of enterprises which declared to have less than 10 regular customers belong to micro enterprises established since 1995, while subsidiaries which avow to keep relations with more than 50 regular clients are mainly small enterprises.

Analysing relations among subsidiary and local enterprise-customer on a qualitative base, it came out that in most cases the local customer define the characteristics of the product realized by the subsidiary, especially in the case of micro and medium enterprises.

The quality (richness/poorness) of relations with local customers were also analysed on the base of trade contents, frequency and satisfaction. Starting from the first aspect, we noticed that know-how transfer processes occur quite seldom, except for enterprises operating abroad since a long time. With respect to the satisfaction, subsidiaries experienced a very good situation, especially for those whose headquarters are small or medium companies. At the same time, roughly 32% of the sample consider their relations with local enterprises-customers as consolidated (more than 5 years long), regardless headquarters dimension, perceived

autonomy degree and headquarters control level. Finally, analyses based on geographical and industry did not lead to any relevant result (Fig. 8).

[INSERT FIGURE 8 ABOUT HERE]

## CONCLUSIONS

The present paper aims to analyse the internationalization processes of micro, small, and medium sized Italian firms in the Central and Eastern European Countries (CEECs). In particular, the analysis focuses on the existence – or not – of network form of organization, both at corporate level (within the company, among subsidiaries and headquarter) and external level (among the subsidiaries and local firms).

The main evidence resulting from the analysis is that in the CEECs – and particularly in more developed countries within the region (Poland) – is emerging a phenomenon we define “re-localization”. By this term we describe a rising number of firms that is progressively transferring in these countries their high value added activities. This result seems to contradict the dominant interpretation given to the internationalization process in the East Europe: the literature and the praxis indicated in the delocalization of low end activities the main strategic driver for companies investing in that area. Our data, on the contrary, seems to demonstrate that such a delocalization do not represent the ultimate target of the internationalization process, but only a step of a wider process. A process aimed at transferring abroad the whole value chain activities in order to develop the local market. Therefore, the internationalization of most of the analysed firms is market-oriented, i.e. aimed at looking for new markets, able to replace the traditional ones (like the Italian market), where they are no longer competitive. Under this point of view, is worth noting that the 36% of interviewed Polish subsidiaries declared that the reason that aimed the internationalization process of the Italian headquarter was at looking for a new market, while the percentage of Romanian subsidiary that declared

internationalization aimed at low-cost resource seeking is 68%. Moreover, the 78% of Polish subsidiaries declared to enjoy a more than considerable strategic autonomy, while the percentage dropped to 42% when considering the Romanian ones. As it was easy to expect, the 77% of the total revenue of Romanian subsidiaries, in comparison to the 12% of the Polish ones, is repatriated. Another relevant result, derived by a country based analysis: while only the 12% of Romanian subsidiaries declared to perform activities different than production, more than 30% of Polish ones declared to perform other value chain activities.

These data, in our opinion, confirmed the hypothesis of the existence of a “subsidiary’s value chain” (Cotta Ramusino and Onetti 2006), that foresees the progressive widening of the range of activities performed by the foreign subsidiaries and their level of autonomy. Data discussed in this paper provide shows that:

1. while subsidiaries recently established tend to focus almost exclusively on production and procurement, the older ones perform a wider range of activities, with a growing strategic impact (see, for example, the verified hypothesis 11);
2. subsidiaries, that define as key strategic factor the attractiveness of local market, present higher level of autonomy, while the ones, that aims at dropping production costs, show a more restricted level of autonomy (see, as example, the previously discussed dichotomy between Polish and Romanian subsidiary).

<sup>1</sup> The 969 enterprises, we sent the questionnaire to, have been selected by a initial database of around 1.600 Italian enterprises which invested in Middle-East Europe. This database was then “polished” to keep the no longer active companies out of the analysis.

<sup>2</sup> As regards to the manufacturing segmentation, we refer to the economic activities classification known as NACE: A- Agriculture, hunting and forestry; B- Fishing; C- Quarrying; D- Manufacturing; E- Electricity, gas and water supply; F- Construction; G- Wholesale and retail trade; H- hotels, restaurants; I- Transport, post and telecommunications; J- Finance and business activities; K- Informatics, renting, research; L- Civil service; M- Education; N- Healthcare, welfare; O- Other public utilities; P- Household service; O- Organizations.

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## TABLES AND FIGURES

*Table 1 Sample description*

Country	%	Headquarter Dimension (employees)	%	Industry	%
Poland	37,50%	Micro	24,07%	Manufacturing	70,97%
Romania	19,44%	Small	24,07%	Others	29,03%
Hungary	15,28%	Medium	51,86%	<b>Entrance Strategy</b>	
Slovenia	9,72%	<b>Year of sub. establishment</b>	%	Greenfield	72,22%
Czech Rep.	9,72%	up to 1990	5,56%	Merger&acquisition	27,88%
Slovakia Rep.	6,94%	1990-1994	26,39%		
Bulgaria	1,39%	1995-2000	52,78%		
		2001-2005	12,50%		

*Table 2: Subsidiary's autonomy level relatively to the headquarter's size*

Autonomy level	Headquarter's size				Total amount
	Micro firms	Small firms	Medium firms	No answer	
Scarce	33,3%	33,3%	20,0%	11,8%	19,4%
Barely significant	22,2%	33,3%	25,0%	8,8%	18,1%
Important	22,2%		35,0%	26,5%	25,0%
Very important		11,1%		11,8%	6,9%
Highly important	11,1%	22,2%	15,0%	26,5%	20,8%
No answer	11,1%		5,0%	14,7%	9,7%
Total amount	100,00%	100,00%	100,00%	100,00%	100,00%

Figure 1: Strategic autonomy rate perceived by the subsidiary

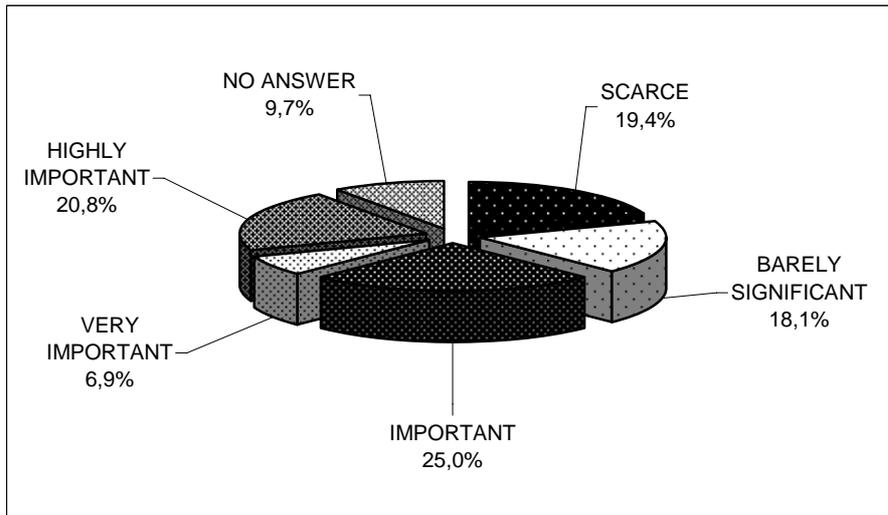


Table 3: Subsidiary's autonomy rate with regard to the internationalization country

Autonomy level	Country							Total amount
	BULGARIA	POLAND	CZECH REPUBLIC	ROMANIA	SLOVAK REPUBLIC	SLOVENIA	UNGHERIA	
Scarce	100,0%	7,4%	14,3%	35,7%	20,0%		36,4%	19,4%
Barely significant		7,4%	28,6%	21,4%	40,0%	42,9%	9,1%	18,1%
Important		33,3%	28,6%	28,6%	20,0%	14,3%	9,1%	25,0%
Very important		11,1%		7,1%	20,0%			6,9%
Highly important		33,3%	14,3%	7,1%		28,6%	18,2%	20,8%
No answer		7,4%	14,3%	0,0%		14,3%	27,3%	9,7%
Total amount	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Table 4: Reasons for entering foreign markets and subsidiary's autonomy

Reasons for entering the foreign market	Firms		Very important autonomy ( 4 or 5)		Superimposable		EU member countries		2007 EU member countries	
	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%
Reduction of labour costs	22	30,56%	6	27,27%	5	22,73%	14	24,56%	8	53,33%
Attractiveness of local market	25	34,72%	14	56%	5	20%	22	38,60%	3	20%

Figure 2: Control rate exerted by headquarters' managers on their subsidiaries

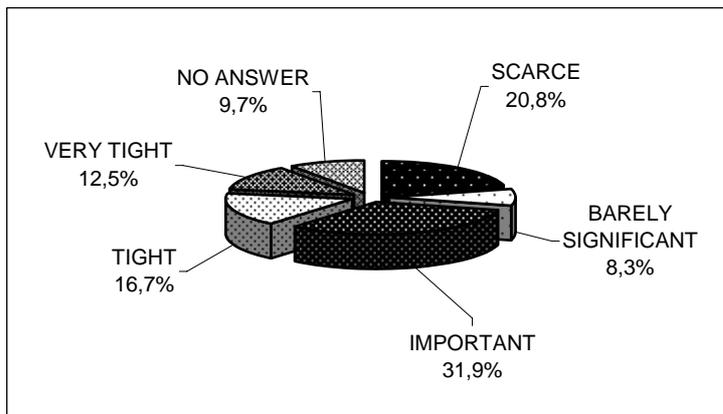






Figure 5: Trade relations among subsidiary and local enterprises

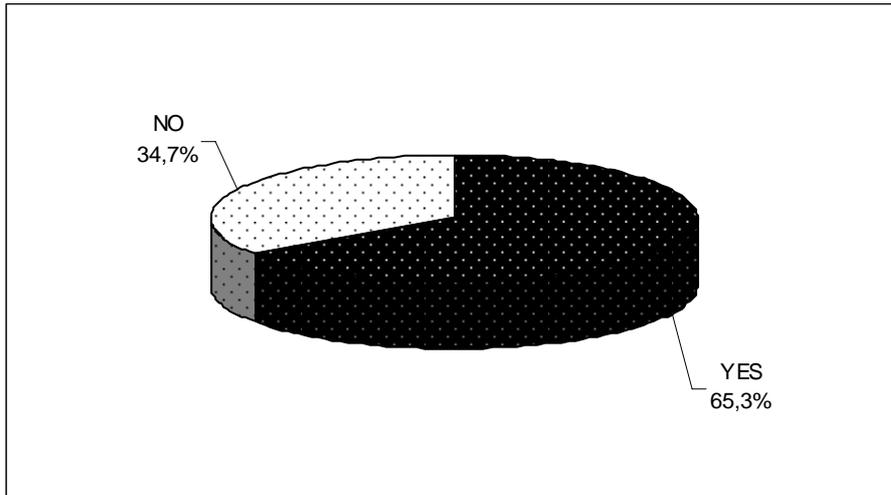


Figure 6: Number of local enterprises subsidiaries regularly purchase from

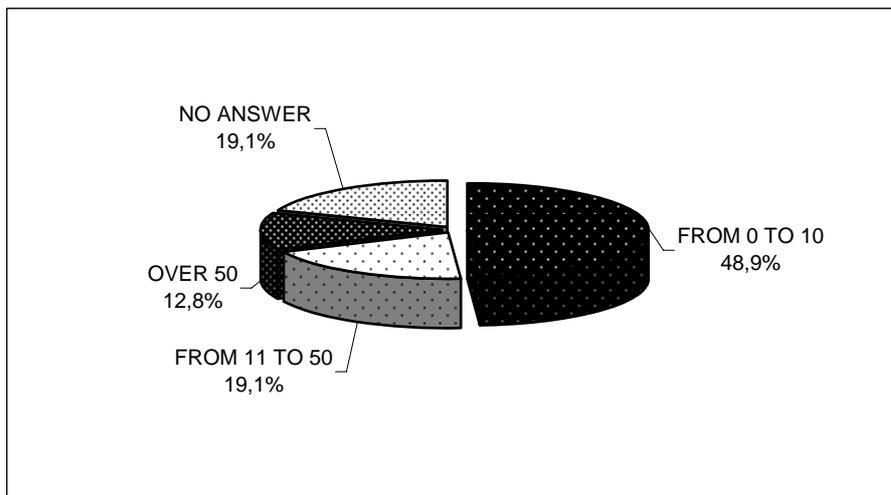


Figure 7: Number of local enterprises subsidiary regularly sells to

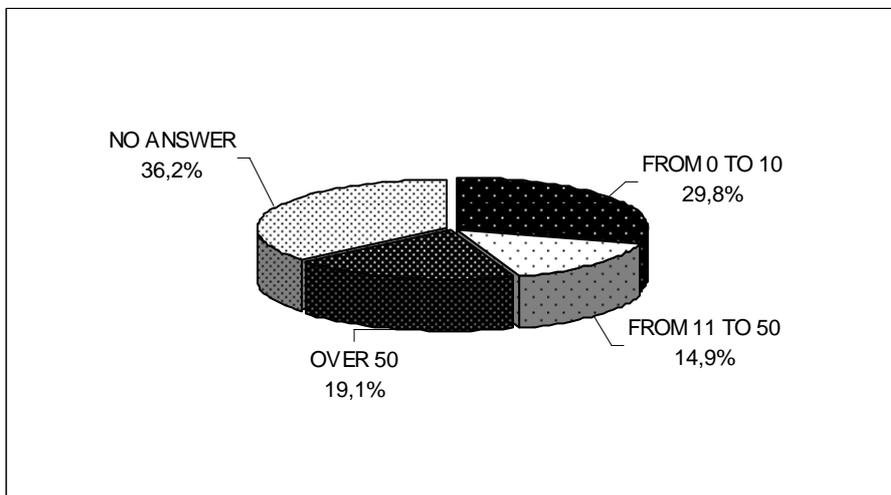


Figure 8: Cooperation with local enterprises

