

Subsidiary Linkage Patterns: Learning Prospects and Spillover Risks

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Abstract

This paper investigates the pattern of subsidiaries' local vertical linkages under varying levels of competition and subsidiary capabilities. Contrary to most previous literature, we explicitly account for the double role of such linkages as conduits of learning prospects as well as potential channels for spillovers to competitors. We find a curvilinear relationship between the extent of competitive pressure and the quality of a subsidiary's set of local linkages. Furthermore, the extent to which a subsidiary possesses capabilities moderates this relationship: Very capable subsidiaries in strongly competitive environments tend to shy away from high quality linkages. We discuss our findings in light of the literature on spillovers and inter-organizational linkages.