Multinational Subsidiary Evolution and Public Policy: Two Tales from the European Periphery

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Abstract. The paper explores the link between subsidiary evolution and public policy towards multinational enterprises (MNEs).

The cases of two peripheral EU economies (Portugal and Ireland) are contrasted, both in terms of their ‘‘inward investment’’ policy stances and as regards differential evolutionary processes at subsidiary level unveiled by empirical results from a new survey of subsidiaries operating in those two host countries.

After examining issues such as motivations underlying investment, subsidiaries roles/strategies and evolution (addressing distinct paths in subsidiary transition), the paper discusses the potential contribution of subsidiaries to host country development and what constitutes an appropriate policy towards multinationals. Explicit consideration is given to subsidiaries’ value-added scope and the density and quality of local linkages as key determinants of host country impact.

Keywords: multinational enterprises, subsidiary evolution, local linkages, host country development, inward investment policy

Given the outstanding importance of multinational enterprises (MNEs) in the contemporary world economy, their activities represent a relevant object of study per se and in the context of public policy in particular. Public policy towards MNEs has been usually articulated in terms of mere attraction of inward flows (Young and Hood, 1994; Pearce, 2001), in a superficial macro-approach that is manifestly insufficient and eventually counterproductive. In this paper a distinct perspective will be offered, arguing that a finer level of analysis is needed if adequate policies towards MNEs are to be suggested and implemented. The adopted perspective focuses on the subsidiary, refusing to treat the MNE as a homogeneous creature. ‘‘Normalizing’’ the MNE and treating it as a ‘‘representative firm’’ would be extremely misleading for policy-making, given the organizational idiosyncrasy which characterizes MNEs’ subsidiaries. Indeed, just as subsidiaries have distinct scope and agendas, they may have differentiated impacts in their host economies (Young et al., 1994).

After outlining the theoretical background supporting the analysis and the main conceptual issues addressed, empirical evidence will be presented on MNEs’ operations in Portugal and Ireland. The paper draws on a new survey of foreign subsidiaries operating in these countries, two small open economies which seem textbook case studies

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of the impact of economic integration on a host country (Barry and Bradley, 1997; Tavares and Pearce, 2001). Results will be provided regarding, among other aspects, motivations underlying investment and the strategic roles performed by subsidiaries (on a dynamic perspective). This evidence will then inform a discussion of the potential contribution of subsidiaries to host economy development and of what constitutes an adequate policy towards MNEs, which certainly has to go beyond an acritical reliance on foreign direct investment (FDI) attraction.

1. Theoretical background

1.1. Subsidiary strategy, subsidiary evolution, and the generation of firm-specific advantages

The topical and fast-growing literature on subsidiary strategy (White and Poynter, 1984; Young et al., 1988; Taggart, 1996; Birkinshaw, 1997; Pearce, 2001) is contributing to a more realistic understanding of the modern MNE, which can be modeled as an ‘‘interorganizational network’’ (Ghoshal and Bartlett, 1990). The paper endorses this perspective, using a version of the scope typology of subsidiary roles (White and Poynter, 1984; Hood and Young, 1988; Taggart, 1996; Pearce, 2001; Tavares, 2001), which stresses potentials for various evolutionary paths and restructuring processes, seen as interdependent with key changes in the global competitive environment. The three subsidiary types considered are characterized by three dimensions: market, product, and value-added scope (as in White and Poynter, 1984). An autarkic subsidiary supplies exclusively the host country. It is a market-seeking subsidiary type, having a wide product scope and a narrow market scope. Value-added scope is limited. A rationalized subsidiary produces part of the firm’s goods or specializes in a productive stage (narrow product scope), for export markets (wide market scope), having a quite limited value-added scope (usually less than its autarkic counterpart). Finally, a product mandate subsidiary is characterized by narrow product scope, wide market scope (regional/global markets), having the resources and mandate to develop, produce and market the product(s) for which it is responsible. The mandate represents the most promising subsidiary type from a host country standpoint, given its high value-added activities and considerable autonomy and resources. These ‘‘creative subsidiaries’’ (Pearce, 1999) tend to play a critical role in their firm’s competitiveness (Hedlund, 1986; Bartlett and Ghoshal, 1989).

However, a static consideration of roles needs to be transcended if the dynamic developmental potential of subsidiaries in these host countries is to be unveiled. The concept of subsidiary evolution is instrumental for this purpose. Birkinshaw and Hood (1998, p. 773) defined subsidiary evolution as ‘‘the process of accumulation or depletion of resources/capabilities in the subsidiary over time’’. As implied by this notion, the scenario facing the subsidiary may be bright or bleak, depending on the interaction of three main drivers, of varying importance during the evolution process: the parent firm,