10 Strategy Development in German Manufacturing Subsidiaries in the UK and Ireland

James H. Taggart and Neil Hood

INTRODUCTION

In recent years, international business research has thrown much light on the processes through which multinational corporations develop and implement strategy, and a number of useful paradigms have been developed to model aspects of such processes. Following the general methodology of Jarillo and Martinez (1990), this chapter evaluates and interprets the roles played by manufacturing subsidiaries of multinational firms in the UK and Ireland using a sample of German-owned firms to test the framework developed. An alternative taxonomy is evolved using decision-making autonomy, market technology scope, and integration as dimensions. This paradigm helps to explain strategy evolution within the subsidiaries and may guide policy makers responsible for encouraging cross-border investment within the European Union or, indeed, in other regions.

BACKGROUND

The topic of subsidiary strategy within multinational enterprises (MNEs) has attracted growing attention in the recent past, as for example in the case of Canada (White and Poynter, 1984), Spain (Jarillo and Martinez, 1990), Northern Ireland (McNamee and Wang, 1994) and Scotland (Hood, Young and Lal, 1994; Taggart, 1996a, b). Jarillo and Martinez analysed the strategic role of multinational subsidiaries in Spain, developed a taxonomy to describe these roles, and suggested a methodology for examining the development of strategic roles over time (see also Taggart, 1998a). The intention of this chapter is both to extend the methodology of categorising subsidiary strategy and to probe more deeply into its nature using a sample of 102 German manufacturing affiliates in the UK and Ireland to test a proposed framework. The research issue here revolves around an attempt to characterise the strategy roles of these affiliates by reference to a number of endogenous variables. Thus, it is intended to supplement the rich stream
of subsidiary research summarised above. The chapter is in three main sections, starting with an overview of recent relevant research on subsidiary and corporate strategies. The core section of the chapter concerns this particular research project, including related methodological questions and the statistical analysis applied to the data. The final section draws conclusions both about the model utilised and the findings on manufacturing affiliates; it also suggests some implications for managers and policy makers.

OVERVIEW OF RELEVANT RESEARCH

The purpose of this section is to focus on three key strategy dimensions at subsidiary level: the spread of and ability to supply the different markets available to the subsidiary, freedom to make decisions, and integration of activities with other subsidiaries within the parent’s network.

Market Scope

White and Poynter (1984) propose three dimensions – product scope, market scope, value-added scope – from which they derive two 4-box models (market scope is common to both). The five classifications yielded by this approach – miniature replica, marketing satellite, rationalised manufacturer, product specialist, strategic independent – give useful perspectives on subsidiary strategy, but are essentially static in nature. Value-added scope is undoubtedly an important dimension, but one that is very difficult to operationalise. Technology, management skills and the use of information are contributors to value-added, though these broad variables will combine with different priorities and proportions in different circumstances. Product scope is also difficult to define, especially in the conglomerate MNE, where the subsidiary’s comparison with ‘the product range of parent company’ may often be meaningless. Market scope is much easier to define and operationalise; it was first introduced as a key variable by Chandler (1962), and subsequently developed by others (e.g. Rumelt, 1974; Porter, 1980; Hedlund, 1981). However, its critical role was emphasised by White and Poynter (1984), who defined it as the range of geographic markets available to the subsidiary. This, however, is rather simplistic and unidimensional. If a subsidiary is required to service certain markets for or on behalf of its corporate parent it requires, above all, the necessary technological inputs to satisfy the demands of those markets.

Autonomy

Hedlund (1986) takes a different approach, suggesting the evolution of the ‘heterarchical’ multinational with many centres rather than a single corporate headquarters in the home country. This concept was further developed