Subsidiary entrepreneurship, internal and external competitive forces, and subsidiary performance

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Abstract

The Multinational Subsidiary is conceptualized as a semi-autonomous entity with entrepreneurial potential, within a complex competitive arena, consisting of an internal environment of other subsidiaries, internal customers and suppliers, and an external environment consisting of customers, suppliers and competitors. The relative strength of these competitive environments shapes the subsidiary’s options; and it is then up to subsidiary manager to take the initiative to respond to the threats and opportunities to secure the subsidiary’s performance. The paper, therefore, emphasizes the interplay between subsidiary entrepreneurship and the subsidiary’s competitive environment—it shows how certain subsidiary attributes emerge as a function of these factors, and how they ultimately affect the performance of the subsidiary. Specific hypotheses are developed and tested on 24 Multinational Subsidiaries in Scotland.

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The role of the subsidiary company in the multinational corporation (MNC) continues to be an issue of great interest to international business researchers, and a matter of great importance to MNC executives. We adopt a subsidiary perspective because of a growing recognition that such units are not merely subordinate elements of their parent MNCs. Rather, some at least have the potential for independent and entrepreneurial behaviour.

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Furthermore, the MNC subsidiary is unique in facing both external and internal (intra-MNC) competitive arenas simultaneously. The objective of this paper is thus to begin to understand the interplay between the subsidiary’s competitive arena, entrepreneurship and performance.

The received wisdom today is that subsidiaries start out with market-seeking responsibilities (i.e. with the objective of selling the MNC’s products in the local market) but as the parent company grows, and as subsidiaries develop resources and capabilities of their own, they take on additional responsibilities—tapping into new ideas and opportunities in the local market, interacting with other actors in the local environment, and building unique capabilities on which the rest of the MNC can draw (Bartlett & Ghoshal, 1989; Birkinshaw, Hood, & Jonsson, 1998; Hedlund, 1986; Prahalad & Doz, 1981). Such responsibilities are achieved, at least in part, through the entrepreneurial efforts of subsidiary managers. Despite the substantial interest in innovation and initiative in the MNC subsidiary, the topic of subsidiary entrepreneurship has received rather little direct attention (but see Birkinshaw, 1997, 2000); and recent review papers call for further study (Paterson & Brock, 2002; Young & Tavares, 2004). Entrepreneurship in MNCs is associated with subsidiary initiatives. To cite Birkinshaw (1997: p. 207): ‘An initiative is essentially an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity’.

The current paper represents a contribution to this line of research. Its purpose is to make sense of the subsidiary’s competitive arena, by which we mean the set of customers, suppliers, competitors and other actors that collectively shape the subsidiary’s strategy. By adapting the standard arguments of competitive strategy (Porter, 1980, 1990), we argue that the MNC subsidiary faces two distinct competitive arenas that the subsidiary must respond to—the external competitive arena consisting primarily of customers, suppliers and competitors in the local marketplace, and the internal competitive arena consisting of the various customers, suppliers and competing entities that are part of the same MNC. Each of these arenas represents a set of threats and opportunities to the subsidiary, and together they shape the strategic options open to the subsidiary manager. The subsidiary’s development and growth is therefore a function of both the managers’ latent entrepreneurial capacity and also the opportunities that emerge through participation in these two competitive arenas.

The idea that the subsidiary faces both internal and external pressures is, of course, well established in the literature. However, most of the existing literature is concerned primarily with the competing demands for local adaptation and global standardization (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987; Westney, 1994). In this paper the message is rather different, because the internal and external environments are conceptualized as broadly similar. They are both competitive arenas in which players’ fight—through their own proactive entrepreneurial initiatives—to establish and defend advantageous positions, and ultimately secure competitive advantage. This line of thinking, particularly in terms of the internal competitive arena, has not received much prior attention (some exceptions are Birkinshaw, 2000; Molloy & Delany, 1999; Young, Hood, & Peters, 1994).

The paper proceeds as follows. In Section 1, we review the literature on competitive strategy and competitive advantage. We then apply this line of thinking to the MNC
subsidiary, examine the nature of the internal and external competitive environments, and
develop two research hypotheses. In the second half of the paper we describe a case-based
research study of 24 subsidiaries in Scotland. The findings from this study are presented,
and a number of conclusions are drawn.

1. Background

The field of competitive strategy is largely defined by the work of Michael Porter
(1980, 1990). In his 1980 book, Porter showed how the inherent attractiveness of a given
industry was a function not only of the behaviour of players in that industry, but also of the
relative bargaining power of the adjacent industries (those from which it bought and those
to which it sold), the potential threat of new entrants to that industry, and the potential
threat of substitute products. Stated slightly differently, he essentially broadened the
concept of competition, so that rather than just viewing immediate rivals as competitors,
the company should also see suppliers, customers, and potential rivals as competitors. And
he also made it very clear that competition should be viewed as a good thing—a
conclusion that applies to the entire competitive arena. In his 1990 book, Porter took these
ideas further by looking at the relative competitiveness of different countries and industrial
regions around the world. Again the approach was built on the idea that competition is
healthy, as a stimulus for productivity growth and innovation.

Taken as a whole, Porter’s theory of competitive strategy provides valuable insights
into the drivers of competitiveness. In a benign environment with few competitors and
undiscerning customers, a company can be lazy and still very profitable, but it will never
improve. In a volatile environment with many competitors, demanding customers, and
top-quality suppliers, a company must become extremely competitive and entrepreneurial
just to survive.

Porter has been challenged for his emphasis on competitive rather than collaborative or
cooperative behaviour, although in fairness alliances and networks were less common at
the time his initial work was undertaken. There is not space to get into a detailed
discussion of this debate—the reality is that the relationships between suppliers, customers
and competitors are a blend of both competition and collaboration, and that it is typically
very hard to separate the two out. However, for the purposes of this paper our preference is
to deliberately think through the competitive model in isolation, and to see what predictive
or explanatory power it has. Once this has been done, it then makes sense to revisit the role
of collaboration in shaping the subsidiary’s competitiveness.

2. Theoretical development

Let us now take Porter’s theory of competitive strategy and apply it to the subsidiary
company. Clearly some changes need to be made, because the subsidiary only represents
part of the MNC so it is meaningless to talk about competitive advantage per se. However,
it is still possible to think of the subsidiary as a semi-autonomous entity that achieves
competitiveness to a greater or lesser degree as a function of the environment in which it is
located. And as noted earlier, the environment in question has two very different components—an external host-country environment, and an internal corporate environment. Each will be considered in turn.

2.1. The external competitive arena

The subsidiary’s external environment consists essentially of three sets of actors—local customers for its products and services, local suppliers of components and services, and local competitors (both indigenous companies and other MNC subsidiaries) (Ghoshal & Bartlett, 1990). To some degree it also includes other external entities that are not local—such as customers in other markets (Birkinshaw, 1997). However, a central tenet of Porter’s (1990) theory is that proximity matters, so for our purposes it makes sense to focus primarily on those customers, suppliers and competitors that are present in the same market. Moreover, the reality for most subsidiaries is that their relationships are local, because customers or suppliers from outside the local market will usually be dealt with by another part of the MNC.

2.2. The internal competitive arena

The subsidiary’s internal environment consists primarily of three sets of actors—internal customers for the subsidiary’s products or services, internal suppliers of various components and services, and internal competitors. For example, Motorola has a Scottish microchip plant in Scotland. This plant sells its output exclusively to other Motorola divisions in the US (internal customers). It buys certain services from other Motorola divisions (internal suppliers). And it is continually vying with the other Motorola microchip plants around the world for additional investment, and for the right to make future generations of microchips (internal competitors). To complete the picture, it is also important to acknowledge the existence of potential new entrants—for example, the possibility that Motorola might choose to build a new microchip plant in Malaysia rather than reinvest in Scotland. Taken together, in other words, we can identify an internal set of forces (to parallel Porter’s ‘five forces’) that shape the competitiveness of the subsidiary company (Molloy & Delany, 1999).

It is worth making two additional comments on the internal competitive arena. First, while this may appear an unusual way of applying Porter’s theory, it actually works very well in practice. There are suggestions that subsidiary managers are acutely aware of the dynamics of their internal environment—worrying about new investment going to alternative locations, and actively seek out ways of enhancing their competitiveness vis-à-vis competing sister subsidiaries. Second, it should be observed that the internal competitive arena is rarely local in a geographical sense, and as such one might wonder whether the same local dynamics would transpire. However, despite the distance between actors within the MNC, there is typically a high level of knowledge sharing and internal benchmarking, and there is a relatively sophisticated internal labour market (Birkinshaw & Sölvell, 2000; Gupta & Govindarajan, 1994). Both of these factors should help to
facilitate the emergence of the dynamics that are typically associated with geographical clusters. The extent to which this really occurs, however, remains an empirical question.

2.3. Integrating the two competitive arenas

While the two competitive arenas can be separated at a conceptual level, there is no reason for the subsidiary to operate exclusively in one or the other. In fact, to get a complete picture of the subsidiary’s competitive environment, it is useful to think of the external and internal arenas as orthogonal dimensions, with the level of competitiveness on each one varying from low to high. A ‘high’ level of competitiveness in this context refers to the combined presence of discerning customers, top-quality suppliers and close competitors. Fig. 1 shows this approach.

**Benign environment.** In the situation where both the internal and external competitive arenas are weak, the subsidiary is in a benign environment. The best examples of this come from the pre-free-trade era. For example, subsidiary companies in Canada prior to the 1989 Free Trade Agreement typically operated in a highly protected environment. One example is Westinghouse Canada’s electronics division in Hamilton, Ontario, which developed a niche business in the 1980s selling computer terminals and related equipment to the airline industry. This business emerged from a capability in defence electronics, and it became highly successful in its niche through the initiative and perseverance of its management team. However, its customers were essentially global despite the relatively small size of the business ($40 million) and it had essentially no operational links to the other parts of Westinghouse Canada or to the Westinghouse electronics division HQ in San Diego.

**Externally focused competitive environment.** A weak internal competitive arena coupled with a strong external competitive arena creates an ‘externally focused’ competitive environment. This is a relatively common scenario in which the subsidiary company finds itself relatively disconnected from the corporate system—either because of

![Fig. 1. Internal and external competitive arenas.](image-url)
the way the MNC is organized, or because it is operating in its own unique field of expertise. One example of this is Litton Interconnection Products Division (IPD), a £30 million turnover subsidiary of Litton Corporation based in Glenrothes, Scotland. Litton IPD designs and manufactures electronic packaging systems for local clients like HP and Motorola. It has a number of local competitors as well. In contrast, there is a complete absence of support from Litton IPD’s parent company.

**Internally focused competitive environment.** A weak external competitive arena coupled with a strong internal competitive arena creates an ‘internally focused’ competitive environment. Obviously this is the mirror-image of the previous scenario, but it is also relatively common. Here, the entire competitive arena for the subsidiary is defined through internal relationships. Intel Ireland, for example, employs about 5000 people just outside Dublin, mostly working in two state-of-the-art microprocessor fabrication plants (‘Fabs’). Its customers are all internal, and its suppliers are all certified and controlled through HQ. Its competitiveness is monitored and evaluated constantly through internal comparisons of quality levels, productivity and so on across all the Intel Fabs around the world. Intel Ireland’s external competitive environment, by contrast, is almost non-existent. A post-sales support team has just been established which allows customers like Dell and Compaq to speak directly with Intel Ireland employees if there are any problems or questions, but this is the only ‘window’ the plant has on the outside world. All other relationships with external suppliers and customers are managed through the corporate system.

**Dual-focused competitive environment.** The final scenario is one in which there are strong internal and external competitive environments. At first glance, this situation offers the ‘best of both worlds’ in that the subsidiary has to learn to be competitive on both an internal and external basis. At the same time, however, this dual-focus can also potentially lead to internal tensions as executives struggle to reconcile conflicting or competing demands from their environment. IBM Scotland, located in Greenock, west of Glasgow, is an interesting example of this. Established in 1953, it is now Scotland’s biggest exporter with £2.3 billion in revenues. IBM Scotland is one of six PC manufacturing operations in the IBM system, and these plants are continuously benchmarked against one another on a range of internal productivity and quality metrics. In terms of customers, products are all sold through IBM’s sales organization, but IBM Scotland keeps up a direct relationship with its customers through the European call centre and through personal relationships with senior managers and key customers. On the external side, IBM Scotland competes actively with other local PC manufacturers including Compaq, Dell and Gateway, and there is some benchmarking with these companies. It has a number of important local suppliers that account for 15% of its inputs, but most supplies are bought through central purchasing contracts.

It should be emphasized that we are characterizing the subsidiary’s competitive environment internally and externally, not simply the existence of internal and external markets. Take the case where the subsidiary sells 50% of its output to an internal customer and the other 50% of its output to external customers: if the internal customer is a guaranteed or mandated sale, and the external customers are being fought over in a fiercely competitive market, then all else being equal this would be a quadrant 2 case; the explanation is that competitiveness is being driven by what is happening in the external marketplace, not what is happening inside the MNC.
As a final observation, the competitive environment creates the arena in which the subsidiary competes, but it is up to the subsidiary’s managers to engage with this environment; by acting entrepreneurially, and sometimes unilaterally (i.e. without formal agreement from MNC headquarters), to shape it in a way that allows the subsidiary to be a success. The internal and external environments give the subsidiary different degrees of freedom. However, in all cases there are things subsidiary managers may be able to do to improve their competitive position: they can position themselves within their internal environment by becoming more efficient or by seeking to manufacture a unique product; and they can position themselves within their external environment through the classic strategic positions of low cost, differentiation or focus (Porter, 1980).

In previous literature, these actions by subsidiary managers have typically been referred to as entrepreneurial (Birkinshaw, 1997) but it should be clear from the current framing that the concept of subsidiary entrepreneurship is analogous to Porter’s (1980) concept of business-level strategy. Entrepreneurship per se receives little direct attention in Porter’s work, although managers’ perceptions are that entrepreneurship requires decentralization in business units (Porter, 1990: p. 391).

The emphasis here on the competitive environment does not diminish the importance of alternative perspectives on the MNC subsidiary, and in particular the contribution of the resource-based view (RBV) of the firm (Barney, 1991; Wernerfelt, 1984). Subsidiaries may engage in entrepreneurial activities to overcome the limitations of their resources, to make their resources valuable, or to leverage resources in unique ways previously unknown in their firm or industry. Porter himself recognizes the competition for resources among sister units within a multiproduct, multibusiness firm. Similarly resources may affect subsidiary managers’ appraisal of their external environment: when resources are abundant, they may be insulated from adverse environmental conditions.1

### 3. Hypotheses

Although this entrepreneurship perspective on the MNC subsidiary is rather different to the approach taken in much of the international business literature on subsidiaries, a number of the concepts derived from this literature are useful and are applied here. Considerable attention has, for example, been given to the roles/strategies of subsidiaries and particularly to the contrasts between implementer and rationalized subsidiary types, and the high contributory role subsidiaries (Birkinshaw et al., 1998).

Among a wide range of models of the MNC subsidiary, those of Bartlett and Ghoshal (1989), Jarillo and Martinez (1990), Taggart (1997) and White and Poynter (1984) are particularly well recognized. Measures used to distinguish these subsidiary types are varied, but a number stand out. In particular, autonomy is recognized in most models. Autonomy refers to the freedom or independence of a subsidiary which enables it to take certain decisions on its own behalf (Young & Tavares, 2004). Autonomy has been shown to be an important influence on subsidiary initiative, particularly local and global.

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1 We are grateful to an anonymous referee for proposing this point.
initiatives (Birkinshaw, 1996, 1997) and on innovative creation in the subsidiary (Ghoshal & Bartlett, 1988). In respect of the characteristics of subsidiaries, value added scope and market scope are included in a number of models (e.g. Taggart, 1997; White & Poynter, 1984) and have been shown to be important indicators of subsidiary role. Value added scope is represented by the presence of particular value adding activities (especially R&D, purchasing and marketing); while market scope refers to the market(s) served by the subsidiary. Hence both value-added/market scope and autonomy are related to subsidiary initiative and, therefore, to entrepreneurship; and are important proxies for entrepreneurship in the hypotheses which follow.

The framing of the subsidiary’s competitive environment as above allows us to develop a number of broad hypotheses. Consider first the nature of the subsidiary’s activities. As already observed, many of the elements of strategic positioning, including choice of customers, product, relative market positioning, and so on, are controlled either exclusively by the parent company, or decided jointly by subsidiary and parent. In the extreme, the subsidiary becomes essentially a cog in a machine, and its capacity for entrepreneurial activity is zero. It can still be highly competitive, but competitiveness is defined in terms of its ability to meet the specific demands of the system in which it exists, rather than against any objective or independent measures. What this means in practice is that competitiveness is typically defined very narrowly around a technological or product charter (which represents ‘the business…in which the subsidiary participates and for which it is recognized to have responsibility within the global MNC’— Birkinshaw and Hood (1998: p.782) and Galunic and Eisenhardt (1996). This in turn affects the scope of the capabilities the subsidiary develops, because it is only being judged on its ability to meet a narrow set of objectives.

Stated in more specific terms, an internally focused competitive environment is likely, therefore, to be associated with a narrower technology or product charter, because the subsidiary represents part of the system only. Clearly the direction of causality in such a relationship could run in either direction—a narrow charter could lead the subsidiary to work more closely with its internal suppliers, competitors or customers, or alternatively an internally focused system could lead the subsidiary’s charter to become narrower over time. By contrast, a subsidiary that is focused more on its external competitive environment is likely to have much greater capacity for entrepreneurial behaviour—in choosing what customers or suppliers to work with, and how it positions itself vis-à-vis local competitors. And correspondingly, its charter is likely to be defined more broadly.

All of this leads to Hypothesis 1, which suggests that a relative focus on the external competitive arena will be associated with greater autonomy, a broader value-added scope and greater degree of upgrading (and, therefore, subsidiary entrepreneurship). These characteristics are argued to move broadly together, in that greater autonomy is likely to lead to more initiative, which all else being equal will lead the subsidiary to expand its value-added scope and market scope through a process of evolution (Birkinshaw, 1997; Birkinshaw & Hood, 1998; Jarillo & Martinez, 1990; White & Poynter, 1984).

**Hypothesis 1.** The more focused the subsidiary is on its *external* competitive arena (compared to its *internal* arena), the greater its degree of entrepreneurship (as proxied by the measures of autonomy, value-adding scope, and its level of upgrading).
Two points should be clarified here. First, we are focusing here on the relative importance of these two arenas. In dual-focused environments where both competitive arenas are equally strong, it becomes an empirical question whether the external or internal pressures dominate. Second, the hypothesis does not attempt to indicate any causality. While the logic presented above suggests that the level of autonomy and value adding scope are consequences of the competitive environment, they are equally likely to be antecedents. We return to this issue to in Section 6.

The second issue to consider is the effect of these competitive dynamics on the subsidiary’s performance. Again, following Porter’s (1980) original thinking, the key argument is that competition is intrinsically good—as a driver of productivity enhancement, innovation, and quality. However, it is also possible to make a more sophisticated argument based on the different dynamics of the internal and external competitive arenas.

The argument is as follows. The more tightly integrated the subsidiary becomes in the corporate system, the more decisions of a truly strategic nature are taken out of the subsidiary’s hands and held at a corporate level. In such a situation, the subsidiary loses the opportunity or the capacity to think strategically and entrepreneurially—it has no influence, for example, over which customers to target, or over what sort of product to develop. Instead, it is managed as one element of a system, on the basis of metrics that can be reliably measured and meaningfully monitored by those running the system. These are essentially measures of efficiency, such as productivity improvements or quality. There is nothing wrong with such measures, but they are—by definition—concerned with extracting greater value out of an existing economic system rather than adapting that system to changing demands.

In contrast, exposure to the external competitive arena opens the subsidiary up to the changing demands of customers and the evolving capabilities of competitors and suppliers. By being exposed to such stimuli, the subsidiary company becomes very aware of its own ability to compete in the external marketplace, and will make changes to its competitive position accordingly. The suggestion, then, is that an external competitive arena will lead the subsidiary to enhance its effectiveness, which is about adapting its competitive position towards the changing demands of the marketplace. Market share, customer satisfaction, and new product development are all possible indicators of effectiveness. Effectiveness is associated with the measurement of performance of an entrepreneurial business.

**Hypothesis 2.** The more focused the subsidiary is on its external competitive arena (compared to its internal arena), the higher its performance is based on measures of effectiveness (rather than efficiency).

4. Research methods

The research reported in this paper was part of a major policy-oriented evaluation of the quantitative and qualitative economic benefits provided by inward foreign direct
investment to the Scottish economy. The present study draws on the qualitative research material which employed case-study methodology. The latter is appropriate given the limited amount of existing academic research on the issues under investigation, in this instance the internal competitive dynamics facing the MNC subsidiary. It would have been feasible to use a questionnaire given the wide-ranging objectives of the overall study. As Section 5 below shows, the case study approach enabled us to develop new and useful insights that we would not have gained through a more remote form of data collection.

The sampling frame for the research was the population of subsidiary companies in Scotland; this varies enormously in terms of size, autonomy, growth and so on. The sample was chosen in consultation with the project sponsors to reflect the diversity of industry sectors, parent company nationalities, and stages of growth, but also the range of value chain activities present across the subsidiary population.

The investigated sample was 24 subsidiary companies in manufacturing. The sample size was chosen to meet the requirements for theoretical saturation in qualitative research. Reflecting the selection criteria, each subsidiary had to have a significant manufacturing presence but many also had R&D, purchasing, sales and service activities as well. A number of companies declined to participate at the stage of initial contact, but the target case study sample size of 24 was achieved. We conducted between two and seven interviews in each subsidiary, involving the plant manager/managing director and the heads of finance, purchasing, sales and marketing and research and development (R&D) as appropriate. The total interview time at each subsidiary was between 5 and 8 h. In addition, these interviews were supplemented, where appropriate, with confidential discussions with key suppliers and development partners, and reviews of case files held by public sector bodies.

Interviews covered a range of general issues, including the industry conditions, changes in the marketplace, the strategy and structure of the parent company, and the competitive environment in Scotland. We then focused on the key issues for this research by identifying who their key suppliers, customers and competitors were, and then probing on the internal and external dynamics associated with each. Finally, we asked a number of specific questions about growth, value-added scope, market scope, autonomy, and performance.

4.1. Measures

We decided not to create quantitative measures for the subsidiary’s internal and external competitive arenas. Detailed numerical data was collected for such things as the geographical distribution of suppliers and customers, and the number of internal and external competitors. However, it became apparent that there was also a significant qualitative element to these constructs that we did not want to lose. So in Section 5 we report in a table the key facts for each subsidiary, and then we discuss the other issues that surfaced in the text.

For the other constructs (the dependent variables) we developed quantitative scales that built on prior subsidiary research. The constructs comprised three proxies for

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2 The report was entitled: Fraser of Allander Institute and University of Strathclyde (2000), *Inward Investment Benefits for the Scottish Economy*, an evaluation report for Scottish Enterprise and the Scottish Executive, January (unpublished). Aside from the manufacturing case studies, a sample of six case studies of service companies was undertaken. The names of all companies are suppressed to maintain confidentiality.
entrepreneurship plus an indicator of relative performance and were measured as follows:

**Autonomy.** Subsidiary executives were asked to indicate the extent to which they were free to make a range of decisions without interference from headquarters (on a five-point scale ranging from 1 = decision made exclusively by HQ, through 3 = decision shared, to 5 = decision made exclusively by subsidiary).

**Value-added scope.** Subsidiary executives were asked to indicate the number of different functional activities they were engaged in, on a five-point scale from 1 = manufacturing only, through to 5 = entire value chain (R&D, purchasing, manufacturing, sales, service).

**Subsidiary upgrading.** Executives were asked to indicate the level of upgrading of the subsidiary, meaning the extent to which its value added scope and/or market scope had increased over the last five years (on a three-point scale, where 1 = no change, 2 = minor upgrading, and 3 = major upgrading). The notion of subsidiary upgrading is related to concepts of subsidiary evolution and development (Hedlund, 1986; Prahalad & Doz, 1981); and the roles and strategies of MNC subsidiaries (Bartlett & Ghoshal, 1989; Jarillo & Martinez, 1990; White & Poynter, 1984).

**Performance.** Executives were asked to evaluate their performance relative to other similar plants within their MNC group on a number of dimensions: productivity, quality, supplier relationships, labour costs, productivity improvement, technology, and customer development (on a five-point scale, ranging from 1 = significantly worse than competitors, through 3 = about the same, to 5 = significantly better than competitors). These performance ratings were aggregated to create a single overall measure of performance; the higher the score, the higher the subsidiary’s performance in terms of effectiveness, relative to other similar plants.

5. Findings

As with all case-study based research, the analysis began during the interviews as we started to make sense of the insights offered by the subsidiary executives. Once the data had all been collected it was possible to move to a more systematic process of analysis, and it was at this stage that we developed the framework shown in Fig. 1. Once this had been developed, we were in a position to focus our attention on the elements of the subsidiary’s competitive arena, and to classify each subsidiary using this framework. This led us to deduce that 12 subsidiaries were in an internally focused competitive environment, 6 were in an externally focused competitive environment, and 6 were in a dual-focused competitive environment.3 Table 1 provides a summary of the key elements of each subsidiary’s competitive environment. Interestingly, there were no clear-cut examples of subsidiaries in benign environments. As discussed above, this may be because benign

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3 This classification procedure was undertaken purely through the judgment of the researchers. However, rather than just accepting it as a fait accompli, the reader can refer to Table 1 in which the key elements of each company’s competitive environment are listed. This table essentially is the data (in reduced form) on which the classification was based.
<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Parent country</th>
<th>Year formed</th>
<th>Revenues</th>
<th>Suppliers</th>
<th>Customers</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan 1</td>
<td>1992</td>
<td>£20 million</td>
<td>50% from Japan; rest local with HQ influence</td>
<td>All sales to Europe through retail channels</td>
<td>No local competitors; two other internal plants in US</td>
<td></td>
</tr>
<tr>
<td>Taiwan 2</td>
<td>1996</td>
<td>£109 million</td>
<td>Local sourcing policy except for key items</td>
<td>All sales to UK and rest of Europe</td>
<td>No local competitors; three other internal plants in Asia and US</td>
<td></td>
</tr>
<tr>
<td>US 3</td>
<td>1994</td>
<td>£40 million</td>
<td>Centralized purchasing policy, 35% internal</td>
<td>All sales made via UK sales centre</td>
<td>No local competitors; two other internal plants, formal ‘bid’ process</td>
<td></td>
</tr>
<tr>
<td>France 4</td>
<td>1971</td>
<td>£210 million</td>
<td>60% purchased internally, rest from UK</td>
<td>Few local customers; rest through UK sales office</td>
<td>One local competitor; 10 other internal plants all competing</td>
<td></td>
</tr>
<tr>
<td>Japan 5</td>
<td>1987</td>
<td>£225 million</td>
<td>60% purchased internally, rest from UK</td>
<td>Global sales through UK sales office; plus a few local customers</td>
<td>No local competitors; two other internal plants, corporate ‘bid’ process</td>
<td></td>
</tr>
<tr>
<td>Japan 6</td>
<td>1975</td>
<td>£109 million</td>
<td>Centralized purchasing; 47% internal, most of rest from Far East</td>
<td>20% customers are local semiconductor plants; rest in Europe</td>
<td>No local competitors; four other internal plants, all in US or Asia</td>
<td></td>
</tr>
<tr>
<td>Sweden 7</td>
<td>1991</td>
<td>£5 million</td>
<td>15% purchases from HQ; most of rest is local sources</td>
<td>Global sales through HQ sales office; plans to sell new products directly</td>
<td>No local competitors; two other internal plants</td>
<td></td>
</tr>
<tr>
<td>Sweden 8</td>
<td>1975</td>
<td>£193 million</td>
<td>Centralized purchasing, 90% internally, rest local companies</td>
<td>75% sales to UK customers, rest are global</td>
<td>No local competitors; three other internal plants in Europe, this plant slated for closure</td>
<td></td>
</tr>
<tr>
<td>US 9</td>
<td>1947</td>
<td>£150 million</td>
<td>80% internal purchases, rest sourced from UK</td>
<td>All sales through global sales organization, 27% UK, rest Far East</td>
<td>No local competitors; Overlap with two internal plants (one to be closed)</td>
<td></td>
</tr>
<tr>
<td>US 10</td>
<td>1969</td>
<td>£249 million</td>
<td>50% suppliers UK based, local sourcing policy</td>
<td>81% sales to internal customers, 19% external through sales office</td>
<td>No direct local competitors; six other plants in Europe, careful performance monitoring</td>
<td></td>
</tr>
<tr>
<td>Holland 11</td>
<td>1947</td>
<td>£40 million</td>
<td>56% internal suppliers (for key items); most of rest from European suppliers</td>
<td>All sales through global sales organization, 75% end up in UK, 25% Europe</td>
<td>No local competitors; five other internal plants, only one with similar mandate</td>
<td></td>
</tr>
<tr>
<td>US 12</td>
<td>1965</td>
<td>£177 million</td>
<td>74% purchased internally; commodity items purchased locally</td>
<td>All sales through global sales organization, 26% UK, rest to US and Asia</td>
<td>No local competitors; four other internal plants with some overlap</td>
<td></td>
</tr>
</tbody>
</table>
### Externally focused competitive environment (6 cases)

<table>
<thead>
<tr>
<th></th>
<th>Country</th>
<th>Year</th>
<th>Revenues</th>
<th>Suppliers</th>
<th>Customers</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Japan</td>
<td>1987</td>
<td>£100 million</td>
<td>4% sourced from Japan, rest from UK and Europe</td>
<td>Products sold direct to customers in UK (40%) and Europe</td>
<td>One local competitor, others in Europe; other internal plants, but none in this product area</td>
</tr>
<tr>
<td>2</td>
<td>US</td>
<td>1973</td>
<td>£32 million</td>
<td>10% internal sourcing; rest sourced in UK and Europe; local sourcing policy</td>
<td>25% sales to internal customers; 75% external customers mostly in Europe</td>
<td>Two small local competitors; 11 other internal competitors though in different product areas</td>
</tr>
<tr>
<td>3</td>
<td>Switzerland</td>
<td>1972</td>
<td>£150 million</td>
<td>All sourced externally, from around the world</td>
<td>Product sold direct, only external customers, 70% in Europe</td>
<td>Major UK competitor; one strong internal competitor in US</td>
</tr>
<tr>
<td>4</td>
<td>US</td>
<td>1951</td>
<td>£150 million</td>
<td>All external, 55% from UK</td>
<td>Product sold direct on global basis, 57% Europe</td>
<td>No local competitors; several other internal plants, active benchmarking</td>
</tr>
<tr>
<td>5</td>
<td>US</td>
<td>1975</td>
<td>£110 million</td>
<td>Almost all external, policy of decentralized sourcing</td>
<td>Product sold to global customer base through sales organization but with involvement of plant</td>
<td>No local competitors; many internal plants with overlapping but distinct charters</td>
</tr>
<tr>
<td>6</td>
<td>US</td>
<td>1946</td>
<td>£300 million</td>
<td>All external, no HQ involvement, 50% UK</td>
<td>Product sold direct to global customer base</td>
<td>No local competitors; other internal plants with benchmarking but different product areas</td>
</tr>
</tbody>
</table>

### Dual focused competitive environment (6 cases)

<table>
<thead>
<tr>
<th></th>
<th>Country</th>
<th>Year</th>
<th>Revenues</th>
<th>Suppliers</th>
<th>Customers</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>US</td>
<td>1960</td>
<td>£100 million</td>
<td>33% internal sourcing, rest is decentralized</td>
<td>Product sold directly to customers, including some very local</td>
<td>No local competitors; active benchmarking of other European competitors; four other internal plants with careful benchmarking</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>1982</td>
<td>£156 million</td>
<td>Active development of local suppliers (22% Scotland), rest from all over the world</td>
<td>Products sold primarily through European sales office, but four local customers have direct contact with plant</td>
<td>One local competitor; five other internal plants, with ‘active competition’ between them</td>
</tr>
</tbody>
</table>

(continued on next page)
<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Parent country</th>
<th>Year formed</th>
<th>Revenues</th>
<th>Suppliers</th>
<th>Customers</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Norway</td>
<td>1982</td>
<td>£37 million</td>
<td>30% internal sourcing, rest is responsibility of plant, most from Europe</td>
<td>88% customers are Scottish; rest European</td>
<td>One main competitor in Scotland; three other internal plants, some benchmarking between them</td>
</tr>
<tr>
<td>4</td>
<td>US</td>
<td>1987</td>
<td>£51 million</td>
<td>28% internal sources; rest is responsibility of plant, 63% from Europe</td>
<td>48% sales directly to UK customers; rest made through European sales office</td>
<td>No local competitors; 15 internal plants total, each a ‘focused factory’ but with close benchmarking</td>
</tr>
<tr>
<td>5</td>
<td>US</td>
<td>1951</td>
<td>£2300 million</td>
<td>All suppliers external; careful mix of global and local sourcing; 56% UK</td>
<td>Products sold through global sales organization, primarily to Europe; but also direct contact with many large customers</td>
<td>One local competitor, two in Ireland, benchmarking done between them; internally five other plants in same group, with active benchmarking</td>
</tr>
<tr>
<td>6</td>
<td>US</td>
<td></td>
<td>£45 million</td>
<td>All suppliers external; 60% from UK</td>
<td>41% sales internal; 59% sold directly to external customers</td>
<td>Several local competitors in this sector; internally no direct counterparts, some benchmarking with similar plants</td>
</tr>
</tbody>
</table>
environments are a thing of the past. Given that every investment made in Scotland today is fiercely contested by other inward investment agencies from Ireland, England and further afield, it is perhaps not surprising that there are no true cases of subsidiaries operating in benign environments.

The classification of the 24 subsidiaries into three groups provides an effective way of organizing Section 5. Below we examine each group in detail, considering the nature of the competitive environment in each case. We then compare the various dependent variables across the three groups.

5.1. Internally focused competitive environment (12 cases)

This is a fairly heterogeneous group of manufacturing subsidiaries. Revenues range from £20 million to £225 million, founding dates range from 1947 to 1996, and the parent companies are located in US, Japan, Taiwan, France, Sweden, and Holland. While they all began as manufacturing operations, four subsequently moved into research & development as well, and three have some form of sales operations (though in all cases very small).

While they are very different on all the above dimensions, the 12 subsidiaries in this group are very similar in terms of their internally focused competitive environment. If we consider customer relationships first, the usual model was that the manufacturing subsidiary transferred its product to a UK or European sales organization, which then sold it on to the customer. The other common arrangement (three cases) was for sales to go to internal customers (e.g. selling a microchip to an electronic product division) on a mandated basis. In both cases, the subsidiary essentially had no ‘window’ on the customer—they were operating, in the words of one manager, ‘in the bowels of the ship’, and contact with customers was mediated through another part of the MNC. In three cases, the subsidiary had been able to change this arrangement, either by developing a direct sales relationship to local customers or by proactively building informal relationships with customers. For example one arranged plant visits for customers ‘almost every day’.

In terms of supplier relationships, most factories sourced the majority of inputs internally. While such sourcing relationships can in theory be quasi-market based, the reality in all cases was that they had little or no discretion over what they bought internally, or the price they paid. Other suppliers were handled in a variety of ways. The usual arrangement was a centralized purchasing system where the subsidiary had some input into the selection of suppliers, but relationships were owned at a global level. In a few cases, the subsidiary had complete discretion over local purchases, but this was typically for ‘commodity’ items. There was also a high level of variation in the location of suppliers—85% ‘local’ in one case, and 0% local in another.

With regard to competition, most saw their competitors as the other manufacturing operations within the MNC. In no cases could the executives identify another company in the local environment with which it was competing directly. Instead, they pointed to their sister plants—typically 2 or 3 others, but as many as 11 other plants in one case.

The extent to which these other plants were direct competitors varied enormously, and because this issue lies at the heart of the internal competitive environment it is worth highlighting a few specific examples. A couple of factors were driving the competitive internal dynamics. The first, seen in about four cases, was overcapacity in manufacturing,
which resulted in a consolidation process with both losers and winners. One executive described what had happened in his company:

The corporation recently went through a product rationalization process. There had been significant duplication within Europe, and sales and marketing companies in other countries were playing us off against each other. So there followed a major intra-group bidding process by the four manufacturing locations to retain our product franchises and functions, based on our recent performance. In the event one of the four (Italy) was closed down.

Another issue facing Scottish plants was the gradually rising labour costs coupled with the emergence of new locations for manufacturing, and thus enormous pressures for improvement. As one respondent observed, “For plants like ours, which are a little smaller than the others, we have to watch the performance of the other 10 European plants like a hawk, especially the Polish factory where labor costs are much lower.”

In terms of processes, many MNCs had instituted formal ‘bid’ processes in which subsidiaries competed explicitly for new manufacturing investments. Another approach was internal benchmarking, which attempted to provide quantitative evidence on relative performance levels—with a view both to improve the performance of the laggards, and to identify the leaders who would (presumably) be in pole position for future investments. As one subsidiary manager observed:

Benchmarking is undertaken by the Sector Order Fulfillment group which tracks data by plant. 15–20 plants provide monthly data on costs, yields and service delivery. Although we are the No. 2 plant in the world after Japan, that is not considered to be good enough in a global era.

In sum, the 12 subsidiaries in this group were operating in a very internally focused environment. Managers in these subsidiaries had very little interaction with external customers or competitors, and instead they took their cues from internal sources—internal customers, internal competitor plants, and from their direct bosses.

In terms of their entrepreneurial characteristics, this group mostly had relatively low autonomy (average rating 3.1 on a five-point scale), and most had very restricted value-added scope (manufacturing plus some purchasing was the most usual arrangement). The extent to which these operations had evolved or been upgraded over the last five years was typically moderate (2.2 average score), and their overall performance was also average (3.2 average out of 5). As always there is considerable variation across the sample, but a tentative conclusion that we will return to is that this group appears to be underperforming relative to the other two groups.

5.2. Externally focused competitive environment (6 cases)

Of the six subsidiaries in this group, four had US parents, one was Japanese, and one Swiss. They had been established between 1946 and 1987, and they had revenues between £32 million and £300 million.

In terms of their competitive environment, this group had relationships primarily with actors outside the MNC. Considering customers first, only one had any intra-corporate
sales (25% of its total) and the rest sold exclusively outside. In two cases these sales were made through the European sales organization, but even here the subsidiary company was able to influence the process and develop direct relationships with end customers. In terms of suppliers the situation was similar, with no more than 20% of purchases coming from within the MNC, and a high level of purchasing autonomy in five of the six cases. Interestingly, this group had also developed significant amounts of local Scottish supplies—four of the six sourced 19% or more of their inputs locally.

In terms of competition, these subsidiaries were typically one-of-a-kind units within their MNC. As one respondent commented ‘this plant is unique in what it does’, so while there was internal benchmarking in three cases, these subsidiaries never felt that their existence was challenged by others within the corporate system. In terms of external competitors, the story was less clear-cut—three of the subsidiaries stated that there were ‘no local competitors’, whereas the other three had one or two strong local competitors that they were highly aware of. Most of their true competitors were located further afield.

In terms of their entrepreneurial characteristics (Table 2), five of the six had full value-added scope from R&D through to sales, and high levels of autonomy. They were essentially what the literature has referred to as ‘world product mandate’ subsidiaries (Crookell, 1987; White & Poynter, 1984). The other one had purchasing and manufacturing responsibility only, though it also had some customer development responsibility. Its autonomy was also much lower. All six had undergone either a minor or major upgrading over the last five years, and they all rated their performance as three or above (average 3.7).

5.3. Dual-focused competitive environment (6 cases)

This group consisted of four American-owned, one Norwegian-owned and one Japanese-owned subsidiaries. They were established in the 1980s or earlier, and their sales revenues varied from £37 million to £2.3 billion.

By definition these subsidiaries’ competitive environments were rather more complex than the other two. Considering customers first, two of the six subsidiaries had a mix of internal and external customers, and both had direct control over their external sales. Of the other four, two had absolute responsibility for their sales while the other two sold through a global sales organization but with significant involvement and direct interaction with their customers. With regard to suppliers, all six used a combination of internal and external suppliers, and they all had some control over their choice of external suppliers. For example, in one case the parent company had put in place a series of global purchasing managers who sourced high-volume or key components globally. The subsidiary, therefore, had a mix of suppliers some of which it chose, and some of which were chosen on a global basis. The parent company also had a policy of actively developing local suppliers in each country.

In terms of competitors, four of the six subsidiaries had local competitors, and one of the others identified continental European competitors that they monitored closely. In addition, all six could identify between four and eight internal competitor sites. In some cases these internal competitors were different enough that they posed little threat, but in others the managers clearly saw themselves in a directly competitive situation. One commented on the ‘increased amount of intra-company bidding’; another mentioned that
sister plants in Mexico and China represented ‘potentially a more important challenge than the challenge from other major truck manufacturers’. Moreover, in all six companies there was mention of internal benchmarking processes to increase performance levels.

In terms of their entrepreneurial characteristics (Table 2) this group was similar to the externally focused group, in that they had broad value-added scope, they had also undergone a process of upgrading, their performance was relatively high (3.8 average) and they had relatively high autonomy (3.6 average). However, the qualitative evidence suggested that they were also somewhat different to the externally focused group in that they did not have the same level of detachment from the corporate system. In other words, if the externally focused group were autonomous ‘world mandate’ subsidiaries, this group had similar levels of responsibility but with more operational integration—through intra-company purchases and sales, and through internal benchmarking processes.

### Table 2

Entrepreneurial characteristics and performance of sample companies

<table>
<thead>
<tr>
<th>Case</th>
<th>Autonomy (on five-point scale)</th>
<th>Value-added scope (on five-point scale)</th>
<th>Level of upgrading (on three-point scale)</th>
<th>Performance (on five-point scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internally focused competitive environment (12 cases)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>4</td>
<td>1.5 (pM)</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>2 (pMs)</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>1.5 (pM)</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>1 (M)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>4 (RDPM)</td>
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<td>3</td>
</tr>
<tr>
<td>6</td>
<td>2.5</td>
<td>2.5 (pMS)</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>7</td>
<td>4</td>
<td>3 (DpMs)</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>1.5</td>
<td>1 (M)</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>9</td>
<td>4</td>
<td>2 (PM)</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>3</td>
<td>2.5 (PMs)</td>
<td>3</td>
<td>3.5</td>
</tr>
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<td>11</td>
<td>3.5</td>
<td>4 (RDPM)</td>
<td>3</td>
<td>n.a.</td>
</tr>
<tr>
<td>12</td>
<td>4</td>
<td>4 (RDPM)</td>
<td>2</td>
<td>3.5</td>
</tr>
<tr>
<td>Mean</td>
<td>3.1</td>
<td>2.4</td>
<td>2.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Externally focused competitive environment (6 cases)</td>
<td></td>
<td></td>
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<tr>
<td>1</td>
<td>2</td>
<td>2 (PM)</td>
<td>2</td>
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<tr>
<td>2</td>
<td>4</td>
<td>5 (RDPM)</td>
<td>2</td>
<td>4</td>
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</tr>
<tr>
<td>4</td>
<td>4</td>
<td>5 (RDPM)</td>
<td>3</td>
<td>n.a.</td>
</tr>
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<td>4.5 (RDPMs)</td>
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<td>4</td>
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<td>6</td>
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<td>4.5</td>
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<tr>
<td>Mean</td>
<td>3.8</td>
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<td>3.7</td>
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<tr>
<td>Dual-focused competitive environment (6 cases)</td>
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<td></td>
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<tr>
<td>1</td>
<td>4</td>
<td>5 (RDPM)</td>
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<td>4</td>
</tr>
<tr>
<td>2</td>
<td>1.5</td>
<td>1.5 (pM)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>5 (RDPM)</td>
<td>2</td>
<td>n.a.</td>
</tr>
<tr>
<td>4</td>
<td>3.5</td>
<td>5 (RDPM)</td>
<td>2</td>
<td>3.5</td>
</tr>
<tr>
<td>5</td>
<td>3.5</td>
<td>5 (RDPM)</td>
<td>3</td>
<td>4.5</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>5 (RDPM)</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Mean</td>
<td>3.6</td>
<td>4.5</td>
<td>2.5</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Symbols for value added scope: R, research; D, development; P, purchasing; M, manufacturing; S, sales and marketing. Lower case means that this is present to a small degree. n.a.: not available.
It was argued earlier that this group should have the highest level of performance because they faced the twin pressures from the internal and external competitive arenas. The case studies provided some qualitative support for this argument, because there was evidently a feeling among respondents that they were attempting to address the demands of both real customers in the marketplace and a set of internal metrics. Unfortunately, though, the quantitative data was not fine-grained enough to bear out this insight (and the sample size was too small as well). It is also interesting to note that this dual-focused approach came at a price, namely the complexity of the system within which managers were working.

5.4. Comparative analysis of performance

When comparing across the three groups, two key insights emerge. First, the subsidiaries with internally focused competitive environments rate substantially lower than the other two groups on most of the outcome measures. In respect of entrepreneurial characteristics, they have lower autonomy (3.1 compared with 3.8 and 3.6), and much lower value-added scope (2.4 activities on average compared with 4.5 for the other two groups). They also have lower levels of performance (3.2 average, compared with 3.7 and 3.8). The level of upgrading is somewhat lower too, though the differences appear to be smaller. The second important insight is that there are essentially no differences between the externally focused and dual-focused groups. This suggests that it may be the external competitive environment that is associated with the observed differences in outcome variables. It would, in fact, be possible to collapse these two groups together in terms of the outcome dimensions, although that would obscure a number of important differences in their competitive environments.

Taken as a whole, we, therefore, find support good support for Hypothesis 1 and moderate support for Hypothesis 2. We are unable to find any evidence that the strength of the internal competitive environment has any impact on the efficiency of the subsidiary. This hypothesis is not falsified either—we were simply unable to develop sufficiently fine-grained measures to adequately measure it.

6. Discussion and conclusions

This research was exploratory in nature and as always with case-based research it opens up as many new questions as it answers. However, it is worth making a number of final comments, both in terms of the key insights gained from the research and in terms of its implications and limitations.

A key issue to consider further is the process of evolution that these subsidiaries have gone through. While the initial framing suggested that the competitive environment would affect the entrepreneurial behaviour and performance of the subsidiary, it is certainly the case that the opposite line of causality is also in effect. In other words, if the subsidiary is able to develop some autonomy, presumably through its entrepreneurial initiatives, it is much better positioned to start developing local suppliers and customers of its own, which may subsequently lead to a broader value-added scope. From what we know of these subsidiaries, most of the dual-focused and many of the externally focused groups began
their lives in the internally focused group, and through a gradual process of self-improvement, credibility-building, and initiative were able to change their entire orientation. What we do not know, and would be interested to discover, is whether the ‘end point’ on this evolutionary journey is actually the externally focused or the dual-focused position. The externally oriented position is attractive to subsidiary managers because it gives them considerable freedom to act as they see fit. However, the dual-focused position offers the greater potential for competitive advantage because it combines a strong external focus with internal integration.

A second point, and one which requires further investigation, is that the nature of the internal competitive arena is more complex than we had previously recognized. The most visible manifestation of a competitive internal arena was the internal benchmarking, bidding processes, and rationalization decisions that essentially pitted one subsidiary against its sister plants. Equally important, but much less visible, were the relationships between the subsidiaries and their internal suppliers and customers. The extent to which these relationships were managed on a competitive basis is not clear from our data, but it is likely to have a significant impact on the ability of the subsidiary to upgrade itself, behave more entrepreneurially and enhance its performance.

Third, we should return to an issue raised at the beginning of the paper, namely the extent to which the relationships between the subsidiary and its internal and external networks are competitive or collaborative in nature. The evidence collected here suggests—perhaps not surprisingly—that they are a bit of both. The relationships between subsidiaries and their sister plants in other countries, for example, are a fascinating blend, in that they rely on one another for transferring ideas and ways of working, but ultimately they are in competition for new investment or even (in some cases) for survival. In speaking to executives about this, their reaction was typically that the blend is relatively easy to achieve, and that it is no different from collaborating closely with colleagues with whom you are competing for promotion. On the external dimension, the subsidiary’s relationships were typically more competitive in nature, though even here there was evidence of collaboration—for example, engaging in benchmarking studies with key local competitors. In sum, then, while our focus here was on a Porterian model of competitive behaviour, one should acknowledge that the relationships in question also have substantial collaborative components.

Finally, further work is required on the notion of entrepreneurship in the MNC subsidiary. It must be accepted that the three dimensions of entrepreneurship analyzed do not provide a comprehensive coverage of the subject. As noted earlier, Birkinshaw (1997, 2000) views subsidiary initiative as a form of corporate entrepreneurship, incorporating proactive and risk-taking behaviour, the use of resources beyond the control of the subsidiary, and the acquisition and use of power and influence. To these issues should be added autonomy and motivation (at least as an antecedent of an entrepreneurial orientation); the role of subsidiary executives in developing an entrepreneurial culture; and the constructiveness of parent–subsidiary relationships. There is, therefore, a requirement to develop a more holistic conceptualization and measurement of multinational subsidiary entrepreneurship. Confirming the first point above, moreover, efforts also need to be made to disentangle cause and effect relationships between and among such variables, subsidiary performance and the competitive environment.
The issue of resources requires further consideration too, with the RBV having the potential to provide a rich extension to the analysis in this paper.

Two limitations should be acknowledged. First, the decision to study 24 cases in depth, rather than a larger number in a more superficial way, made it difficult to draw strong conclusions. This study certainly enhanced our understanding of the dynamics of the subsidiary’s competitiveness, but it remains to be seen whether the hypotheses are borne out over a larger sample.

Second, the discussion has focused primarily on manufacturing subsidiaries. It is not clear at this stage whether the ideas would also apply in other settings. The expectation is that they do, though it remains to be investigated. For example, R&D subsidiaries often have very different roles depending on the relative importance of internal and external competitive environments. In Ericsson, most R&D units are software design centres that are entirely internally focused. In ABB and Alfa Laval, by contrast, foreign R&D centres typically have a unique global mandate with their own technology and their own customer base (Nobel & Birkinshaw, 1998). And even in sales-only subsidiaries, which typically face a strong external competitive arena, there is a high degree of variation on the competitiveness of the internal arena. One acid test, for example, is whether IBM’s sales people in Australia are judged against IBM’s sales people in Japan, against HP or Compaq’s sales people in Australia, or against both.

This subsidiary-level study has important implications for the broader challenges facing the MNC. Essentially it says that the parent company has to make explicit choices about the level of competition it wants to expose its subsidiaries to, and that the choices it makes will have a significant impact on the types of activities the subsidiaries get involved in. For example Intel has chosen to focus Intel Ireland’s efforts towards the internal competitive environment, and this has both substantial benefits (in terms of the ‘copy exactly’ technology) as well as potential drawbacks (the Ireland plant is not in a position to react to local market changes). By contrast, IBM has chosen to allow IBM Scotland to be much more open to the external competitive arena. This has costs, in terms of the complexities of managing a dual-focused operation, but it also offers benefits in terms of sensing and responding to changing market demands.

At this stage it would be inappropriate to derive normative judgments. Clearly there is a sense that exposure to both internal and external competitive arenas has benefits, but at the same time there are costs in terms of managing complexity and reconciling awkward tradeoffs. Hopefully future research will examine this trade-off in more detail.

References


