BUSINESS DEVELOPMENT INITIATIVES OF MULTINATIONAL SUBSIDIARIES IN CANADA

Occasional Paper Number 2
January 1995

Industry Canada   Industrie Canada
BUSINESS DEVELOPMENT
INITIATIVES OF MULTINATIONAL
SUBSIDIARIES IN CANADA

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under contract to Industry Canada.

Occasional Paper Number 2
January 1995
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EXECUTIVE SUMMARY

The context for this study is the changing role of the multinational subsidiary in Canada. In the increasingly global business environment of the 1990s, the multinational subsidiary's role is shifting from addressing the needs of the Canadian market to identifying ways of adding value to the corporation worldwide. This typically means undertaking a limited range of activities for the North American region or the world, rather than a full scope of activities for Canada only. International responsibilities of this type are commonly referred to as world product mandates.

A key feature of the world product mandate is that it is `earned' by the subsidiary. Fundamentally, the multinational subsidiary has no rights to any business activities other than those that are focused on selling in the local market. Thus, if the subsidiary is to undertake manufacturing on a world scale, for example, it has to demonstrate that it can do so in an efficient and effective manner. This process of identifying an opportunity, putting together a proposal and convincing parent company management to award the mandate is referred to here as a subsidiary initiative. An initiative is defined here as a business development activity that is actively pursued by subsidiary managers, with the intention of developing international responsibilities for the subsidiary.

This research was concerned primarily with understanding the nature of subsidiary initiatives. Two questions drove the work: What forms do subsidiary initiatives take? and What factors are associated with initiative success? The secondary thrust of this research was to understand initiatives in their broader context, that is, how initiatives develop and link over time in a single subsidiary. Implicit in these questions is the notion that subsidiaries mature over time in terms of the activities they can take responsibility for. An understanding of the initiative process should, therefore, provide some insights into the broader issue of subsidiary development. In addition, general questions were asked about the role of the Canadian government in initiative development.

Research was conducted at five organizations, each one a Canadian subsidiary of a large U.S. multinational corporation. Each subsidiary had undertaken between 6 and 10 initiatives over its history. The intention in the study was to consider all 39 of these initiatives, of which 11 were failures to some degree. The lead individuals associated with each initiative were interviewed. A total of 100 interviews were conducted, lasting one hour each.
Four distinct initiative types exist

From this research, four distinct initiative types were identified. For each type it was possible to identify the major driving forces of the initiative, and the major factors associated with the success of the initiative. The four types of initiatives are summarized below:

1. **Reconfiguration Initiative**: one that promotes the redistribution of existing corporate assets or resources so that they are more efficiently deployed. The most common scenario was the conversion of a branch plant to a world-scale production facility, resulting in a manufacturing mandate. Key success factors were:
   
   a) timing;
   b) championing efforts by key individuals;
   c) credibility and good relationships with parent management; and
   d) a compelling proposal.

2. **Local Market Initiative**: one that seeks to develop a new product or new market through business opportunities that are first identified in the subsidiary's home market. The opportunities for these initiatives came from local customers or business contacts. Key success factors were:
   
   a) a high level of autonomy and local presence;
   b) fit with the parent company and the subsidiary's strategic objectives; and
   c) a creative or entrepreneurial spirit in the subsidiary.

3. **Competitive Bid Initiative**: one that seeks to attract a value-added activity that is not country-specific and that has already received support in principle from the parent company. This
Executive Summary

initiative typically involves head-to-head competition with sister subsidiaries. Key success factors were:

a) a competitive proposal;
b) high credibility with the parent; and
c) championing and selling efforts.

4.  

*Mandate Extension Initiative*: one that seeks to build on existing capabilities to capitalize on a perceived international product or market opportunity. This initiative is driven by the traditional processes of business development, and typically builds on an existing world mandate. Key success factors were:

a) a solid business proposal;
b) a high level of autonomy;
c) strategic fit with the parent company; and
d) a successful track record of the subsidiary.

*A Developmental Process over Time*

This research also found that there is a discernable development process at work in the five subsidiaries studied. Managers reported an increase in international responsibilities over time and an increase in parent company openness to initiatives. There was also qualitative evidence that later initiatives built on the capabilities and the experiences gained through earlier initiatives. In two subsidiaries, however, the development process was brought to a halt by actions taken by parent management that were beyond the control of the subsidiary.

*Public Policy Implications*

This study provided some solid empirical evidence of the world product mandate phenomenon. Policy makers have argued the merits of world product mandates for years. This study showed clearly:

a) that the majority of world product mandates are gained through the entrepreneurial efforts of subsidiary managers, not through the generosity of the parent company;
b) that the mechanisms by which world product mandates are won (i.e., the initiatives) vary significantly according to the type of market opportunity and the contestability of the mandate in question; and
c) that ‘full’ mandates involving R&D, manufacturing and marketing, in most cases, are neither a realistic goal nor noticeably superior to more constrained mandates. Mandates developed on the subsidiary's unique capabilities appear to offer the greatest potential for sustainability and long-term job creation.

This study also analysed the perceived impact of government on the initiative process. The results suggested that government impact was perceived to be harmful for reconfiguration initiatives, beneficial for competitive bid initiatives, and neutral for the local market and mandate extension initiatives. It would appear that government has typically supported investment of the competitive bid type, through legitimate means of encouragement, but has shown little interest in lower-profile initiatives. The perceived harmful impact for reconfiguration initiatives is probably a reflection of the remaining barriers to free trade that are widely seen (for good reasons) to be counter-productive to operational efficiency in North America.

Finally, this report provides the foundation for a subsequent research study to examine the factors associated with the presence or absence of initiatives in Canadian subsidiaries. This study identified the types of initiatives that are typically observed in Canadian subsidiaries; the next stage is to understand the circumstances in which they occur. Such a study could also offer some insight into the sustainability of the different types of initiatives and, hence, into issues of long-term job creation and inward investment.
INTRODUCTION AND RESEARCH QUESTIONS

The context for this study is the changing role of the multinational subsidiary in Canada. The emergence of free trade in North America, coupled with a global competitive environment, has had a profound impact on the nature of foreign-controlled subsidiary companies in Canada. Many multinationals have opted to integrate their North American business by folding Canadian operations in with U.S. operations. Under this scenario, the role of the Canadian subsidiary is far less defined than when it operated as an independent entity. Subsidiary presidents are therefore looking for ways to add value through their special capabilities or their links with the Canadian market, knowing that a failure to add value will likely lead to the subsidiary's demise. Typically, this means undertaking a limited range of activities for the North American region or the world, rather than a full scope of activities solely within Canada. International responsibilities of this type are commonly referred to as world product mandates (WPMs).

WPMs have long been identified as an effective organizational response to free trade and globalization. Rather than producing 10 product lines only for Canada, the subsidiary would produce a single product line for the global market. Furthermore, the subsidiary would undertake the global product development and marketing for that product. Much has been written on the corporate and public policy implications of WPM strategies (Crookell, 1990; Etemad and Dulude, 1986; Poynter and Rugman, 1982; Science Council of Canada, 1980; Roth and Morrison, 1992), though space considerations make a review of the literature inappropriate here. Moore (1993) has undertaken a comprehensive review.

A key feature of a WPM is that it is `earned' by the subsidiary (e.g., Crookell, 1990). The underlying notion is that the multinational subsidiary has no rights to any business activities, other than those that are focused on selling in the local market. If the subsidiary is to undertake manufacturing on a world scale, therefore, it has to demonstrate that it can do so efficiently and effectively. The process of identifying an opportunity, putting together a proposal and convincing parent company management to award the mandate is referred to here as a subsidiary initiative.

Unfortunately, there is not a simple one-to-one correlation between a subsidiary initiative and a WPM designation. Some mandates are given by the parent company, without subsidiary involvement, typically through the
acquisition of a local firm that is subsequently given a mandate. Equally, an initiative may lead to a mandate, but it may also be turned down by the parent company, or it may build on an existing mandate. Compounding this difficulty is a great deal of ambiguity regarding what is, and what is not, a WPM. For this reason some authors prefer to adopt the broader concept of international responsibilities rather than mandates (e.g., Moore, 1994). Also, the motivations behind WPM strategies add this complexity: is a WPM an end in itself, or is it a means toward another end? What other strategies are open to subsidiaries that are seeking to add value to, or enhance their role in, the corporation?

For two reasons, this research focuses on the initiative as the unit of analysis. First, the initiative represents the tangible activity at the root of the WPM designation and, as such, it is of the most immediate concern to subsidiary managers. Whereas mandates are outcomes, initiatives are processes, and there are potentially some great insights to be gained by studying this phenomenon from a process perspective. Second, most — if not all — prior research has opted to focus on the WPM, so this approach offers some potential for interesting new insights. An initiative is defined here as a business development activity that is actively pursued by subsidiary managers, with the intention of developing international responsibilities for the subsidiary. The key elements of this definition are:

(a) business development activity can mean a new product, a new market or a new process;
(b) the subsidiary must be the prime mover, as distinct from situations where the parent company takes the initiative to push a new business on the subsidiary; and
(c) international responsibilities and/or opportunities exclude internally focused activities or anything done for the local market only.

The definition does not specify the duration or evolution of the initiative. In reality, initiatives vary in length from perhaps one month to five years. Furthermore, they go through phases of frantic activity and periods of inaction. Thus, at this stage it would be inappropriate to restrict the definition any further.

This research is concerned primarily with understanding the nature of subsidiary initiatives. Two questions drive the work: What forms do subsidiary initiatives take? and What factors are associated with initiative success? Success here is defined as the approval (by the parent company) of the initiative. While approval does not guarantee long-term success, the alternative parent company judgement of rejection is clearly a failure. Further, it is important to note that
approval can take many forms, depending on the nature of the parent-subsidiary relationship. Often, as we shall see later, approval is an implicit process.

This research also strives to understand initiatives in their broader context. The key question is: How do initiatives develop and link over time in a single subsidiary? In addition, general questions are asked about the role of the Canadian government in the development of initiatives.
METHODOLOGY

It was decided very early to opt for a case-research approach. The primary reason was simply that initiatives and WPMs are extremely complex. They cannot be readily separated from their organizational or environmental context, and each case varies greatly from the next. Furthermore, very little is really known about initiatives other than where the WPM literature discusses them tangentially, so it would have been premature to spell out any explicit hypotheses and/or specific measures. Thus, the approach was inductive and exploratory. Interview respondents were encouraged to speak freely about the processes that occurred, and most questions were open-ended. Multiple viewpoints were solicited on every occasion from subsidiary and parent managers, and often from individuals who were no longer with the company in question. All interviews were followed immediately by an analysis from rough notes, and subsequently a review and analysis of the transcribed conversation. This two-stage process ensured a more thorough understanding of the issues discussed.

Research was conducted at five organizations, each one a Canadian subsidiary of a large U.S. multinational corporation. Their gross revenues ranged from about $400 million to $1 billion, and industries represented included chemical, computer, industrial products, and consumer products. In each case, the research was conducted on the understanding that confidentiality would be assured. Thus, for the purposes of this report, no revealing data will be used either with regard to the organizations or to specific initiatives. The five companies were selected according to the following criteria:

(a) they had significant value-added activities, such as manufacturing or R&D, in Canada;
(b) they had some record of success, in the literature and/or popular press, at winning mandates;
(c) they were U.S.-owned;
(d) they had more than $400 million in sales; and
(e) they competed in a global industry, meaning one in which regional or global integration was a strategic imperative.

A list of about 30 companies was drawn up on this basis. Thereafter, companies were selected depending on convenience. A total of nine were approached, giving a sample of five companies and another four that opted not to participate for various reasons.
The intention at the outset was to study all of the initiatives in each subsidiary organization, both successes and failures. This proved to be challenging because:

(a) most managers were more accustomed to identifying mandates than initiatives;
(b) some mandates had a long history, with several initiatives associated with each; and
(c) failed initiatives were either awkward to probe or poorly remembered.

Eventually 39 initiatives were identified, of which 11 were failures to some degree. For each initiative, the plan was to speak to the lead individuals associated with it (typically a middle-management champion), a senior Canadian management sponsor and the most heavily involved parent company manager. This was achieved in most cases, but there were occasions where the individual in question had left the company, or could not be contacted during the period of the study. The number of individuals interviewed for each initiative varied from one to six, with a median of two. Often, one individual was able to provide insight into more than one initiative.

A total of 100 interviews were conducted, lasting on average just over one hour each. All interviews, except the introductory meeting with the president, were taped and transcribed. Interviews were almost always conducted in person. To keep down travel costs, 13 interviews were done by telephone. The interview protocol consisted of a number of open-ended questions, such as Describe how the initiative unfolded or Why do you think the initiative was a success/failure? There were also a few structured questions that required the respondent, for example, to estimate the relative importance of certain factors on the outcome of the initiative.

There are certain limitations to this research method that should be recognized at the outset. First, events may be recalled inaccurately, particularly in cases where the initiative occurred 20 years ago. Where available, archival data were collected to provide some objectivity. Second, the subsidiary perspective was dominant in this research and, given that the issues being researched centred around the parent-subsidiary relationship, this could have imparted some bias. To allay this concern, parent company managers were interviewed. These interviews verified, in every case, the basic accuracy of the subsidiary management's story, and provided some additional insights. One of the five companies did not provide access to parent management because it was
undergoing some significant changes and did not want anyone stirring the nest. This turned out to be less of a concern than might be thought because the company had developed a high degree of autonomy over the years, such that there were no parent company managers who actually understood the subsidiary's initiatives. Table 1 provides a summary of numbers of initiatives and interviews in each company.

<table>
<thead>
<tr>
<th>Company</th>
<th>Approximate Revenues</th>
<th>Number of initiatives</th>
<th>Number of interviews</th>
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<tbody>
<tr>
<td>Alpha</td>
<td>$600 million</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>Beta</td>
<td>$450 million</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>Gamma</td>
<td>$500 million</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Delta</td>
<td>$900 million</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>Epsilon</td>
<td>$500 million</td>
<td>8</td>
<td>25</td>
</tr>
</tbody>
</table>

1 All company names are disguised.

This report represents the broader findings from the research. Much of the detailed analysis has yet to be completed, but the major findings and the policy recommendations are not expected to change significantly between now and the completion of the research project.

The report is in three main sections. Section 1 describes the initiative-level findings. An inductively derived typology of initiatives is presented, consisting of four case studies and some general comments. Section 2 describes the subsidiary-level findings and, specifically, the ways that initiatives link and develop over time. Section 3 addresses the public policy issues raised by the current study, and suggests avenues for future research in this regard.
1. INITIATIVE-LEVEL FINDINGS

A Typology of Initiatives

Although some preconceptions existed regarding the types of initiative pursued by subsidiaries, a clear objective in this research was to let the data speak for itself. Thus, the typology that was eventually derived bore little resemblance to that conceived at the outset. It should be stressed that this is a typology in the strict sense of the word, that is, “a conceptually derived interrelated set of ideal types” (Doty & Glick, 1994: 232). Thus, there are no strict decision rules for classifying initiatives into one of the four types. Instead, the types can be seen as ideal forms, that empirically identified initiatives should cluster around. Hybrid forms could exist that exhibit characteristics of more than type. Given this argument, the four types will be presented first, and then a conceptual integration of their key characteristics will be proposed. Table 2 provides a summary of the number of initiatives of each type, broken down by outcome (success or failure).

Table 2
Number of initiatives of each type

<table>
<thead>
<tr>
<th>Initiative type</th>
<th>Number successful</th>
<th>Number failed*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconfiguration</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Local market</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Competitive bid</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Mandate Extension</td>
<td>6</td>
<td>3</td>
</tr>
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</table>

* Rejected or subsequently phased out.
Reconfiguration Initiatives

A reconfiguration initiative is one that promotes the redistribution of existing corporate assets or resources such that they are more efficiently deployed. Eleven successful initiatives of this type were identified in the research. The most common scenario was the conversion of a branch plant to a North American or world-scale production facility, resulting in a manufacturing mandate. Two other situations were also identified: one was a reconfiguration of the product management function to bring the global management for a particular product up to Canada; the second was directed at the downstream sales and marketing organizations in Canada and North America. Essentially it involved a reconfiguration of the relationship between the two groups so that they coordinated their activities while retaining their independence.

Reconfiguration initiatives are driven by the subsidiary organization, but the role of the parent company can also be substantial. In some cases, a joint committee of parent and subsidiary managers managed the reconfiguration process. In other cases, subsidiary management took a proactive stance and forced its agenda on parent management. The extent of parent involvement largely depended on the nature of historical parent-subsidiary interactions.

The competitive dynamics and political aspects of reconfiguration initiatives are particularly interesting. Reconfiguration initiatives are inherently competitive. From the cost side, the result is always win-win because both parent and subsidiary become more efficient. In terms of revenues, however, the reconfiguration process will inevitably result in the subsidiary taking a value-added activity from the parent, or vice versa.

Case Study: Epsilon's North American Product Rationalization

Organizational Context. Epsilon Corp (the parent), with 1986 operating revenues of $1.6 billion, sold controls for heating, ventilation and air conditioning, radiator valves, security systems, and comfort management systems. The Canadian subsidiary of Epsilon was the longest-established international affiliate. It represented approximately 10% of the company's sales, and it had a large manufacturing facility in Scarborough, Ontario.

Historically, Epsilon had had a high level of strategic autonomy, in large part because the market for control devices varies considerably from country to country, according to the type of heating, the climate and the technical standards of the products. Thus, in Canada a major product was the Line-Volt thermostat, which sold predominantly in Quebec where electric heating is
preferred. The Canadian entity had adapted and re-engineered this product to meet market requirements, making it a unique Epsilon product.

Despite the Canadian subsidiary's local adaptation work, the Scarborough facility was a classic branch plant, manufacturing about a dozen products for the Canadian market, all of which were also produced in Louisville. The Canadian content ensured that tariffs were, for the most part, avoided, but the additional costs of coordinating activities across plants and undertaking short-run production, were considered excessive. One respondent commented that he spent his time in the early 1980s “assessing conformance material coming from affiliate plants for local assembly” rather than engaging in value-added work.

There were two interesting exceptions to the branch plant principle that proved to be of enormous value to the Canadian organization. First was the zone valve, a product that controlled the flow of water through central-heating radiators. Epsilon had sold a trickle of zone valves in England in the early 1970s, primarily because of the preferential tariff rates between commonwealth countries. Around 1975, a market opportunity for a three-way valve became apparent in England. The Canadian engineering manager at the time initiated the necessary design work in Canada, and the modified zone valve quickly became a major export. By 1985, Scarborough produced about 600,000 zone valves a year, compared with 200,000 made in the United States. Second was the fan and limit control device used in furnaces. It was manufactured in Scarborough according to U.S. design, except for the switch, the most complex part of the device, which was made by Switchco, a wholly owned affiliate in the United States. During a tour of Switchco’s plant around 1970, a Canadian engineer decided that he could easily improve on the design of the fan and limit switch. The Canadian group put a design together, mocked up a line and presented the new switch to U.S. management. The new product was superior and 20% cheaper. Switchco lost the contract and the Canadian subsidiary became the global supplier of the switch component. Thus, as of 1985, Scarborough produced 100% of the fan and limit switches and about 17% of the final product (the Canadian sales).

**Origins of the Initiative.** The shift toward rationalization was driven by changes in Canada and the United States. In Canada, the senior management had begun to realize that the branch plant operation was uncompetitive. As noted by the engineering manager at the time:

> We developed a conviction here. We knew that there was no future in being a branch plant operation. We had made gains as far as the line-voltage thermostats...
were concerned and zone valves, and L4064s [fan and limit devices]. And we
had this tremendous appetite to achieve dramatic improvement in productivity in
the factory. We knew that we were not going to be able to do that by having the
factory do everything to everybody: a whole bunch of little product lines, branch
assembly operation and so forth. We knew that if we were going to have a
chance of improving ourselves — dramatically improve ourselves — we had to
focus on some key things that we were extremely good at. Hence, the initiative
from Canada to U.S. on a high management level.

At around the same time (1985) top management in the United States
were facing a number of challenges worldwide. North America had just
emerged from recession, so many plants were running well below capacity and
earnings were poor. Furthermore, prices for control products had taken a
donwturn. There was thus an openness to innovative cost control solutions, and
some form of manufacturing rationalization was high on the agenda.

Putting Together an Initial Plan. It was in this environment that Canadian
management put together its North American product rationalization plan
(NAPR). This document essentially proposed that Scarborough would be given
North American production rights for the zone valve and fan and limit products,
and would retain the line-voltage thermostat business. All other North American
products (10 in total) would be made in Louisville. Zone valves, they argued,
were already produced in greater numbers in Canada than in the United States.
The technical core of the fan and limit device, the switch, was designed and
made in Canada, so moving final assembly up to Scarborough would be a
logical consolidation. As noted by Mitch Smith, one of the architects of the
plan, “Not only did we have to have a cohesive document that talked about
strategies and moulded our destiny for our own needs, but it had to be a
marketing document as well, internally, for Minneapolis to say `these guys
know what they are doing'. And we earned the credibility for it.”

This report was sent to U.S. manufacturing management, whose reaction
was “positive but superficial”: some comments came back, but one manager
commented that it was a, “strategic plan for the top shelf” rather than the start
of a major leap forward. Fortunately, the relationship between Doug Williams,
the Canadian general manager, and his counterparts in the United States was
excellent. One respondent called their bi-annual meetings, “a gentleman's club.”
Williams made full use of his credibility, and actively promoted the plan to
Jerry Stevens, the general manager of the company. In retrospect, this was a
major step forward because Stevens fully understood the benefits of the
proposed plan. Mitch Smith saw this as a critical point in the initiative:
Jerry had this kind of ‘let's do the right thing then tell everyone’ [attitude]. Let's not be political about this, let's collaborate and do the right thing. What's right to do here is not what's right for our own camp, it's what's right for the corporation. So we got his ear on this thing and got him interested. And he became the overall mentor for it.

The Canadian — U.S. Manufacturing Negotiations. With the support of top management, the next stage was for U.S. and Canadian manufacturing management to sit down and work out the viability of the NAPR. The economic justification for the proposed changes was a major issue, but the greater concern was to achieve acceptance from the U.S. team for a plan that involved moving an entire production line from Louisville to Scarborough. The U.S. manufacturing director, in particular, was fighting to retain everything in Louisville, not for nationalistic reasons, but because it was his operation, and he was understandably reluctant to acknowledge that another operation could be more efficient. A team of three U.S. and three Canadian representatives was formed. They agreed to work through the rationalization process according to strategic fit, financial outcome and currency sensitivity. For each dual-billed line (i.e., where both countries had some production already) they looked at the total cost of manufacturing the product all in Canada and all in the U.S. according to the current cost in each country. Thus, the line-voltage thermostats in Canada and several products in the United States were never discussed because no change was required.

From the Canadian team's perspective, zone valves were a non-issue because Canada already had the dominant operation. The projected saving was $2.5 million if the line was consolidated in Scarborough. The U.S. manufacturing director still put his case very strongly, but Scarborough won on the basis of strategic fit and economics. The fan and limit device argument was “a lot more intense” according to Mitch Smith, head of the Canadian team. Scarborough was producing the switch, the key component, but Louisville had the production line. The economics pointed toward Scarborough, but the proposed shift represented a major change for the Louisville plant. As Smith observed: “We’re talking 20 to 30 people that lived and died with that particular design of that product line and now, to give it up — this was a major emotional hurdle to overcome within the negotiations.”

The Final Approval. The U.S. manufacturing director eventually agreed to support the shift of the fan and limit device to Canada, through the persuasive efforts of one of his own colleagues. All the other lines, as a matter of course, were pencilled in to be consolidated in Louisville. The estimated net impact was savings of about $10 million. While the fan and limit line represented the single
biggest shift, the overall savings and staff reductions were split essentially equally between the two plants.

Final presentations of the plan occurred in Louisville in January 1987. There had been some changes in the composition of the top management group, including the departure of Jerry Stevens, the project's original sponsor. However, the project had received such visibility in Louisville that its approval was achieved without difficulty. While active sponsorship by the former general manager was critical in the early stages of the initiative, once it had been pushed into the spotlight it took on a life of its own.

Implementation. Through 1987 and half of 1988 the NAPR was implemented. For Scarborough, the move involved about 50% of the operations; for Louisville, it was significantly less. The smaller changes were all made first. The last six months were devoted exclusively to moving the fan and limit switch line to Scarborough. The Canadian project manager for the change described it:

I came in just as they were making the final decisions on what would move where. And then worked with a program manager in the U.S. to finish that. We set up team structures below that to do the work. To facilitate the move itself, I rented three apartments in Louisville. The production supervisor went down there, running the line for almost a year so he knew how to run the line. Also we sent down the set-up man for two months; I had maintenance people down for two weeks at a time, dismantling the line. Everyone shared jobs, despite union regulations. The whole project came in on time, there were no major disruptions, and it exceeded our cost-saving objectives. And it was fun! We made it fun too, having some rivalries, barbecues, etc.

For the Canadian organization the net result of the rationalization was a major increase in exports (50% to 90% of total sales volume), three manufacturing mandates (or missions as they prefer to call them) and a much lower cost base. Work began on enacting the CIM plan, but over time, thinking evolved and factory management shifted toward other tools such as just-in-time (JIT), MRPII (Material Requirements Planning), simplification and work cells. More important than the techniques, however, was the opportunity that rationalization gave to management. As the current factory manager commented, “Rationalization made us effective; it helped us to do the right things. Now we are learning to be efficient; we are doing things right.”

Environmental and Strategic Drivers
The Epsilon case was typical of the 12 reconfiguration initiatives studied: the primary strategic driver was the need for greater operational integration between the Canadian and U.S. businesses. Epsilon was somewhat unusual in its far-sightedness in bringing about rationalization well before free trade was a reality. Clearly, the increasingly global business environment was a sufficient spur. As one individual commented, “Free trade just formalized a process that had been under way for the last 20 years.”

A critical issue was timing. Epsilon Canada's realization of the need for change was roughly contemporary with its parent company's realization. In another case, a subsidiary proposed a regional integration of a finishing operation that the parent company turned down because it did not, at that point, perceive the need. Likewise, many subsidiaries not in this study have realized too late that change is needed and, as a result, have been rationalized on the parent's terms. Essentially, there is a window of opportunity for reconfiguration initiatives. As one manager explained, “For every global business group there is a distinct developmental process that we have to monitor. When they are ready, we put forward our rationalization plan.” Having said that, reconfiguration initiatives can be sparked in part by a request from the parent company for proposals because changes are needed. The need to be proactive largely depends on the comfort that the parent company has with `foreign' manufacture of major product lines.

**Key Factors Associated with Initiative Success**

Four primary factors were identified as critical to the success of reconfiguration initiatives:

1. timing;
2. championing by key individuals;
3. credibility and good relationships with parent management; and
4. a compelling argument or proposal.

Timing has already been discussed. The Epsilon case exemplified how championing lies at the heart of the process. Doug Williams and Mitch Smith both committed themselves wholeheartedly to the NAPR, and pushed the project to its completion through the various obstacles thrown in its path.

Credibility is more intangible — it relates to the confidence of the parent company in the subsidiary's ability to deliver on its promises. In the Epsilon case, the prior successes of the Canadian group in exporting zone valves and
redesigning the fan and limit switch provided a measure of credibility. Doug
Williams' personal relationship with his U.S. counterparts enhanced credibility,
though this relationship did more to increase familiarity with the Canadian
group. Familiarity is an essential element of credibility: on several occasions,
individuals commented that the lack of awareness of Canada among their
American counterparts was a genuine cause of delay to the initiative.

A compelling argument is the fourth key factor. For the initiatives in this
study, proposals were put together to explain anticipated savings, the track
record of the plant, government involvement, the credentials of the individuals
involved and how the initiative would affect the U.S. and Canadian
organizations. Unless the proposal was watertight on both financial and
strategic grounds, however, the initiative would not be approved. The Epsilon
case again illustrates this point well. Here was an initiative that, in retrospect at
least, was regarded by all respondents as clearly the right decision; yet it still
required very strong persuasion by Mitch Smith and his colleagues. Unless
every component is in place, the chances are high that the default option, which
typically involves rationalizing everything to the United States, will prevail.

Local Market Initiatives

A local market initiative is one that seeks to develop a new product,
market or process through business opportunities that are first identified in the
subsidiary's home market. The notion behind this definition is that the local
market is a source of business opportunities that may not be readily apparent in
the parent's home market. Although such initiatives must, by definition, result in
international sales, they must have been sparked by a local customer need,
government proposal, business relationship or something similar. Interestingly,
of the 13 cases in this research, there were no clear examples identified of local
initiatives that remained local only. Clearly, business had become so global for
the companies in the study that international sales occurred almost as a matter
of course.

A defining characteristic of local market initiatives is that they typically
involve a fairly low level of competition for the right to pursue the business
with either affiliates or the parent company. This is because the initiating
subsidiary can claim either a unique capability (e.g., because of a leading-edge
customer), a greater commitment to the project or both. The critical element of
the local market initiative, then, is developing a viable business rather than
fighting for the associated mandate.
Case Study: Delta's Saskatoon Product Development Centre

Organizational Context. In the early 1980s Delta Corp. (the parent) was alone among the major computer manufacturers in having no significant manufacturing or development presence in Canada. With sales in 1982 of $186 million, Delta was under pressure from the federal government to undertake some local value-added activities. A branch plant manufacturing operation was established in the 1970s, but it did not work out and was shut down four years later. In the early 1980s, Derek Holmes, president of Delta Canada, developed a growth strategy based on meeting the needs of the oil and gas sector. This was a major industry in Canada and despite some interest in the sector at head office, no progress had been made in developing it. To set this plan in motion in 1983, Holmes purchased Comcorp, an Ontario company that made data control and acquisition devices for hostile environments (e.g., where oil wells are often drilled). Holmes's strategy was to build on the Comcorp acquisition with related manufacturing and development activities.

Delta distinguished clearly between its sales and marketing organizations and its businesses. Any manufacturing or development activities in Canada were aligned primarily through the appropriate business unit, and not through the national sales organization. Thus, while Derek Holmes had some responsibility for promoting new investment in Canada, his sole line of authority was for the Canadian sales operations. All manufacturing and development investments were made on the WPM principle.

The Initial Opportunity. In 1985 Johann Stich, the Saskatoon district sales manager, came across what he perceived to be an unmet need among some of his industrial customers. This need was for a system to communicate effectively with remote-access data acquisition devices, such as Remote Terminal Units (RTUs). In the oil and gas industry, where many wells are in remote or hostile environments, a system that monitored and controlled well activity and analysed the data was thought to have considerable merit. The system could also be linked to an automated accounting system to keep track of costs and disbursements for specific wells. Stich noted that a few small, customized packages had been written, but they were very industry- and geography-specific. Also, “no big player existed.” Furthermore, Saskatoon was a leading-edge market for this industry, known as Scada (supervisory control and data acquisition), so Stich was confident that the product was not available elsewhere.

Stich sent Holmes an outline of the market need and how he felt Delta could meet that need. Holmes's response was enthusiastic because the fit with
his master plan and the Comcorp acquisition was strong. Stich was given the go-ahead by Holmes to look into the opportunity in more detail: “I was given the task of putting together a business plan, doing some market research, hiring a consulting firm to help me with that, here in Saskatoon, to try to put together a business case, a business plan for a software entity here in Canada.”

A key component of the business plan was to establish that there was a genuine market for the product. Holmes spoke with a number of the major oil companies in Saskatoon and Houston, and established that there was a clear need for a software system to integrate the various elements of the oil production process. Shell Oil, in particular, was very interested, and they agreed to buy the entire supervisory control package, including remote terminals and communications software, once it was complete in 18 to 24 months’ time. This deal was potentially worth about $40 million.

Stich presented the business plan to Holmes and the rest of the Canadian executive group, who agreed to go ahead and develop the software product. The only problem was that development activities were officially meant to be aligned to business groups, not national sales organizations; at that time, however, there was no obvious business group for the Saskatoon development team to report to. The decision was made, therefore, to fund the development through a 1% ‘uplift’ on a portion of Canadian product sales. This was an established mechanism that was occasionally used to meet unique country needs when business group sponsorship could not immediately be obtained. While the potential for the product was by no means limited to the Canadian market, it was felt that a tangible product should be available before corporate involvement was sought.

**Developing the Product**. Holmes gave Stich a mandate to put together a team and develop a product. In the first six months of 1986, Stich hired five people with experience in the Scada industry. They put together a product specification, based on the market demand that Stich had identified. However, a number of changes were made to the original concept. First, it was decided that the higher-level accounting system would not be part of the initial product; second, the product was made generic, that is, not unique to the oil and gas industry. The name HERMES was selected. They also made a slightly contentious decision by opting for Unix (open architecture) technology ahead of the Delta proprietary system. This proved to be a wise decision.

In the words of one of the development team, “We then locked ourselves in a back room for a year to come up with the first release.” They attempted to buy components of the system off the shelf, but the existing packages were all
customized to specific sites, so they ended up doing it all themselves. By the middle of 1988, they started to release components of the product to local customers, primarily as beta (test) sites. As explained by Stich,

We completed the product as we envisioned it in 1989, but we released the functionality in stages so that our first customer actually was Esso Resources here in Saskatoon, in November 1988. That's when the installation went in and we actually sold it to them in June of 1988. But then we were adding functionality to the product to where it is today. So what we were able to sell in 1988 was a small subset of what actually is available today and that was the core of the real time database and the interface with the instruments.

Selling the Initiative to Parent Management. As the first-generation product was being finalized, Stich discovered that a Delta product division in California was working on a very similar product. While his 'skunkworks' group had been working on a shoestring budget up in Saskatoon, the Californian group had 60 people, five times the budget, and, most importantly, the official blessing of the corporation. There were significant differences between the products, most notably that the Californian product was designed for internal lab use while the Saskatoon version was built for harsh environments. Stich's group was also about six months closer to completion. Nonetheless, the feeling among corporate management was that the Californian product had been given the official charter, and that the Saskatoon version should be killed. Stich and Holmes worked hard to persuade corporate management that the Saskatoon produce should be given corporate approval. They were able to make a very strong case, on the basis of their advanced stage of development and their 'guaranteed' sale to Shell Oil. Their tenacity prevailed, and eventually Delta Corporate agreed to support the Saskatoon operation. The rival product group was disbanded. The HERMES product was still being funded through an uplift on Canadian sales, but at least it was a legitimate part of the Delta system, with a 'charter' and a place on the Delta sales list. This was actually a big step because it involved one of the divisions officially signing off on quality assurance, testing and support of the product.

The sale to Shell was made shortly thereafter. The product was installed in Houston first, and subsequently at other Shell sites around the world. Through 1989 and 1990, Stich worked hard to promote the product. Sales within Canada were good, and a long European tour in 1990 led to a significant number of product sales. Applications included traffic-light control, PCB manufacturing, pipeline control and telescopes.

The problem, Stich observed, was that Delta salespeople were not knowledgeable about the product. They were more used to selling mainstream
computer systems, and realized that the level of customer service required for the HERMES system was substantially higher than for most of their product portfolio. As a result, most HERMES sales were direct (i.e., working with Saskatoon). Stich hired a full-time salesperson based in Germany to handle the European customer base.

**Subsequent Changes.** By 1991, the Saskatoon operation was making an operating profit, although its total cumulative return on investment was still negative. Global sales were around $3.4 million, but that figure automatically leveraged a further $12 million of related hardware sales. Employment had peaked at 45, but settled at 24. The development team's mandate, once the initial specification had been completed, was to augment the system with new components and to port the software onto IBM, DEC and SUN systems.

The parent company implemented a major organizational change in 1992, the essence of which was:

(a) prices would be fixed centrally according to a global pricing model;
(b) the uplift funding mechanism would be closed down;
(c) all non-aligned entities such as Saskatoon would either be aligned or sold.

The rationale behind this change was that product development was out of control, with various subsidiary teams duplicating or adapting the work of the central development groups. The change restored the business group heads as the final arbiters of what development work occurred where. The drawback of the scheme, from Saskatoon's perspective, was that they needed to find a home in a business group, rather than continuing as an independent entity.

Through much of 1993, Stich explored his options, which consisted of, finding a parent division in the United States, pursuing a management buy-out of the business, or scrapping the business. Eventually he found a willing parent, the Taylor Creek Instrumentation Division (TCID). This group, based near Portland, was part of the test and measurement organization and sold signal mechanisms and machine-monitoring devices. TCID's management saw an immediate fit between their product portfolio and HERMES, most notably in the industrial sectors they served. Furthermore, their sales force was industrially oriented, and so were much more suited to selling products like HERMES that required in-depth customer service. The match was made and from November 1993 the Saskatoon operation was officially linked to TCID. As Stich noted, it
took eight years from the initial idea until the product was officially sanctioned by the corporate system.

**Environmental and Strategic Drivers**

The opportunities for these initiatives sprang from the local market. In the Saskatoon product development centre case, oil companies in the Saskatoon area were requesting a system that did not exist, leading Johann Stich to put together a new product line. This type of customer request was the spark in five other cases. In four of the cases the subsidiary was working with a local business partner to develop a product or service that was subsequently sold around the world. In three cases, too, a federal government regulation or expectation led to the development of a business in Canada that was then leveraged worldwide.

In several cases the local business opportunity was not distinctly different from the global opportunity. However, because the manager in question had identified the opportunity in Canada and had begun developing a solution, he or she had a head start that often proved sufficient to win the WPM for the product.

**Key Factors Associated with Initiative Success**

Three factors for success were identified by respondents. First, they felt that a high level of autonomy and local presence was necessary for this sort of opportunity to be exploited. This would be dependent to some degree on the type of industry the subsidiary is competing in. Where the product is globally standardized, salespeople would not expect to respond to local market opportunities; where the product requires some level of local customization, product development expertise is necessary. The Saskatoon initiative, interestingly, was less a case of local responsiveness than of Saskatoon being a leading-edge market for the Scada industry. Thus, while the HERMES product is generic, the need for it in the oil and gas sector was not understood equally in all markets.

Second, they thought fit with the parent company's strategic objectives to be important. In one case, a proposal for a new business based on a locally developed technology was turned down because the parent company saw no immediate fit with its stated strategic direction. As the president of the company in question noted, new business ideas should be “peninsulas” building on the corporation's core capabilities rather than “islands” of unrelated expertise. In the Saskatoon case, the fit with the Canadian subsidiary's strategy was almost
uncanny and it ensured that Derek Holmes was a strong supporter of the initiative. Strategic fit is important, not only to obtain initial investment, but also for ongoing support and development. A global sales presence, for example, can only be readily achieved if the product fits with an existing sales force portfolio.

Third, the subsidiary needs a creative or entrepreneurial spirit, so that salespeople or business managers spot opportunities when they present themselves. Unlike the other initiative types that are often led by the subsidiary president, local initiatives can present themselves to any employee at any time. Thus, there is a requirement for subsidiary employees to be aware of the strategic priorities of the corporation as a whole and the resources available in the subsidiary, so they can quickly seize on opportunities.

**Competitive Bid Initiatives**

A competitive bid initiative is one that seeks to attract a value-added activity that is not unique to a single country and that has already received support in principle from the parent company. Its key characteristic is that the Canadian subsidiary is only one of several possible sites for the business investment in question, so issues of relative credibility and capability are paramount.

The original opportunity for a competitive bid initiative can come from either parent or subsidiary. In some cases the parent company had formally sent out a request for proposal to a number of subsidiaries; in others the subsidiary had identified an opportunity for investment but, consistent with the parent company's procedures, was then required to justify itself as the site for that investment against other bids. Of the five competitive bid initiatives identified in this study, four were for manufacturing investments and one was for software development. Manufacturing investments, it seems, are particularly susceptible to the bid process because they are less often tied to the specific context of the local market.

**Case Study: Beta's Melanate Initiative**

**Organizational Context.** Beta Corp. was a leading producer and marketer of herbicides worldwide. The Canadian division accounted for around 8% of its sales, which in 1993 totalled almost $2 billion. The company had held a position in Canada for several decades, primarily through export of its melanate product. In the 1980s, however, the Canadian division was actively developed:
a liquid facility for Crest (brand name for melanate) was put in place in Quebec and the high-potential Prairie market received considerably more attention. Melanate sales grew by a factor of four through the 1980s.

Despite the sales growth in Canada, the lack of local value-added activity (i.e., research, development, manufacturing) was a real concern. The liquid melanate plant in Quebec was focused on the Canadian market, and represented a fraction of the total sales. Almost all R&D occurred in Minneapolis, the head office. Terry Adams, who arrived as head of the Canadian division in 1990, recognized that the company's commitment to Canada was not being manifest in its investments, and he sought to identify possible ways to bring world-scale facilities to the Canadian division. Federal and provincial government bodies strongly supported this strategy. The head office also recognized that investment in strategic markets, of which Canada was one, was a priority for future growth. Delors, the company's Belgian president, had stated, “I’m not opposed to making an investment anywhere in the world but it has to be competitive, it has to be the right business decision in a global context.” The recently signed free trade agreement between Canada and the United States certainly made it more likely that such an investment in Canada would pay off. Adams and his Canadian boss, Deborah Matthews, felt that the parent company's espoused openness to non-U.S. investment was very positive. Both worked hard to promote the Canadian organization in Minneapolis, by networking with counterparts, attending meetings and broadcasting their successes.

**The Melanate Opportunity.** In June 1991, Adams identified an interesting opportunity in the company's long-range strategic plan. The company was developing a new formulation of its melanate technology, through collaboration with a Japanese affiliate. The plan was to bring this product to market around 1996, which would require a pilot plant in the first instance then a full-scale manufacturing facility shortly thereafter. The technology was available through a contract manufacturer in the United States, but because the potential market was worldwide, the parent company had not specified where the manufacturing facility would be built.

Adams recognized that Canada could be a strategic site for the new melanate plant, but the proposed date for the investment was still five years away. Fortuitously, however, the Canadian division heard about a possible competitive entry into the melanate market, by a co-operative in the U.S. prairies. There was a risk that Beta could lose a share of the market if this competitive investment transpired, at a time when the Crest patent had just expired. Given that threat, Adams and Matthews were able to make a strong
case to the company executive for bringing forward Beta's investment in the melanate technology.

No decision was made at this point regarding the location of the investment, but by actively promoting the plan, Adams and Matthews were confident that Canada would be considered. Both worked with their direct counterparts in the United States to put forward the case for a Canadian melanate facility.

The Search for an Investment Location. Once the go-ahead to select a site had been received, Adams hired an engineering consulting company in Regina, Saskatchewan, to choose a Canadian candidate. The consulting firm looked at about 40 different sites in western Canada, and selected three for Adams to consider. Smithfield, Manitoba was chosen as the best candidate because of the cost of labour, cost of energy, and distances from raw material and markets. What really sold Adams, however, was the involvement of Manitoba's trade and tourism ministry. While steering clear of any outright subsidies, the ministry worked hard to ensure that the Canadian proposal was as good as possible. As explained by Adams: “The kind of assistance they offered was, if we need contact with trucking companies to get the best rates, or contacts with the railroads, or if we needed some networking to ensure raw material and packaging. Their interest was that we have the best possible proposal with the best possible numbers.”

The Smithfield community itself was also extremely supportive of the proposed investment, offering to rezone the chosen site and build a rail spur to it. Intangible qualities, such as the strong work ethic in southern Manitoba, were a clear factor in the decision to put forward Smithfield as the best Canadian location.

The second stage of the selection process required the Smithfield location to be compared with alternative sites: an existing facility in California; a proposed site in Illinois and another proposed site in Australia. A team was put together in June 1992 to undertake this comparison, consisting of four members of the Canadian division and four head office managers. The team was to make an objective assessment and ensure that the selected site was economically competitive.

This was normal procedure for all capital investment projects within Beta. The selection process took six months. The biggest issue facing the Canadian team members during this period was a lack of understanding of the
Canadian business environment by the other team members. As explained by Adams:

There is tremendous inertia, traditional thinking, that you run up against [with head office managers], it's like opening up a big door. People didn't know anything about Canada. Early on, one of the manufacturing people said, “How are we going to get the materials shipped out of there in winter?” Their impression was that the roads get closed in winter and, you know, we laughed, and maybe that's a silly example, but those little perceptions add up collectively to your disadvantage over time. Another thing was that there was a perception that Canada was a socialist country where all the costs would be prohibitive. It turned out that Smithfield's labour rates and productivity were better than in the U.S. And absenteeism was non-existent.

The role played by Adams and his Canadian colleagues was to educate their colleagues on the realities of doing business in Canada, so that, for each cost factor, they understood where the Smithfield numbers had come from. Utility rates, for example, were cheapest in Smithfield, and freight costs were surprisingly low because there are discounts for backhauling (i.e., the return journey when the trucks are often empty). The Canadians also had to contend with the underlying attitude that Adams expressed as “U.S. people wanting to protect U.S. jobs.” As he observed:

You always had to worry about what we would call the background conversations of “Why are we doing this anyway? Why don't we just add it on to the California facility?” So that was the perception, and we said, “Just give us a chance, that's all we're asking for. We've got a mandate from the president that says we're going to act globally and anybody that wants to bid on a project is free to do so.”

This ethnocentric mindset appeared to be a very small factor; the problem was more one of unfamiliarity with the Canadian business environment. Adams, an American himself, was careful to avoid any nationalistic arguments. He made it clear that the bottom-line economics were what would drive the decision: “If we're not competitive, we don't want the plant, pure and simple.”

After six months of analysis, the Australian and Illinois sites worked out to be more costly, and Smithfield and California came out within $200,000 of each other. As commented by the U.S. project manager, “The result was a wash. A difference of $200,000 is nothing on a $5 million project. At that point we started looking at other factors, such as how quickly we could get moving and enthusiasm. Smithfield won on both these counts, so we recommended to the president that he invest in Smithfield.”
How was Smithfield able to compete on a cost basis with California, which was an existing Beta facility with infrastructure in place? The key factor was the style of plant that the Canadian project team came up with. As the Canadian project manager explained, “We had to build a very different plant. We had to break some paradigms to build it. If we had used traditional Beta methods, we would not have built it here.” The team read extensively on self-directed work teams, empowerment, high-performance organizations and a number of other revolutionary management methods. The facility they designed required the smallest possible increase in head-count, extensive outsourcing of services and multi-skilled workers. Unlike California, which was encumbered by the systems already in place at that facility, Smithfield's designers were able to start with a clean sheet of paper.

While it was necessary to gain the support of all the project team members, the senior executives in Minneapolis also had to be convinced of the merits of the Smithfield option. Delors, the president, and Lindberg, the vice president of manufacturing, had the final say in the investment decision, so the team kept them abreast of progress. At one point the team managed to get Lindberg to visit the proposed Smithfield site. The reception he received from Beta employees and Smithfield residents was very positive and helped to quash any concerns he felt about investing outside of the United States.

The Decision and Beyond. Around the end of 1992 an appropriation request was signed by Delors, committing Beta Corp. to making the $5 million investment in Smithfield. As observed by Adams, “There wasn't, like, a big meeting where everyone faced off. These decisions become apparent as you go, and that's why involvement is so key.” Essentially, the project team had reached a consensus that the Smithfield site represented the best option, and Delors and Lindberg, who had been kept informed all along, saw no reason to challenge their judgement. On the signing of the appropriation request, the project team disbanded and a key Canadian team member was put in charge of actually building the Smithfield facility. The whole implementation process took just over a year, and was completed in early 1994. Implementation followed closely the specifications that the team had put together during the proposal process. The design was innovative, certainly within Beta circles, and proved to be very effective. The project manager described the process:

We had to get all the permits, the engineering team together, the contractors — all the work that goes into putting up a plant. The site was on agricultural land so it had to be rezoned, so we had to bring this to public hearing to get the approval. We put on an open house for the community to tell them what we were doing, so that they were comfortable about what we were trying to put in their community. A tremendous amount of work by a lot of people. We involved dozens and
dozens of Beta employees in this project. I think another key to success is the enthusiasm and innovation and commitment and time that many people put in this plant. Willingly. I can't underscore how important that was to get everybody behind this project, whether they were Agriculture [employees] or not, it didn't matter. We had chemicals people, plastics people, Beta people, it didn't matter. Everybody wanted a part of this thing; it was so much fun.

**Environmental and Strategic Drivers**

Unlike the other types of initiatives presented here, the opportunity for competitive investment initiatives typically comes from the parent company. In the melanate case above, subsidiary management identified an opportunity through the corporate long-range plan; in another, the subsidiary responded to a request for proposal; in a third case, there was a subsidiary manager on a world business team that was seeking to expand one of its plants. Essentially, in every case the decision to make an investment had already been made, but the parent company was flexible about the timing and the geographical location.

Given the need for parent company direction, the subsidiary's stance has to be more reactive than proactive for this type of initiative. In the melanate case, subsidiary management noticed that an investment had been written into the strategic plan five years before, but through the subsidiary's proactive efforts, it was able to bring the initiative forward and push its own investment agenda. In most cases, however, the subsidiary is taking the initiative within the context of a parent-defined opportunity.

**Key Factors Associated with Initiative Success**

Three factors were identified as critical to the success of competitive investment initiatives. First, the subsidiary had to have a competitive proposal to ensure that it made the short list. Certain elements of cost-competitiveness, such as transportation costs, raw materials and labour rates, are basically out of the control of the subsidiary. If the investment has a high labour component, for example, the Canadian costs will be way higher than those in South East Asia or the Caribbean. The subsidiary has direct control over other factors, however, such as productivity, choice of manufacturing techniques, level of automation or strategic fit with related operations; these offer substantial opportunities for differentiation against the competition. All the companies in the sample knew in what sorts of investment they were competitive, and in what sorts they were not, and they directed their efforts accordingly.
Second, the credibility of the subsidiary was felt to be critical. As noted by the president of one company, “You end up with a couple of sites that come pretty close and one that will have a minor advantage economically, but sitting in an operating committee in the States, what really swings you is the credibility of the organization that's asking for the order. We have built an excellent reputation for continuous improvement and responsiveness to the needs of the customer.” Stated slightly differently, the parent company decision-makers are inherently uncomfortable taking risks. They will tend to opt for the subsidiary that has proven it can deliver on budget, even if that budget is slightly higher than the competition. This implies that subsidiaries should pursue competitive bids that are commensurate with its proven capabilities. In the one rejected initiative in this sample, the subsidiary was attempting to win a very large investment when it had not even won small investments before that. Subsequently, this company went after smaller investment opportunities, with much greater success.

Third, respondents felt that competitive proposal initiatives need championing and selling efforts to be successful. This is another facet of the need to go beyond the numbers and work on the softer elements of selling the subsidiary's capabilities. In one case, subsidiary managers were told they had won an investment on account of their enthusiasm and personal commitment to the project. The efforts of Terry Adams and Deborah Matthews for the melanate initiative, likewise, showed extreme personal dedication to the project in hand.

**Mandate Extension Initiatives**

A mandate extension initiative is one that seeks to build on an existing mandate or proven capability to respond to a perceived international product or market opportunity. Nine mandate extension initiatives were identified in this research. Eight were extensions of existing business mandates (i.e., where the subsidiary had control over R&D, manufacturing and marketing); the last represented a comprehensive penetration of a market that the subsidiary had developed by chance.

As well as building on existing capabilities, mandate extension initiatives also benefit from being relatively uncontestable by other divisions or affiliates. Thus, unlike competitive bid initiatives, where other subsidiaries could win the investment, these initiatives either lead to investment in the proposing subsidiary or no investment at all. The subsidiary obviously has to still make a strong business case, but it is not competing with alternative locations.
Subsidiaries with divisional mandates undertake initiatives all the time as part of their ongoing business. This study, however, was interested only in cases where the initiative represented a capital investment, over and above the standard development budget. The idea was that such initiatives represented substantial new projects rather than incremental developments. Theoretically the intention was to constrain the definition to include explicit parent company approval. It turned out, however, that, depending on the capital allocation systems in use, the approval process was often implicit anyway. Subsidiary managers with a WPM have essentially been empowered by the parent company to make strategic judgements, and the existence of a formal approval process would be rightly judged as excessive meddling. It was thus decided that as long as the initiative went ahead it would be considered approved for the sake of this research.

**Case Study: Gamma's Sterm Business**

*Organizational Context.* Gamma was a majority-owned affiliate of the giant Gamma Corp., with operations in electric products, air brake and power systems, and electronics. Gamma's 1984 operating revenues of $574 million made it one of the largest foreign-controlled operations in Canada.

Gamma developed in the 1950s as a defence contractor to the government. When Diefenbaker scrapped the *Avro Arrow* fighter program in 1958, Gamma recognized that the Canadian defence industry was in decline and consequently looked to other areas for future growth. An early success was the development of an alphanumeric display system for use in airports, betting shops and stock exchanges. This was essentially the forerunner to the computer terminal, and the commercial applications for the product were enormous. Some early work for Air Canada led to contracts for ITAWA, the international telecommunications body for world airlines, and by the early 1980s, Gamma was the number-one provider of terminals and terminal-controllers to the airline industry.

Gamma had an unusually high level of autonomy with respect to its U.S. parent company. While still a defence contractor in the 1950s, the Canadian division had made use of technology developed by the U.S. parent in Chicago. However, the diversification away from defence was undertaken by the Canadian division alone. As it strayed from its technical origins, the division developed capabilities that were unique within Gamma Corp., and entered markets (such as airlines) that were not traditional Gamma customers. By the 1970s, no one at headquarters really understood what Gamma was doing. It was very successful though, so it was given complete strategic discretion to develop
its business as it saw fit. Essentially, the subsidiary had a full WPM, in that it was responsible for product development, manufacturing, marketing and sales on a world basis. While the definition of the mandate was never set in stone, it was typically expressed as meeting the information processing needs of the airline industry.

The Opportunity. In 1983 ITAWA was approached regarding the airline scheduling for the 1984 Los Angeles Olympics. The L.A. International airport authority (LAX), faced with anticipated capacity constraints at its international terminal, had mandated sharing of facilities at the gates and check-in counters. This created a problem for the user airlines, because historically each had owned its own dedicated terminals with its own data protocol. An Air Canada check-in terminal, for example, had a set of standards that made its use by American Airlines or Canadian Airlines impossible. The challenge to ITAWA was to design a system that allowed common usage so that LAX’s gates and check-in counters could be used more efficiently.

Gamma was closely allied with ITAWA by this time. Gamma engineers met with ITAWA people at least once a month for technical and commercial discussions, and went out of their way to promote ITAWA to the airlines. A high level of mutual confidence and trust built up between the two groups.

Paul Kruger, one of the electronics division’s best engineers, spent a lot of time in London working with ITAWA engineers on communication network projects. On one trip in 1983, the Los Angeles Olympics problem was posed to him:

I used to have a lot of meetings in London with ITAWA. Afterward we would go to what we call the ITAWA Ilex, the bistro next door, where we would have a few beers, chatting all evening with ITAWA. A few of us eventually came up with the idea of this shared terminal equipment in newer airports. Up to that time airlines had had their own dedicated terminals for their whole operations. Now, as new airports were being built, they wanted to share the gate between many different airlines. They didn’t want to have 10 terminals sitting around, so the idea was this Sterm, Shared Terminal Equipment, which the agent would sign in and it would now take on the complete characteristics of the airlines and terminals. Anyway, LAX had a requirement for this so ITAWA called and said, “Can we come over to London and have a meeting?” Well, I was completely tied up so they said, “Well, we’ll send a team of four to New York, if you can meet us in New York, and we can see what ideas we can get.” So we met in New York. I went there. We discussed the problems, worked half the night on it and came up with some ideas as to what we could do. ITAWA went back, they wrote the proposal and two weeks later we went to LAX to meet the airline users committee, because there were a number of bidders on this. We made a
presentation, ITAWA together. A few hours later we were told that we'd got the job. So that's how Sterm really got born.

The Sterm Product. The heart of the Sterm system was a series of terminal emulations that made the Sterm display appear just like, for example, the Air Canada or British Airways screen. There was also software for communicating between the different protocols, software for generating standard printing output and a security system to prevent users from accessing the wrong system. Thus, Sterm provided Gamma with an opportunity to enhance its communication networking capabilities and also to sell the related hardware, principally Gamma terminals, to a range of airlines.

Environmental and Strategic Drivers

Mandate extension initiatives are driven by the traditional processes of business development, such as identifying a new customer need, applying new technology to a proven product and exploiting new market sectors. The initiatives studied in this research were all basically related to product extensions. The subsidiaries had development groups as part of their mandates, and these groups had identified needs and proposed business solutions.

Without exception, the mandate extension initiatives identified during this research were driven by international opportunities, that is, where the market was not specifically Canadian. There is no reason why this should have to be the case, though. If, for example, the leading-edge market for a mandate was Canadian, all new product ideas could start locally and then be rolled out internationally, like the product life cycle model of Vernon (1966). With this sample, however, the opportunities resulted from interaction with large multinational, corporate customers.

Factors Associated with Initiative Success

Respondents identified three primary success factors for these initiatives. First, a high level of autonomy was felt to be important, which reflected the desire of subsidiary managers to break free of the bureaucracy of their parent company, and manage the business as if it were their own company. Given that the subsidiary already had the mandate, or at least the proven capabilities to pursue the business opportunity in question, heavy involvement by parent management could rightfully be seen as meddling. Such behaviour runs counter to the idea of giving the subsidiary a mandate. Certainly for Gamma the operation had a very high level of autonomy, and Gamma managers were convinced that this had been one of their major reasons for success. As one
Initiative-Level Findings

noted, they can draw on the Gamma name and corporate technology, but they are not encumbered by the bureaucracy typical of large corporations.

Second, a solid business plan was needed, just as with any request for investment. Given the high level of autonomy of the subsidiary management for this type of initiative, however, the subsidiary managers could get by without such a business plan, but their negligence would come back to haunt them if the initiative were less than successful. Autonomy does not lessen the need for good planning.

Third, there was the need for strategic fit with the parent company. This is a complex issue; in an era of scarce resources, the parent company will attempt to match funds with what it considers worthwhile projects. Unless parent management perceives the project to be of strategic importance, the project will not be funded. One example from the research bore this observation out: it was an initiative requesting funds for an upgrade to an highly profitable existing product. The parent company turned down the request because the product had not been targeted for growth and because the parent company as a whole had a severe shortage of resources.

A Synthesis of the Four Initiative Types

Although the four types of initiatives were inductively derived, the following represents a concept-driven attempt to bring them together. The objective of this process is to capture the salient characteristics of the initiatives. It is suggested here that two characteristics of initiatives are particularly important, namely, the type of market opportunity and the contestability of the initiative.

Market Opportunity

It is proposed that the subsidiary has an entrepreneurial role that can be distinguished, analytically at least, from the managerial function of maintaining ongoing business. In every subsidiary studied during this research, there was a sales and marketing operation whose function was to sell the corporation's portfolio of products to the Canadian customer and a separate value-adding or entrepreneurial operation whose function was to develop new products and/or markets for the corporation as a whole. In many Canadian subsidiaries this value-adding function does not exist; its presence in this sample was a deliberate feature of the research design because the objective was to focus on the entrepreneurial capacity of subsidiaries. The definition of entrepreneurship
used here is “alertness to opportunities” (Kirzner, 1973), which essentially means that the entrepreneur is monitoring the market and looking for gaps to capitalize on. These gaps can take the form of un-met product needs, un-served markets or inefficient production by current players.
A second strand of theory that needs to be considered is that the subsidiary's position in the corporate network involves three distinct market links:

1) It acts on behalf of the corporation as the sole link to the local (i.e., Canadian) market.
2) In most cases it has a window on the global market for the particular product segments it serves.
3) It is tied to the internal corporate market.

The entrepreneurial function applies to all three.

1. **Alertness to Opportunities in the Local Market.** This essentially refers to the local market initiatives that were identified in this research. Managers identify product or market needs through their ongoing relationships with Canadian entities, typically customers, but also suppliers, competitors and government bodies. Needs are pursued and the resulting product offerings are sold to the local market and to other markets as well. All the local market initiatives in this study led very quickly to international sales. In some cases this was because the Canadian subsidiary had a unique position vis-a-vis leading-edge customers (e.g., in the forestry industry); in other cases it was a tribute to the entrepreneurial capability of the subsidiary that the product idea originated in Canada because the need was also present in other sophisticated markets. The distinguishing factor, nonetheless, was the alertness to local (Canadian) opportunities. This is, in fact, a critical activity because the corporation has no other way of sensing opportunities of this type.

2. **Alertness to Opportunities in the Global Market.** The subsidiary's role in identifying global opportunities is much less clear-cut than for local ones, but it is still important. The assumption here is that many — if not most — large multinational corporations are competing in industries that are global, that is, product needs are not clearly differentiated from country to country and customers are often multinational companies themselves. In such cases the need is less for sensing outposts in local markets than for a network of subsidiaries that are attuned to developments in the international environment.

There are two mechanisms at work here. The first corresponds to mandate extension initiatives. It involves granting the subsidiary a global mandate for a specific product line, market or technology, which it is then responsible for developing. Opportunities within this demarcated area of responsibility can be pursued by the subsidiary with little or no involvement from the parent company. The second mechanism corresponds to competitive
bid initiatives. It suggests a much more centralized system of resource allocation, whereby global opportunities are identified by the corporate system and then opened up for subsidiaries to bid on. Under this scenario, subsidiary managers are involved in identifying the market opportunity through their involvement in the appropriate global business team or through their relationships with parent company managers. The opportunity to pursue the initiative, however, rests on the subsidiary's ability to persuade parent company management that its proposal is superior to those put together by sister subsidiaries. One further complication is that hybrid mechanisms exist. One company in the study, for example, had a series of divisions with similar WPMs. A new opportunity could be pursued by any division, but if it fell within an existing division's mandate it had the first right of refusal on the opportunity.

3. Alertness to Opportunities in the Internal Market. A common feature of most large multinational corporations is a high level of intra-company product flow, such as raw materials or semi-finished products that are shipped to other corporate entities for assembly or finishing. These inter-subsidiary flows constitute an internal market mediated by transfer pricing mechanisms. The internal market offers the clear benefit to the corporation that retains control over all stages of the production process. However, such an operation runs the risk of becoming less than optimally efficient because raw material suppliers, for example, know that the manufacturing division is obliged to source from them, which dulls their competitive edge.

In this way the internal market represents a third opportunity for a subsidiary to apply its entrepreneurial talents. Subsidiary managers are aware of their cost structure and their internal capabilities; they can look for opportunities to apply their expertise to ongoing corporate activities. If they come across an inefficient operation, they can then demonstrate to parent management how it could be done more efficiently, either by transferring the whole thing to the Canadian subsidiary or by reconfiguring a series of operations. Clearly, this relates to the reconfiguration initiatives identified during the research.

Contestability

The second key dimension of the synthesis is referred to here as contestability. This refers to how much the Canadian subsidiary must actively compete with other entities for the business activity. High contestability means that the Canadian subsidiary, even if it defined the business opportunity in the first place, does not offer any unique advantage that would ensure winning
approval for the initiative. Low contestability means that the Canadian subsidiary is uniquely positioned to take advantage of the opportunity in terms of capability or local network contacts. In this case, the parent company has the choice of approving the initiative or of cancelling it altogether.

Reconfiguration and competitive bid initiatives both offer high contestability, though in subtly different ways. Reconfiguration initiatives typically occur when the subsidiary is challenging an existing arrangement, in essence saying “We can do that better than they can.” The onus is on the subsidiary to prove that it can deliver lower cost, increased customer service or whatever. Unless the subsidiary can make a strong case, the incumbent will retain the activity in question. In a competitive bid situation, by contrast, the competing subsidiaries face a relatively objective set of selection criteria. There is no incumbent producer. Mandate extension and local market initiatives generally offer low contestability. In the former case, the subsidiary already holds the mandate, which gives it the right to develop its business as it deems appropriate. In the latter case, the initiative is specific to the national market, so it could not be appropriated by the parent company or by another subsidiary.

Contestability is not as clear-cut as this initial distinction would suggest. The section above noted that mandate extension and competitive bid initiatives are end points on a continuum, and that hybrids exist. Such hybrids would offer a moderate level of contestability whereby there is a favoured subsidiary or division that can be challenged. Equally, local market initiatives can be contestable to a limited degree. Unless the links to local customers or other entities are unique in some way, the business activity in question can potentially be transferred to head office or to another subsidiary. In several cases the subsidiary identified an opportunity, built a small business and then lost control of that activity to the parent company. Clearly, this is an example of moderate to high contestability.

The concept of contestability is broader than the basic dichotomy would suggest. Reconfiguration and competitive bid initiatives are inherently inward-looking. One results in a redistribution of existing activities; the other just defines where an already approved investment will be positioned. As such, they are concerned primarily with exploiting the existing resources of the multinational as effectively as possible. By contrast, local market and mandate extension initiatives are outward-looking. They are focused on market opportunities, in the local and global markets respectively. Thus, they are creative activities that are concerned with building the resources of the multinational. Not that creative activities are better than exploitative activities;
but rather, both are essential in the long term if the multinational is to be successful.

This argument has substantial implications for the key characteristics one would expect to be associated with initiatives on either side of the dichotomy. First, the level of contestability means that for high-contestability initiatives one would expect to see proven capabilities, while for low-contestability initiatives the capability set could be latent. The reasoning is that parent management, in a contested bid, will always take the less risky option and favour the proven subsidiary. Second, and using similar logic, high-contestability initiatives require a high level of personal contacts, credibility and ‘political’ activity to give the subsidiary the edge over rivals, while low-contestability initiatives do not require such skills nearly as much. Third, a high level of strategic autonomy is required in the low-contestability initiatives, so that they are free to react to opportunities swiftly without the involvement of head office. In high-contestability initiatives, strategic autonomy is not critical, though it may be desirable. Fourth, the timing of the initiative is critical on both sides of the dichotomy, but in different ways. For the high-contestability initiatives there is an internal window of opportunity, in that the parent company must be comfortable with rationalizing its regional activities (reconfiguration initiative) or it must have sanctioned an investment plan (competitive bid initiative). For the low-contestability initiatives, the window of opportunity is external. What matters is the readiness of the market, local or global, for the proposed business development initiative. The openness of the parent company is relatively insignificant, assuming that the subsidiary has the appropriate level of strategic discretion.

Figure 1 represents the juxtaposition of the concepts of market opportunity and contestability, with the four initiative types mapped onto the figure. Two observations should be made. First, the concept of an internal market opportunity that offers low contestability is extremely implausible because, by definition, the subsidiary is looking to win a business activity from an incumbent producer. Second, local market initiatives are shown spanning the contestability spectrum. The reality, as suggested above, is that the majority of local market initiatives will cluster in the low end of the contestability spectrum.
<table>
<thead>
<tr>
<th>Local market opportunity</th>
<th>Low contestability</th>
<th>High contestability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Market Initiative</td>
<td>Mandate Extension Initiative</td>
<td>Competitive Bid Initiative</td>
</tr>
<tr>
<td>Internal market opportunity</td>
<td></td>
<td>Reconfiguration Initiative</td>
</tr>
</tbody>
</table>
2. SUBSIDIARY-LEVEL FINDINGS

Although the principal unit of analysis in this research was the initiative, the research design made it possible to study the developmental process that existed at the subsidiary level. Between 6 and 10 initiatives were identified for each subsidiary, occurring over a period of between 35 and 10 years, so that a series of snapshots of each subsidiary was obtained over time. In addition, long-serving managers were asked specifically about how they felt the subsidiary had changed in terms of its activities, its relationship with its parent, and so on.

This section addresses specifically the question, How do initiatives develop and link over time? At the outset, a model was developed to describe the expected development process, but inevitably this model was refined and enhanced as the research progressed. The discussion will consequently focus on three areas:

1) a description of the a priori model, and the evidence associated with that model;
2) the development of the specific initiatives over time; and
3) the development process in a broader context.

The A Priori Conceptual Model

The subsidiary development model that guided this research was based on Burgelman's (1983) research on corporate venturing. There are four basic components, as depicted in Figure 2: (1) Entrepreneurial behaviour, in the form of subsidiary initiatives, leads to an enhancement of (2) the capabilities of the subsidiary and (3) its credibility with the parent company. These factors, in turn, lead to a re-appraisal at head office of the subsidiary's role and thus, the promise of a more substantial value-added role in the corporation. This is manifested in a greater level of (4) strategic autonomy for the subsidiary, which promotes a greater level of entrepreneurial behaviour. The feedback loop is reinforcing, suggesting an upward trajectory for the subsidiary. However, it is equally possible for the subsidiary to get caught in a downward spiral of decreasing strategic autonomy and lessening credibility.
How well did the research evidence support this model? At a qualitative level, the model was essentially borne out. Respondents almost always believed their credibility and capabilities had been enhanced when an initiative was approved. They also felt the number and quality of initiatives were a function of the level of strategic autonomy they had been granted. Where the results were more equivocal was in the re-appraisal by head office of the subsidiary's role. There was scant evidence that the subsidiary's role, manifested in terms of the level of strategic autonomy, changed over the period of study. There were even cases in which the subsidiary's level of strategic autonomy appeared to decrease, despite a high number of successful initiatives.

Some quantitative support for these findings was obtained by polling all the subsidiary general managers regarding the change from 1984 to 1994 based on four factors: strategic autonomy, parent openness to initiatives, specific capabilities and international responsibilities. They were not asked about credibility specifically because the concept was felt to be far too subjective from the parent's point of view to be meaningful. The results from the seven respondents\(^1\) are in Table 2.

\(^1\) There were seven respondents because two subsidiaries had separate divisions with clearly different reporting structures. It was obvious that the general managers of both divisions had to be polled, in each case.
Table 2

<table>
<thead>
<tr>
<th></th>
<th>Mean responses on 7-point Likert scales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1984</td>
</tr>
<tr>
<td>Strategic autonomy</td>
<td>2.29</td>
</tr>
<tr>
<td>Parent openness to initiatives</td>
<td>2.86</td>
</tr>
<tr>
<td>Specific capabilities</td>
<td>3.29</td>
</tr>
<tr>
<td>International responsibilities</td>
<td>2.57</td>
</tr>
</tbody>
</table>

The clearest change evident from this data is that international responsibilities have increased dramatically over the 10-year period. Interestingly, though, respondents did not indicate any significant increase in specific capabilities. The implication is that the learning, from their perspective, has been mostly through their newly found international orientation. While strategic autonomy was essentially unchanged over the period of study, respondents did feel that their parents' openness to initiatives had increased. This suggests some role change in the minds of parent management; however, it also suggests that autonomy is not the mechanism by which such a role change is enacted. It might be that other systems, such as formal bidding procedures, were used instead.

Development of Specific Initiatives over Time

Much of the literature on WPMs has suggested that a full mandate, consisting of R&D, manufacturing and marketing responsibility, is far superior to a mandate limited to one functional area. The reason given is that once full responsibility has been obtained for the entire range of business activities, the mandate is sustainable, that is, it can be enhanced or extended as the subsidiary sees fit. In terms of initiatives, the implication is that subsidiaries undertake reconfiguration, competitive bid and local market initiatives to win a mandate and, hence, to pursue mandate extension initiatives.

To what extent was this progression observed in the study? Tangible evidence of mandate extensions following on the heels of other types was scant. Only Delta corporation exhibited that specific progression. However, there was a clear recognition among respondents that they would like to win full mandates and, subsequently, extend them. In Delta and Epsilon, for example, there was
evidence that their recently won full mandates could be extended in the near future. In other cases the development process had not progressed that far. Both Alpha and Beta, for example, exhibited a shift from reconfiguration to competitive bid initiatives and explained the shift in terms of their increased credibility with the parent. At the time of the study, however, it was not clear if this progression would lead to mandate extension initiatives.

The notion of contestability is particularly relevant here, because it sheds some light on the sustainability of the mandate, and hence the prospects of a development process. In simple terms, the less contestable the initiative, the greater the likelihood it can be sustained. Thus, local market and mandate extension initiatives offer great potential for sustainability; whereas, reconfiguration and competitive bid initiatives may create business activities that are subsequently phased out or poached by other subsidiaries. Viewed in this light, it may in fact be that low contestability is more critical than owning a full mandate. Full mandates, as observed during this research, can be wrested away from the incumbent if it has no unique capabilities; equally, there were cases of manufacturing mandates in which the subsidiary, by virtue of its commitment to service and continuous improvement, occupied an uncontestable position. Thus, a full mandate is associated with low contestability, but there are notable exceptions.

One final issue, which requires further research, is the mechanism by which one initiative positively influences another. This study suggested that the subsidiary's stock of assets was built up gradually through the pursuit of initiatives and these assets were then applied to subsequent initiatives. The assets were of four types: physical assets (plant, equipment), technical knowledge (e.g., software expertise, engineering capabilities), reputation or credibility (in the eyes of the parent company), and understanding of the initiative-building process. The subsidiary applied these assets to the current initiative and enhanced both through the initiative process and through the ongoing management of the mandate. The growth of these assets made it possible for the subsidiary to pursue further initiatives. Without further research, however, this notion remains speculative.

**The Broader Context of Development**

In both Gamma and Delta, the development process took its predicted course for most of the period of study, but in the latter period (1989 and 1991, respectively) it was thrown into reverse. This was a very surprising result, but it led to a stronger understanding of the issues. It is important to outline briefly what happened in these two subsidiaries, before discussing why it occurred.
Gamma's history of WPMs stretches back to the early 1950s when the corporation gave it a free hand to pursue new avenues of technology as a means of reducing its reliance on the defence industry. At the time, Gamma was not wholly owned by its parent company, so it operated with considerable autonomy. During the 1950s and early 1960s, a number of new businesses were developed at Gamma and these in turn gave rise to mandate extensions in the 1970s and 1980s. In the late 1980s, the parent company lost substantial money. Several divisions were sold off to clear some of its debt and in other divisions, the availability of capital investment funds was severely curtailed. During this period the parent company also bought out the minority shareholders of Gamma, a move that reduced Gamma's autonomy further. These changes, coupled with the lack of strategic fit between Gamma's business and the parent company's operations, effectively prevented any further initiatives from gaining approval. On two occasions, proposals were put to the parent company for standard mandate extension investments and on both occasions the requests were turned down. As noted by the general manager, Gamma now has less access to capital than if it relied on a bank for funding.

Delta entered the 1980s as a rapidly growing high-technology firm without significant manufacturing or development activities in Canada. The president of Delta, looking for opportunities to add value to the worldwide corporation and under some pressure from the Canadian government, pursued a number of initiatives directed at the oil and gas industry. They were funded through the Canadian organization at first, though corporate approval was eventually sought and gained. In 1991, a major corporate reorganization sought better control of ad-hoc development activity in various subsidiaries around the world. Essentially, the mechanism that allowed value-adding activities to be locally funded was withdrawn. This meant that the WPMs already in existence in Canada had to find a home with a U.S. division and, further, that no new initiatives could be undertaken unless they had the prior blessing of the appropriate U.S. division. Canadian subsidiary management now recognizes that the only viable way of creating new value-added activities in Canada is by identifying an acquisition candidate for a U.S. division to pursue. Clearly, the entrepreneurial element in such a process is minimal.

These two mini-cases share one key feature: the subsidiary, through events beyond its control, had its development curtailed. In the case of Gamma, the trigger was poor corporate results; in the case of Delta, it was a reorganization that attempted to better coordinate global development activities. The implication here is that, to fully understand the development process, it is necessary to extend the relevant organizational context to include the external environment and the corporate strategy.
A final issue that should be addressed is the negative ramifications sometimes associated with subsidiary development. On the basis that subsidiary development leads eventually to the attainment of a WPM, Gamma was a highly developed subsidiary in the late 1980s. The catch is that the development occurred without parent company involvement. This led to a lack of understanding of what Gamma was doing and an increasingly marginal role for Gamma in the corporate strategy. Ultimately, this shift could lead to the sale or dissolution of the mandate though, at the moment, Gamma is still clinging to its status. The issue here is really a question of what exactly is meant by development. The subsidiary can develop so far that it loses its identity within the corporation; alternatively, the subsidiary can develop less, and remain firmly attached to, even subordinate to, a parent company division and earn itself a role of great strategic importance. The cost-benefit analysis of development is very much a judgement call that must be made on a case-by-case basis.
The purpose of this section is twofold. First, the behaviour of multinational corporations and their Canadian subsidiaries will be analysed from a public policy viewpoint, that is, in terms of their reaction to the variety of direct and indirect inducements that were available over the period of study. This should provide insights into how effective policies have been in promoting different types of investment. Second, the implications of the study for future public policy imperatives will be discussed. It should be noted, however, that this section is more concerned with avenues for public policy research in the future rather than recommendations for specific policy. Although the potential implications of this work for public policy are great, it would be premature to judge them at this time.

**General Observations on the Behaviour of Multinationals and their Canadian Subsidiaries**

**Parent Company Behaviour.** The multinational corporations (MNCs) studied during this research had, for the most part, retained a high level of value-added activity in Canada. It is not possible to say, as a result of this research, whether free trade has substantially altered the total volume of investment in Canada by U.S. MNCs; what we can say, however, is that the activities that have remained in Canada are now globally competitive. We can also conclude that the existence of these activities in Canada was achieved entirely on merit, rather than as a way for the MNC to placate the Canadian government or subsidiary management. In fact, evidence suggests that the Canadian proposal typically had to be better than, not just equal to, its U.S. rival's for the investment to be made in Canada.

A notable result from this research was the absence of true WPMs, meaning mandates that include responsibility for R&D, manufacturing and marketing. Only three cases existed, both of which had been founded under somewhat exceptional circumstances. Much more common were functional or regional mandates. Public policy writing (e.g., Etemad and Dulude, 1986; Ontario Ministry of Trade and Tourism, 1980; Science Council of Canada, 1980) has for a long time spoken of the benefits to the Canadian economy of

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2 For the purposes of this discussion, the companies in question consist of the five that made up the research database plus an additional 10 companies studied in less depth during the exploratory phase of research.
full WPMs. This research suggests that the policy objective is misguided, because most MNCs simply do not award these mandates to their subsidiaries.

Why is it that subsidiaries do not often hold full WPMs? A principal reason is that the MNC's value-adding components are much more globally dispersed than they used to be. A single product line might have R&D in one country, manufacturing in another and business management in a third. Country sites are chosen on the basis of their distinctive competencies, rather than the proximity of adjacent value components. Also, outsourcing of key activities to alliance partners or even arms-length contractors is becoming more prevalent. The net result is that there are increasingly few opportunities for genuine WPMs. Centres of excellence, that offer a very limited value-adding role, have in most cases become more popular. Furthermore, there is the concern, as discussed in the last section, that full WPMs may become strategically marginal and, hence, candidates for divestiture or harvesting. This suggests that WPMs may not always be desirable even in situations where they are available.

Somewhat independent of the scope of the mandate is the level of enthusiasm exhibited by the parent company in ceding control of the activity to the subsidiary. Previous authors (e.g., Johnston, 1982) have written about the need for enlightened parent managers as a precondition for mandate investments. This research essentially confirms that observation. Particularly where no mandates had previously been awarded, parent managers in this study showed a remarkable lack of knowledge of the Canadian business environment. Consequently, subsidiary managers noted that there was a heavy burden on them to demonstrate their ability to meet quality, cost and service standards. And this is in a sample of companies that have met with success, rather than those who presumably failed to convince their parent companies of their abilities! It seems the days of the ethnocentric parent company manager and the not-invented-here syndrome are far from over.

Canadian Subsidiary Behaviour. Subsidiary managers in this research all showed a high level of appreciation for the proclivities of their parent company and, in particular, for their chances of winning mandates. The initiatives that they undertook were realistic and, consequently, they were largely successful. Typically, they focused on a single plant or single product line that the Canadian operation had some form of competitive advantage in and channelled their efforts that way. One manager observed that his subsidiary's strategy through the 1970s had been for a big hit investment, but with no success. The new president learned from that lack of success, and took the opposite approach: nothing was too small to consider. This strategy has so far yielded four small mandates.
Although it may not be typical of Canadian subsidiaries as a whole, the sample of managers interviewed for this research all exhibited an entrepreneurial approach to subsidiary management. The message that international responsibilities are earned not given was clearly understood. In one case, the subsidiary president explained in great detail how he had deliberately gone against the wishes of his superiors in the U.S. to put together a business that he firmly believed in. He felt that it was his responsibility to act entrepreneurially, rather than sit back and await instructions from head office. While this was an extreme case, most managers exhibited this attitude to some degree.

Public Policy Implications

In the course of this study, all managers were asked a number of exploratory questions to shed some light on the issues of investment in the Canadian economy and government support. These questions, and the responses by initiative type, are given in Table 3.

The data on capital investment, new jobs and exports revealed no significant differences between initiative types. However, the findings suggest that the reconfiguration and competitive bid types involved greater capital investment and higher exports than the other two, while the greatest number of new jobs appeared to come from the local market type. Additional research with a larger sample would be necessary before any significance can be attached to these findings.
### Table 3
Responses to questions about initiative development

<table>
<thead>
<tr>
<th></th>
<th>Mean responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Initiatives</td>
</tr>
<tr>
<td>What capital investment was forthcoming as a direct result of this initiative?*</td>
<td>$4.2m</td>
</tr>
<tr>
<td>What was the net annual increase in exports as a direct result of this initiative?*</td>
<td>$9.1m</td>
</tr>
<tr>
<td>How many new jobs were created as a direct result of this initiative?*</td>
<td>21</td>
</tr>
<tr>
<td>What role did the Canadian federal and/or provincial government play in the outcome of the initiative? (1 - negative, 4 - neutral, 7 - positive)</td>
<td>3.2</td>
</tr>
</tbody>
</table>

* Failed initiatives are excluded from these questions.
** Represents significant difference (p<.05) in ANOVA analysis.

The sums of money and number of individuals involved with these initiatives seem small. This is partially because the data represent the early results of the initiative. Three of the initiatives led to "blockbuster" mandates with over 100 employees and $40 million exports, but the subsequent growth is not captured here. It should also be noted that some of the initiatives that were studied led to product management mandates, which are valuable but offer very small increases in employment and, typically, no change in exports. Once again, however, it should be stated that these are by definition globally competitive activities that are liable to endure. The emphasis is on quality not quantity.

The data on government impact is interesting. The local market and mandate extension initiative respondents felt the government played a neutral role; reconfiguration respondents reported a harmful role by government; competitive bid respondents reported a beneficial role. The difference between these latter two was statistically significant (p<.05). Based on the accompanying interview evidence, this finding can be interpreted as follows. Most reconfiguration initiatives were occurring while free trade was working its way
through, so respondents felt that the tariffs and regulations were slowing down the rationalization process. Even though the government was working hard to eliminate trade barriers, managers were more prone to focus on the remaining obstacles to North American integration. By contrast, managers saw government influence as beneficial for the competitive bid initiatives, primarily in terms of receiving legitimate help in identifying sites, arranging loans and putting together a competitive proposal.

This finding, although based on a small sample, hints that there is a possibility for government to take a broader perspective in encouraging investment in Canada. Competitive bid initiatives may represent high-profile investments, but the other initiative types all offer great potential for investment and job creation and could, potentially, benefit from some of the same forms of encouragement.

**Avenues for Future Research**

This study has provided a good understanding of how initiatives evolve and the development process over time. Most notably, it has clearly identified four types of initiatives, each with a distinct set of characteristics.

What this study did not address was the set of factors that are responsible for promoting initiatives in the first place. That is, the sample of companies was selected on the basis that they had all been successful at winning WPMs. Clearly, they were drawn from a larger population of subsidiaries, many of which have shown no success at winning mandates. To understand those factors associated with the presence or absence of business initiatives and mandates, it will be necessary to conduct a large sample study across a complete range of Canadian subsidiaries.

A related study could assess the relationship between different initiative types and long-term investment and job creation. With a sample of five, no relationship was found, but there is a need to do such a study with a large sample. It is possible to speculate, for example, that mandate extension and local market initiatives should be associated with long-term job creation because they are less contestable and, thus, more likely to endure. Competitive bid initiatives, by contrast, may be relatively short lived if the parent company chooses to locate a next-generation product in a lower-cost manufacturing location.

The public policy implications are substantial because subsidiary initiatives are responsible for a significant percentage of new direct investment
in Canada. The current study has provided a high level of understanding about the initiative process. It is now possible to move forward and to direct future work effectively toward meaningful public policy targets.
BIBLIOGRAPHY


