Leading Innovation in Multinational Subsidiaries

The changing global economy creates special challenges for leaders of multinational subsidiaries. History shows that innovation is key to survival. This series of articles explores this challenge and offers subsidiary leaders a way to identify and implement innovative strategies to sustain local operations and create added value for the corporation. It also looks at how corporate managers can help drive more innovation from global subsidiaries.

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Part 1: Changing the role of a subsidiary within a multinational

Between 1950 and 1990, Scotland became one of the leading global destinations for foreign direct investment (FDI). American and Japanese corporations poured in, attracted by government incentives and closeness to European markets. At its peak in 1986 there were 112,000 people employed in foreign multinationals based in Scotland, mainly in the electronics assembly sector with giants such as IBM, Burroughs, NCR, OKI, and Motorola. Central Scotland became known as ‘Silicon Glen’.

However by 2003 the number of jobs had shrunk to 21,000. Other countries caught up in terms of infrastructure and tax incentives, and the multinationals restructured and relocated. The jobs that had been created were not ‘sticky’ enough to prevent a mass exit.

> *Local leaders redefined their mandate with the global parent to become more strategically important.*

Today there remains a healthy, albeit smaller, multinational presence in Scotland. The companies that remain have evolved from low-skill manufacturing centres to centres of manufacturing excellence or R&D functions. The transition has been achieved by local leaders redefining their mandate within the global parent corporation to become more strategically important and commercially sustainable business units.

The same cycle is now playing out in'BRIC' and in central and Eastern Europe. Multinational leaders in these locations face the same challenge as Scotland in 1990: innovate your site or face being downsized by the corporation in favour of more competitive locations elsewhere.

In a recent article Paulo Matos, Head of Innovation and Strategic Planning for Fiat Brazil explained how developing a local innovation capability was a necessity to successfully compete in the local markets and changed the role of the subsidiary from a follower of corporate strategy to an innovation leader.

The life-cycle of a subsidiary mandate

Every subsidiary is awarded a mandate by their parent. The mandate defines the scope of activities that the subsidiary is responsible for and the performance expectations. For example, this might be to manufacture sub-assemblies for the EMEA supply chain at agreed levels of cost and quality.

> *Mandates that include strategically critical, high skill functions are more 'sticky' than those only based on lowest cost.*

Mandate determines how much the corporation invests in the site and the types of skills that are located there. Mandates that include strategically critical, high skill functions are more 'sticky' than those only based on lowest cost and are therefore vulnerable to changes in external factors, such as a rise in local labour rates or tax rates.

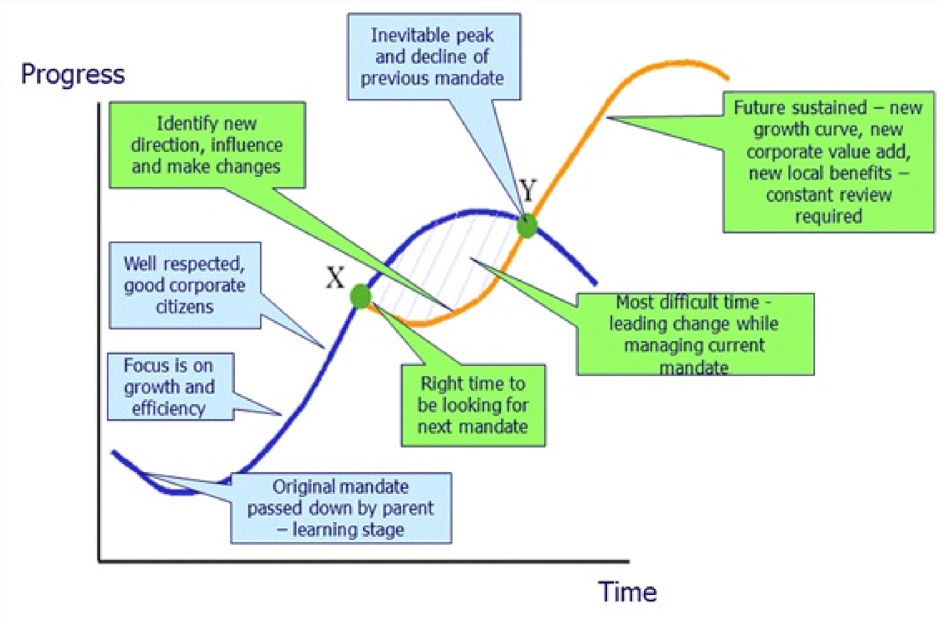
Strategically minded subsidiary leaders pay attention to mandate because they realise:

1. Mandate performance must be superior relative to other sites in the corporation capable of performing the same mandate.
2. The strategy and needs of the corporation change over time and this brings opportunities to evolve local mandate in line.
3. The biggest risk to subsidiary survival is status quo: delivering the same mandate and level of performance year after year, without innovation, is a guarantee of declining influence and competitiveness.

Based on the experience of a large number of multinational subsidiaries, many of whom have survived and prospered and others who have not, the following model illustrates the key challenge facing leadership teams in managing their site mandate:

The subsidiary mandate life cycle

In the early days, the emphasis is on efficiency, continuous improvement and delivering the mandate according to corporate expectations.



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> *The importance of the mandate reduces as corporate strategy changes.*

As time moves on and the corporate and market context changes, performance improvement in these terms becomes harder.The importance of the mandate may reduceas corporate strategy changes.

Strategic decline and how multinational subsidiaries can address this challenge

The challenge for the subsidiary leadership teams at this point is to anticipate strategic decline and get ahead of the curve. This is a difficult balancing act: they must redirect the organisation onto a different path, whilst continuing to execute the original mandate. We call this period of time 'mandate migration'. Local leaders need to think and behave innovatively in three ways in order to successfully navigate this phase:

1. Generate insights about internal and external customers and site-specific competencies
2. Use insights to identify opportunities and build amigration plan
3. Influence the corporation for mandate support and on-going investment

Performing these activities well increases the probability that the country operation will prosper into the future as a core part of the global operating model and strategy.

How multinational subsidiaries successfully changed their mandate

This series of articles shows how each of these three activities should be approached, drawing on two successful case studies:

EMC Ireland is the company's largest facility outside of the USA, employing 2,400 people in Cork, Ireland. The Irish subsidiary has successfully evolved its mandate several times over a 20-year period, from product manufacturing to testing, R&D and customer service for all EMEA. The development of a 5-year 'innovation roadmap' enabled the local leadership to take a long term view and attract more investment to the site.

National Semiconductor UK has been present in Scotland since 1972. The UK subsidiary is now one of the leading product engineering and process design centres globally, serving wafer fabrication operations in the USA and Asia.The combination of deep local core competencies plus effective influencing at corporate level has ensured that the Scottish site remains a vital part of the overall business.

We will see how the leadership teams in both cases navigated mandate migration, including the insight methods they used to discover innovation opportunities and how they influenced innovation in the global corporation. We will also see what role the corporate centre can play in stimulating and supporting this process of innovation in global subsidiaries.

The next article in this series will cover “Producing Innovation at Local Level”.

By Brian Mooney

About the author

Brian Mooney is a Strategos Network Partner and specializes in business growth and innovation. He has led Strategos engagements around the world and has corporate experience as a general manager, strategy director and head of innovation. Brian’s expertise ranges from product strategy and consumer insight to business modelling and commercialization. He works with client teams to coach them through the process of discovery, experimentation and realization of new opportunities.

Series on Leading Innovation in Multinational Subsidiaries

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2. Producing Innovation at Local Level
3. How EMC Ireland built a 5-year innovation framework

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