Control of subsidiaries of MNCs from emerging economies: the case of Taiwanese MNCs in the UK

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Abstract

There has been considerable research over the past few decades on the process through which headquarters of multinationals from developed economies exercise control over their network of subsidiaries in foreign countries. However, little research has been conducted on multinationals from emerging economies operating in developed countries. In this paper, we examine the motives for, and mechanisms by which, headquarters of Taiwanese multinationals exercise control over their subsidiaries in the UK. The paper draws on data collected through 66 interviews with top managers and human resource managers from four UK based subsidiaries of Taiwanese multinationals. The study reveals that Taiwanese multinationals use both output control and behaviour control to manage their subsidiaries in the UK.

Introduction

Managing multinational companies (MNCs) involves choices about which practices should be diffused and monitored from the centre and which practices should be left to the subsidiaries. Issues dealing with how MNCs manage their foreign subsidiaries has led to the emergence of a large body of research on how, the motives for, and mechanisms by which, the centre exercises control over its network of subsidiaries in foreign countries (Child *et al.*, 2000; Farley *et al.*, 2004; Ferner, 1997; Gamble, 2003; Muller, 1998; Rosenzweig and Nohria, 1994). In conjunction with earlier research (Cray, 1984; Gatignon and Anderson, 1988; Stopford and Wells, 1972), more recent studies (Child *et al.*, 2000; Farley *et al.*, 2004; Gamble, 2003; O'Donnell, 2000) show that centres of MNCs have a penchant for a degree of control over subsidiaries, and overall management practices in foreign subsidiaries are often shaped, to a varying extent, by a blend of characteristics spanning home and host country factors, as well as industry and firm specific factors. Further, research shows that MNCs from different countries have different patterns, degree and types of control over their foreign subsidiaries (Egelhoff, 1984; Vachani, 1995).

Yet, the growing literature on control of subsidiaries by headquarters (HQ) is limited on two important fronts. First, the current body of research focuses exclusively on western MNCs (Almond *et al.*, 2003; Chen *et al.*, 2005; Edwards, 1998; Edwards and Ferner, 2004; Farley *et al.*, 2004; Ferner and Edwards, 1995; Ferner and Quintanilla, 1998; Ferner and Varul, 1999; Gamble, 2003; Guest and Hoque, 1996; Innes and Morris, 1995; Muller, 1998; Tayeb, 1998). Although the presence of MNCs from emerging and newly-industrialized economies (NIE) has long been reported (Agmon and Kindleberger, 1977; Heenan and Keegan, 1979; Kumar and McLeod, 1981; O'Brien, 1980; Wells, 1977, 1983), little research has been conducted on MNCs from emerging and newly industrialized economies[1] operating in developed countries. Research on MNCs from emerging economies has so far focused on MNCs from emerging economies in other emerging economies (Buckley, 1994; Chen, 1998; Hsing, 1996; Lecraw, 1981; Raju and Prahalad, 1982; Yeung, 1998, 1999). Extant research has not examined management practices of MNCs from emerging economies at their subsidiaries in developed countries. This gap needs to be addressed because increasingly more MNCs from emerging economies are entering western countries (Aggarwal and Ghauri, 1991; Yeung, 1999). Given the increasing number of MNCs from these economies entering western developed economies, one can no longer classify MNCs from emerging economies as unusual cases from obscure countries. Evidence suggests that they are gaining a larger foothold globally, and thus are having a significant impact on the world economy (Yeung, 1999).

Second, arguably, the ways in which MNCs from emerging economies manage their subsidiaries in developed countries are distinctive and different from the

[1] While we recognize the differences between emerging and new industrialized economies, for the purpose of this paper we use the two concepts interchangeably.

ways in which MNCs from developed countries manage their foreign subsidiaries. MNCs from emerging economies have to overcome the double hurdle of liability of foreignness (Hymer, 1976), and liability of country of origin. While liability of foreignness is unavoidable for both developed and emerging economies MNCs, liability of country of origin, and specifically disadvantages because of perceived weakness and lack of global dominance of the home country's economy, is more of an issue for MNCs from emerging economies than for MNCs from developed economies. Smith and Meiksins (1995) argue that the transfer of best practices between countries is influenced by a hierarchical order between national economies which creates dominance effects whereby 'firms from countries lower in the hierarchy may perceive an interest in adopting practices from those based in more dominant economies. Conversely, firms in dominant economies may tend to assume that their practices are superior and capable of transfer to less dominant hosts' (Ferner *et al.*, 2005). By the same token, one would expect managers and employees at subsidiaries in developed countries may believe that they possess superior managerial and technical knowledge to that of firms from emerging countries, and as a result may question the legitimacy and viability of managerial practices originating from a country they perceive as less developed and economically inferior to their own. In addition, a significant number of MNCs from emerging economies set up foreign subsidiaries in developed countries not only to exploit their home grown core capabilities, but also to augment them by learning from developed economies. Thus, given the strategic role of subsidiaries in developed countries, an important question is whether the centre should take a back seat or take a more active role in the management of subsidiaries in advanced countries?

This article examines the types of control used by headquarters (HQ) of MNCs from emerging economies to control their subsidiaries located in a developed economy, and mechanisms by which control is exercised. For this study, we chose Taiwanese MNCs' subsidiaries in the UK. We recognize that categorizing countries such as Taiwan with high GDP per capita and high Human Development Index as an emerging economy is perhaps controversial and we accept the case that perhaps Taiwan should no longer be thought of as emerging economy or a newly-industrialized economy (NIE). However, after careful consideration we felt that

Taiwan is more of an emerging or NIE than developed economy for two reasons. First, past research has consistently categorized Taiwan as an emerging economy (Chang *et al.*, 2006; Chang et al., 2007; Child and Tsai, 2005; Mahmood and Mitchell, 2004; Wright *et al.*, 2005) or NIE (Luo and Tang, 2007; Tang and Tseng, 2004). Among the arguments put forward for classifying countries such as Taiwan as emerging economies include: high institutional constraints (Child and Tsai, 2005), dominant use of interpersonal connections in business conduct (Luo, 2006), influence of political actors in business activities (Frynas *et al.*, 2006), and weak corporate governance (Gugler *et al.*, 2003). Second, international bodies such as the UN consistently classify Taiwan as an emerging economy (c.f. UNCTAD, 2006).

We selected Taiwanese MNCs which we believe are interesting for this study for two key reasons. First, a large number of Taiwanese MNCs have a significant presence in the world economy (Yeung 1999: 23) and several Taiwanese MNCs have become true global players in today's world economy (Levy and Kuo, 1991). Second, Taiwanese MNCs, like other Asian and Japanese MNCs, have a predominant preference for central control. However, unlike Japanese MNCs, Taiwanese MNCs have to overcome the liability of originating from an emerging economy. As noted above, managers and employees at UK subsidiaries may believe that they possess superior managerial and technical knowledge to that of Taiwanese managers, and as a result may question the legitimacy and viability of managerial practices originating from Taiwan. To achieve the aims of this article, we studied control types and mechanisms in four Taiwanese subsidiaries located in the UK.

Literature Review and Research Framework

MNCs exercise a degree of control over their subsidiaries to ensure that they allocate their resources and direct their efforts towards the attainment of the objectives of the MNC (Chang and Taylor, 1999). Control refers here to the processes by which the HQ of an MNC determines or intentionally affects what subsidiaries do (and don't do). Lebas and Weigenstein (1986: 259) define management control as 'the process by which an organization ensures that its sub-units act in a coordinated and cooperative fashion, so that resources will be obtained and optimally allocated in order to achieve the organization's goals'. A number of approaches have been used to categorize control mechanisms. Harzing (1999, 2001) categorized MNCs' control mechanisms using two dimensions: personal versus impersonal control and direct versus indirect control. Harzing's typology produces four dominant control mechanisms (see Legewie (2002) for an expanded discussion of the four mechanisms): 1) personal and direct form of control, labelled as personal centralized control, where decisions are taken at the HQ and executed by direct personal control methods through expatriates or home country nationals using methods such surveillance and direct supervision; 2) direct and impersonal form of control, labelled as bureaucratic formalized control, aiming to control the behaviour of employees at overseas subsidiaries through written manuals and formal procedures with little use of expatriates; 3) personal and indirect forms of control refereed to as control by socialization and networks making extensive use of expatriates where the emphasis is put on sharing the parent company's norms, values and objectives; and 4) impersonal and indirect form of control labelled as output control where the emphasis is put on evaluating and measuring the outputs against specified targets with little use of expatriates. Personal control relies on human interaction such as use of expatriates whereas impersonal control is carried out through formal bureaucratic rules and regulations such as written manuals (Child, 1984: 168-60). According to Child (1984: 158-60) personal control suits small organizations whereas impersonal control is more appropriate for larger organizations such as MNCs. However, a number of scholars (Ferner, 2003; Ferner and Quintanilla; 1998; Harzing and Sorge, 2003; Lane, 1989; Legewie, 2002; Whitley, 1994) have argued that personal control is also a distinctive feature of certain types of national business systems. For instance, past research shows that British and German MNCs rely more on direct personal control than French MNCs which rely more on impersonal control mechanisms (Harzing, 1999). Similarly, Whitley (1994) noted that control mechanisms in East Asian firms are influenced by their business systems and dominant social institutions. Whitley (1994) argues that in Chinese family business systems which include Taiwan, authority is predominantly personal, and close relations between the owners and their families are more important than formal rules and procedures when it comes to controlling resources (Whitley, 1994: 162). As a result of the personal nature of the Chinese family business system, personal control by the owners or 'the wise and loving father' (Bond, 1991: 78) is predominant.

Formal rules and procedures are viewed as constraints to their personal authority. Research shows that the personal-based control mechanism is effective in Taiwan because of the dense network of personal connections, known as quanxi (Chen *et al.*, 2005) and long term responsibility for the well being of employees through, among other things, employment security (Bond, 1991; Chow, 2000). Chow (2000: 31) reported that Taiwanese employees expect job security and long term employment from their employer in return for high commitment and moral attachment with their organization. In other words, in order to ensure the effectiveness of personal control, Taiwanese family business rely on trusted close relatives or friends employed in key positions and job security for their employees.

In addition to the above categorization of control, a number of scholars have classified control into three main types; output control, behaviour control and cultural control (Baliga and Jaeger, 1984; Chang and Taylor, 1999; Dekker, 2004; Egelhoff, 1984; Eisenhardt, 1985; Groot and Merchant, 2000; Merchant, 1998; Mjoen and Tallman, 1997; Ouchi, 1980; Ouchi and Maguire, 1975; Prahalad and Doz, 1981; Youssef, 1975). For the purpose of this article, we use the three types of control as a framework for our study. Headquaters that employ output-oriented control systems employ formal procedures that specify desired resources to be used in the process and performance targets for each subsidiary, and take corrective actions when deviations from expected levels arise. Gencturk and Aulakh (1995: 757) define formal controls as 'management-initiated mechanisms that are designed to regulate organizational activities to ensure their conformance to established expectations'. Output control is used when the HQ is able to design a system that produces reliable and verifiable evidence of the performance of the subsidiary without heavy interference in the subsidiary's activities (Ouchi, 1977, 1979). The impersonal nature of output based control implies that it does not rely heavily on a large expatriate contingent. Harzing (1999) found a negative relationship between the level of expatriates at the subsidiary level and the use of output based control. That is subsidiaries that used output based control used less expatriates than those that used other forms of control. This is because, as it will be explained later, expatriates are often used to carry out behavioural and cultural controls, directly or indirectly (Harzing, 2001). Output based control has a number of limitations. Over a decade ago, Martinez and Jarillo (1989,

1991) argued that informal and subtle control mechanisms are better suited to the new global business environment characterized by increasing pressure to deal with conflicting demands of global strategy and local responsiveness demanded (Ferner, 2003: 523), than output control mechanisms. This reflects a need for MNCs to develop more complex control apparatus to tackle the increasing environmental variety and complexity facing them (Doz and Prahalad, 1991).

An alternative to output-based control is the more personal behaviour-based control (Paik and Sohn, 2004: 61). Behavioural control refers to control obtained by monitoring the behaviour of staff at the subsidiary level (Chang and Taylor, 1999). Ouchi and Maguire (1975) define behaviour control as personal surveillance which enables top management to guide and direct subordinates. MNCs use behaviour control when they desire to influence the means to achieve desired outcomes. That is, behaviour control is an input control that focuses on the activities and decision making processes rather than the end result. In their quest to achieve behaviour control, MNCs often appoint expatriate managers that are knowledgeable of and highly committed to, HQ's decision making processes and practices to fill key subsidiary positions (Baliga and Jaeger, 1984; Chang and Taylor, 1999). Rosenzweig and Singh (1991) posit that employing expatriates is one of the most effective ways to control behaviours at subsidiaries and can be used to reduce the reliance on rigid output control mechanisms. This is because, as argued above, expatriates have good understanding of, and high commitment to, the HQ's operating procedures and the overall MNC's priorities and goals than locally hired employees and managers (Doz and Prahalad, 1986; Korbrin, 1988). In addition to controlling and encouraging behaviour at the subsidiary level, the presence of expatriates facilitates communication and coordination activities between the subsidiaries and the HQ (see Scullion, 1994). However, as discussed below, the use of expatriates is not always effective. The effectiveness of expatriates depends on a number of factors including expatriates ability to manage overseas subsidiaries, cross cultural competency and the role assigned to them by the HQ (Paik and Sohn, 2004). Also, past research provides evidence to suggest that behaviour control is the least used by MNCs (Chang and Taylor, 1999). Chang and Taylor (1999: 546) noted that while the exact reasons why MNCs tend not to use behaviour control are not yet established, difficulties in interpreting and controlling behaviours across cultures could be the key barrier to using behaviour control by MNCs.

The third form of control is cultural control. In contrast to output and behaviour control mechanisms, cultural control is not formal and relies on subtle ways to control the subsidiary. It involves the indoctrination of subsidiary managers and employees into the HQ's values and beliefs (Jaeger, 1983). As noted by Jaeger and Baliga (1985) 'cultural control systems rely on internalization of and moral commitment to the norms, values, objectives and "ways of doing things" of the organization'. The aim of the cultural control is to ensure that the norms and values of individual employees at the subsidiary level are congruent with those of the overall MNC. Similar to behaviour control, cultural control relies on employing a large number of expatriate managers as top managers of foreign subsidiaries (Baliga and Jaeger, 1984; Chang and Taylor, 1999; Groot and Merchant, 2000). To be able to transmit HQ's values and norms to subsidiaries, expatriates must engage in socialisation practices to promote values and norms that are congruent with that of the HQ. Further, Ferner (2003: 522) noted that cultural control relies on 'developing in managers' identification with and commitment to the values and objectives of the corporation'. The rationale behind cultural control is one 'of maintaining control by ensuring that members of an organisation accept as legitimate, and willingly comply with, managerial requirements' (Child, 1984: 163). The conventional ways of social or cultural control in MNCs are through international exchange of personnel between different units of the firms; managers thus absorb the company's 'way of doing things' (Edström and Galbraith, 1977). Recent research (e.g. Harzing, 2001) focuses on the importance of informal communication and networks, as well as international management training to enhance control through expatriates in socialisation acting as 'bumble-bees', flying from plant to plant to spread the MNC's values and norms (Harzing, 2001).

To guide our data collection and analysis we developed a framework that identifies the key determinants of control of subsidiaries in MNCs. We split the factors into external factors, which include home, host and industry specific factors, and firm level factors that include mode of entry, size and role of a subsidiary.

External factors

Multiple home country factors influence management practices at the subsidiary level (Ferner, 1997: 33). In this section we focus only on factors that we believe are relevant to MNCs from emerging economies operating in a developed country. Muller-Camen *et al.* (2001: 436) reported that the home country's economic strength and global image plays a significant part in the centre's ability and desirability to transplant home country practices into foreign subsidiaries. That is, it is much easier for a MNC from a strong or dominant economy such as the US or Western Europe to transfer its home country practices than it is for a MNC from an emerging or developing economy (Edwards and Ferner, 2004; Muller-Camen *et al.,* 2001; Smith and Meiksins, 1995). An example here would be the acceptance of Japanese management practices as good practice during the 1980s and early 1990s when the Japanese economy was doing very well. Following this logic, it is reasonable to expect that managers and employees in developed countries may view management practices from emerging economies with suspicion and hence become less supportive of them. This is because, as argued above, the flow of management practices is strongly influenced by the perceived relative strength of the host and home country management practices (Chen *et al.,* 2005: 240). Thus, if host country nationals question the legitimacy, viability and worth of management practices originating from emerging economies and do not buy into them, MNCs from emerging economies may resort to coercion to enforce home county policies and practices**.** Further, a large number of MNCs from emerging and developing economies set up foreign subsidiaries in developed countries not only to exploit their home grown core capabilities, but also to augment them by learning from developed economies. Given the strategic role of emerging economies MNCs subsidiaries in developed countries, one might expect MNCs from emerging economies to emulate host country practices in western countries rather than impose home country practices. Yeung (1999) notes that most MNCs from emerging Asian economies aim to learn sophisticated management practices from their locations in developed economies. Furthermore, Yeung (1999) notes that a large number of managers holding top positions in MNCs from emerging economies have been educated in top European or US universities where they were exposed or perhaps, bought into, western management practices. It is plausible that they may well sympathise with, if not push for, western management practices at their foreign subsidiaries. Zhang (2003) noted that in order to acquire and promote high performance HRM practices at the HQ level, Chinese MNCs tend to exert a high controlling power to ensure their expatriate managers and professionals gain knowledge of 'high performance' best practices from host countries and transfer them back to the HQ.

As noted above, MNC's country of origin does not only influence the level of control from the centre, but also effect the type of subsidiary control and control mechanisms as well. For instance, past research found that American MNCs tend to use output based control (Egelhoff, 1984; Erramilli, 1996), whereas European MNCs use behavior based control (Erramilli, 1996) and Japanese MNCs use cultural control (Baliga and Jaeger, 1984).

In addition to the home country effect, the subsidiaries' level of discretion is influenced by a plethora of the host-country's environment factors (Rosenzweig and Nohria, 1994; Schuler *et al.*, 1993). They include openness and closeness of the host country business system, the legal framework governing HRM, host country institutions, as well as the cultural environment. These factors influence the extent to which the subsidiary develops its unique practices and the extent to which the MNC is willing and able to transfer its parent company's management practices to overseas subsidiaries (Taylor *et al.*, 1996: 976). Ferner and Quintanilla (1998) reported that the ability and willingness to transfer management practices from the centre and ability to absorb and apply these practices by the subsidiary are related to the degree of openness and closeness of the home and host countries' business systems. For example, subsidiaries located in open countries such as the UK would be more able and willing to absorb and apply practices developed abroad. In contrast, subsidiaries located in so-called closed countries such as Japan, or institutionally strong countries such as Germany are more likely to apply host country practices. Past research also suggests that dissimilarity of legal environments will force the subsidiary to adopt different practices to those of the centre and vice versa (Taylor *et al.*, 1996). Similarly, national culture has a strong influence on the feasibility and desirability of transferring management practices from one country to another (Hofstede, 1993). The expectation is that the greater the cultural distance between the host country of the subsidiary and the home country of the MNC, the less likely will the affiliate conform to local practices (Beechler and Yang, 1994; Rosenzweig and Nohria, 1994). In addition, past research show that output-based control is less appropriate when cultural distance between the MNC's home country and the host country of its subsidiary is substantial (see Gomez-Mejia and Palich, 1997; Hamilton and Kashlak, 1999). Moreover, institutional distance–conceptualized as the differences between the home country of the MNCs and the recipient country in terms of regulatory frameworks such as legislations governing certain practices, cognitive that is taken for granted routines, and normative pressures which include people's values, beliefs and norms–is likely to result in potential tensions between the HQ and its subsidiaries (Kostova, 1999; Tempel *et al.,* 2006). Kostova (1999) posits that the effectiveness of a strategic organizational practice from the centre to a subsidiary is negatively associated with the institutional distance between the countries of the parent company and the recipient unit.

Last**,** the sector of activity has a significant impact on subsidiaries management practices. Research shows that the adoption and diffusion of management practices are influenced by the degree of product integration required in the industry (Edwards *et al.,* 1999). In general, highly integrated MNCs are more likely to apply standard management practices throughout the network of subsidiaries and vice versa (Edwards *et al.,* 1999: 287; Ferner, 1997, Mellahi *et al.,* 2005; Rosenzweig and Nohria, 1994).

Firm level factors

MNCs are important actors in their own business operations; each has its own characteristics and institutionalised, but yet unique, way of doing things (Beechler and Yang, 1994: 5), and many seek to develop their own distinctive approach to managing their foreign affiliates (Gamble, 2003). Ferner and Varul (1999) reported that the extent to which MNCs control their subsidiaries or encourage the diffusion of home grown management practices differs considerably. Past research shows that the dissemination of management practices are affected by internal factors such as the affiliate's strategic role (Gupta and Govindarajan, 2000), methods of subsidiary establishments (Taylor *et al.*, 1996), subsidiary absorptive capacity, centre's diffusion capacity (Gupta and Govindarajan, 2000), and management practices throughout its network of subsidiaries. In addition, the importance of the subsidiary to the centre plays a critical role in shaping the subsidiary's managerial practices (Taylor *et al.*, 1996). Large subsidiaries or subsidiaries carrying out strategically important tasks may resist high levels of interference from the centre. Strategic role refers here to the significance of the subsidiary's contribution to the overall global success of the MNC. Subsidiaries with significant strategic role are often given the authority to make strategic and operating decisions autonomously (Mellahi *et al.*, 2005). In contrast, strategically insignificant subsidiaries tend to tolerate more interference from the centre (O'Donnell, 2000; O'Donnell and Blumentritt, 1999: 194). In short, the more strategically important the subsidiary is, the more likely the centre will exert control over it. Further, when a subsidiary relies heavily on the flow of valuable resources from the centre, its managerial practices are more likely to be influenced by the centre (Jaw and Liu, 2004). Martinez and Jarillo (1991) noted that a subsidiary's dependence on its parent's technology often lead to more formalisation, standardization and centralization for management practices. Similarly, Martinez and Ricks (1989) found that US parent companies were involved in selecting managers for subsidiaries if the subsidiary has a high resource dependence on the parent firm.

Taylor *et al.* (1996) argue that when an affiliate is established as a Greenfield operation, it is more likely for the parent company to diffuse its home-country practice to its overseas subsidiaries. By contrast, if an affiliate is acquired through buying a pre-existing firm or sharing a partnership with a local firm, it is more likely for the affiliate to adopt local practices because of pre-existing managerial practices on site (Guest and Hoque, 1996). Similarly, Gamble (2003: 374) indicates that subsidiaries established on Greenfield sites are better able to abide by their foreign parent's operations than those acquired through acquisitions. Moreover, as Gamble (2003) argued, the means of transferring practices from the parent company to its overseas subsidiaries is influenced by the ability and choice of its expatriate managers. For instance, one expects that affiliates with a high number of expatriate managers are more likely to adhere to the management practices of the MNC (Rosenzweig and Nohria, 1994: 236). Likewise, Gómez and Werner (2003) note that top managers in subsidiaries including expatriates and host country nationals, often emulate a parent country's practices because of their experience and tenure in their home country.

Data collection

We utilised a multiple case study approach, using interviews to gather data on subsidiaries management practices. Four subsidiaries agreed to participate in the research. The data collection was conducted from October 2004 to July 2005. Semi-structured interviews were employed to collect data using the above framework. Issues covered in the interviews included control mechanisms, role of expatriates, and interactions between expatriate managers and host country nationals employees and managers. The four case study companies (for details see Table 2) were chosen because they come from sectors in which Taiwanese MNCs have a strong presence. We conducted and transcribed 66 interviews—20 from Techco, 12 from Itco, 22 from Comco, and 12 from Shco—with senior managers, HR managers and functional managers, each interview lasting for approximately 60 minutes. Thirty-eight interviews were recorded and notes were taken during the interviews and later transcribed for the remaining 28 interviews. Thirty-seven interviews were conducted in English and 29 in Mandarin. Interviews conducted in Mandarin were translated to English by the first author (for a breakdown of interviews see Table 1).

INSERT TABLE ONE HERE

Brief profile of the case studies

We refer to the four case studies as subsidiary Techco, Itco, Comco and Shco respectively (see Figure 1). Subsidiary Techco is based in the north of England and was set up in the beginning of 1999 to provide a repair service for original equipment manufacturer (OEM) notebooks, personal digital assistants (PDA) and LCD TV assembly. The head office is located in Taipei, Taiwan with offices in China, South Korea, and the US. The HQ specializes in OEM for major notebooks providers such as HP, Dell, and Compaq. Since its establishment in 1984, the HQ has developed itself to be one of the leading companies in the global IT industry. Later in 1999, the HQ decided to move its Netherland subsidiary to the UK and established Techco in the north of England. In the beginning, the company only served as a repair and service centre for laptops and PDA. According to interview data, the main reasons for setting up a subsidiary in the UK were to enhance ‘time-to-market’ and obtain ‘low-cost operation’ to serve their biggest customer (i.e. Dell) in the UK. In 2005, there were around 150 employees working in Techco.

Established by the HQ in January 2004, the main purpose of Itco is to provide repair services for its customers in the UK and Europe. Itco serves major world telecommunication and mobile phone companies. In 2005, there were more than 70 people working in Itco. The majority of the workforce occupies technical positions. Key management positions were sent from the HQ in Taiwan, and comprised of positions such as managing director, finance manager, and repair manager. Unlike the other three cases, almost all local employees were Mandarin speaking–British nationals of Chinese origin. The head office of Itco is located in Taoyuan, Taiwan, with more than 2,200 employees in the world. Founded in 1997, the HQ in Taiwan specializes in designing and manufacturing world-class mobile computing and communication solutions for OEM and ODM (original design manufacturer).

Comco’s subsidiary was established in 1988 and is responsible for the UK and European market for the whole group. Comco designs, produces, and markets for a diverse range of products like PDA, and Ruggedized notebook. In 1998, the HQ decided to reduce the size of Comco in the UK and in 1999, the HQ relocated its computer and IT production sites to China and reduced Comco’s activities to a repair centre for the UK and European customers. In 2005, Comco employed around 140 employees.

Shco Company started its UK operations in 1997. Prior to that, the HQ has had a shipping agency in the UK since 1972. Shco Company consists of two plants in two different locations in the UK. The first plant is responsible for sales, finance, IT, and HR functions. The second plant deals with port activities such as delivery and releasing containers. In 2005, it employed around 90 employees. Shco was added to our sample to control for sector effects. Because the first three subsidiaries belong to the IT sector, we included a subsidiary from a different sector to see whether control mechanisms outside the IT sectors hold in other sectors.

The four case studies have many common features. They were located in deprived areas where unemployment is higher than national average. Lower labour cost was one of the key factors in choosing the locations. Also, the four subsidiaries studied here were small in size. They were not strategically significant for Taiwanese MNCs and long term investment in HRM was felt unnecessary. This was because they were not carrying out advanced processes but repairing and or assembling already made products.

INSERT FIGURE ONE HERE

Findings and discussion

Dual control mechanisms: reliance on output control *and* behaviour control

The results from the study of the four subsidiaries show that the HQs in Taiwan place much emphasis on consistency of operations throughout their subsidiaries. This is done through extensive control and monitoring procedures. Data from the four case studies indicate that Taiwanese MNCs use both output control and behaviour control to manage their subsidiaries in the UK. Given the type of work in which the subsidiaries are engaged in (i.e repair and assembly of parts produced in Taiwan or other subsidiaries), our interviewees reported that both the inputs and outputs of the activities of the subsidiaries could be measured fairly accurately and reliably reported to the HQ. Further, the subsidiaries were not involved in high innovative processes that require a high level of discretion. They were mere mini-replicas of other subsidiaries around the world and happened to be located in the UK because of proximity to markets. The ability to measure and report subsidiaries' performance accurately, made output control the preferred control mechanism. As a result, a lot of emphasis was put on meeting budgetary targets and evaluating subsidiary's performance. In addition to output control mechanisms, given the geographical and institutional distances between Taiwan and the UK, the HQs in Taiwan aimed to reduce the level of uncertainty by complementing output control with a high level of behaviour control. Interviewees reported that the HQs—in their quest to reduce uncertainty and increase predictability—tended to delegate to their subsidiaries in the UK as little as they must rather than as much as they could. What is interesting here is that given the physical and cultural distances between the UK and Taiwan, the HQs in Taiwan insisted on consistency of behaviours and practices in their UK subsidiaries. This quest for centralized control manifests itself in practices such as company-wide quality-control processes designed from—and controlled by—the centre in Taiwan through the appointment of expatriates to key managerial positions. As described by one subsidiary manager:

> *I think there is a strong control from HQ in Shco Taiwan. Head office in Taiwan will make all main decisions for Shco. We need to answer to HQ in Taiwan about our decision. Then Shco Taipei will tell us what we should do here. Shco Taipei will tell us their decision by email. All our main decisions are from Shco Taipei you can say so. Shco Taipei left day-to-day operation to us. So, Shco run the office on day-to-day basis. If important things come out, we need to go through head office for final answer. That is what we are operating in Shco here. We do have lots of emails from Shco Taipei.*

Similarly, another local manager noted that:

> *I need to report every single thing to HQ about what I am doing and going to do… MD (expatriate) in Comco subsidiary is more conservative and will not take responsibility on his own. My business trip in Europe is a good example. MD will not approve my business until HQ says yes to him. So, normally, I will get HQ's approval first before I go to MD for permission for my business travel.*

Another common feature in all four subsidiaries is the high degree of emphasis placed on productivity and cost control. The centre stayed in charge of productivity and cost factors by designing and monitoring production systems and technology used in the process, and through the designation of HRM practices such as salary structures and appraisals. For example, the extensive use of HQ's on-the-job training practice in the four subsidiaries was, according to interviewees, motivated by the HQs' desire to control all the repair and services and assembly procedures to match their quality control requirements, and the fact that on-the-job training was considered by HQs as a cost-effective way to pass professional experiences from senior to junior staff. One manager emphasized the degree of control of costs by the HQ by reporting that: 'HQ in Taiwan will count every pence which is work-related in the UK subsidiary. Cost control is tight from HQ in Taiwan'.

Further, under pressure to cut costs and meet budgetary targets coupled with the relatively high cost of labour in the UK forced Taiwanese managers to use employment agencies to recruit low cost employees on short term contracts. Another reason for using agency workers on short term contracts was the need of subsidiaries to have the flexibility to adjust to demand fluctuations with minimum cost. It is worth pointing out that this practice is alien to Taiwanese expatiates who were used to providing long term job security to their employees. As a consequence, Taiwanese managers adopted a control mechanism that was diametrically opposite to what they were used to in Taiwan (see earlier section on Taiwanese control mechanism) relying on tight managerial control through output measurement and close direction of employees with the ultimate goal being to secure the competitive advantage of the whole MNC.

INSERT TABLE TWO HERE

Methods of control

Our analysis shows that the case studies used three methods to control their subsidiaries: Expatriates, global technology platforms, and standardized HRM practices.

Expatriates

As shown in Table 2, the four HQs in our study relied heavily on top level expatriates to measure, report and monitor subsidiaries' performance, keep an eye on behaviour and implement HQ level practices and procedures. As one of expatiate the MDs reported:

> *We have to follow the HQ repair and service procedure and system in the UK. Recently, we have an expatriate line manager who is going to be responsible for*

repair and service in the UK. His role is to make sure what we have done here is to match the HQ repair standard and the same system configuration. The expatriate manager will send e-mails to ask HQ whether we are allowed to change the repair and service process and system first. This is due to HQ trying to make sure everything is right to produce products on time and deliver them on time.

Interviewees reported that HQ's controlling power was maintained by consistently assigning expatriate managing directors (MD), finance managers and other key managerial positions from the centre. In particular, our data suggest that HQs in Taiwan insisted on utilising MDs and finance managers with first hand experience in, and loyalty to, HQ's procedures for three reasons: 1) knowledge of HQ procedures, 2) trust, and 3) communication. First, expatriates justified the reliance on expatriate managers by HQs by the perceived fact that expatriates tended to be more knowledgeable about, and committed to, HQ processes and procedures than local employees and managers and therefore were more likely to support HQ initiatives. It was reported that there was a perception that local managers' loyalty lie with the subsidiary and therefore would work towards the benefit of the subsidiary whereas expatriates managers' efforts would be towards the goals of the whole MNC.

Second, it was reported that the centre tended to trust Taiwanese expatriate managers more than host country national managers. Our data suggests that because of the physical and institutional distances between Taiwan and the UK, there was a great deal of suspicion and mistrust and misunderstanding between Taiwanese managers and their non-Taiwanese UK counterparts. This could be due to the high labour turnover of local managers as a result of lower wages, short term approach to employment and lack of job security. Most local interviewees indicated the Taiwanese subsidiary was not their first choice of employer. Further, local interviewees suggested that, given Taiwanese respect for authority and order, expatriates and HQ managers often misconstrue open discussions, questioning of procedures and aggressive bargaining as a challenge to their authority. As described by a British line manager:

Why we do not have British managers in our company? I think it is because of trust issues. I do not think any Taiwanese boss will trust British managers more than Taiwanese managers overseas. I think trust issue is typically important as a head of the company, such as managing director or general manager in overseas subsidiary…I can sense that head office does not trust us very much. So, we have an expatriate finance manager from Taiwan. Every month, we have to send monthly report to Taiwan.

While lack of trust could potentially have negative effects on performance, we could not find evidence to substantiate this possibility. Given the high level of output control and behavioural control, Taiwanese managers reported that the control mechanisms in place were able to offset the possible impact of mistrust on subsidiary performance.

Third, communication in Mandarin—frequently and often—in the UK Taiwanese subsidiaries was another important issue emerging from the data. Interviewees reported that communication with HQs in Taiwan was carried out in Mandarin, and Taiwanese managers in the HQ, perhaps because they did not have a good command of English, did not prefer to communicate in English. As noted by two expatriate managers:

In this company, we always speak Mandarin in the meetings …I think communication is a problem too. Taiwanese companies still use Mandarin very often. And for managers in Taiwan, they can easily understand what is going on in the UK subsidiary in Mandarin…but most of British employees left the company after a period of time is partly because they can not understand what we are speaking in Mandarin…. Because no one in the company includes the MD will explain to British employees about the results of meetings and why we have to do this job and achieve targets.

And:

Of course, we need to have Mandarin speaking employees in our company. We find it difficult to communicate with HQ in Taiwan in English. We need Mandarin speaking people to help us interpret and avoid misunderstanding between each other. Mandarin speaking employee can help us build relationship with HQ in Taiwan too.

Technology

The second method used to facilitate the control of subsidiaries—in addition to the use of home country nationals—was technological platforms such as standardized online accounting systems. This was based on the premise that subsidiaries will be more efficient if experts resided at the HQ were able to contribute and monitor problems at the subsidiaries in real time. Prior to the introduction of sophisticated synchronous technologies where communication takes place in real time, it was difficult for subsidiary managers and experts at the HQ to communicate, and coordinate their activities. Interviewees reported the introduction of the new technological platforms resulted in a significant increase in interference from the HQ. Further, the new technological platforms resulted in streamlining procedures and provided HQ staff with permanently updated information about subsidiaries around the world. Systems and processes that were left to subsidiaries before the introduction of the new technological platforms (such as intranets), were controlled from the centre. For instance, in order to achieve system consistency within the whole group, including overseas subsidiaries, the four subsidiaries' systems were under the same repair and IT configuration as those of the HQs. Further, adoption of an online world wide accounting system allowed top management in Taiwan to monitor overseas subsidiaries' financial performance and make major decisions for subsidiaries regarding workforce expansion and reduction.

HRM Practices

The third control method used is standardized HRM practices. This includes company wide performance appraisal criteria to help the centres monitor overseas subsidiaries' employees' productivity and performance, and expenses related to HRM practices. International appraisal systems are one of the most effective ways to control output and behaviour at subsidiary levels (Janssens, 1994). It is worth mentioning that although the HQ develops and monitors HR practices such as appraisal schemes, the practices themselves are to a large extent un-Taiwanese. Expatriates reported that given the collectivist culture in Taiwan, individual performance appraisal schemes are given less weight in Taiwan and difficult to implement because it is culturally unacceptable to reward or punish single individuals for performance. Also, because of the weight placed on values such as team harmony and face, differentiation between individuals is unwelcome in Taiwan. A number of expatriate managers reported that they found appraisal meetings uncomfortable, especially telling employees that their performance was lower than expected. One expatriate manager, resorted to informing employees of their performance by e-mails and letters rather than meeting them face to face because of fear of confrontational feedback. Nonetheless, in the four case studies a systematic evaluation system of individual performance was in place to identify, observe, measure and monitor activities in the subsidiaries. Most of the processes was decided and monitored from the centre. For example, in one of the cases the director in the repair and service department in the head office assesses overseas employees' performance by setting up their productivity targets and monitor employee productivity through, for example, how many PDA and mobiles have been repaired per employee per day. Understandably, the control of HR practices from the centre led to tensions between Taiwanese managers and British employees. One example here is frequent request of overtime. Working overtime is a typical practice of working life in Taiwanese companies. It is also widely practiced within the four Taiwanese subsidiaries studied. This is because the top expatriate team has to meet the HQ productivity targets set by the HQ, which forces them to negotiate with local employees to work overtime. In one case study, the pressure to meet targets and negotiate new work practices at subsidiary level created tension between expatriate mangers and local employees. Under pressure from the centre to meet targets coupled with a lack of knowledge of employee management in the UK, the expatriate manager, 'without a proper explanation' tried to coerce local employees to work overtime and expected local employees to accept 'as do Taiwanese employees do in Taiwan'. The decision was made without consultation to avoid 'confrontation' with local workers and subsequent loss of face. As described by one manager:

Normally, local British employees do not like to work overtime. … They think why they have to do overtime. They feel strange why people can come to work from early in the morning (around 8:00am) to the late evening (around 8:00pm). They think you must be a superman that is why you can work from 8:00am to 8:00pm Monday to Friday. They do not think normal people can work for those long working hours.

Finally, there is little reported evidence of host country impact, and indeed, our data showed that when it did exist it was imposed by the institutional environment rather than voluntarily adopted by the subsidiary. Hiring local employees, for example, was subject to legal regulation constraints. British labour law regulations specify that companies cannot recruit people who need work permits if companies can find local people to do the same job. However, most interviewees reported that given the choice they would prefer to recruit from Taiwan or China. As one senior manager in Comco said: 'We want to employ more Taiwanese or Chinese if you like... but we need to recruit local people first. I think that is because it is compulsory for us to recruit local people first if local people have same skills and can do the same job'.

Conclusion

This research has examined control mechanisms used by Taiwanese MNCs in their subsidiaries in the UK. Our analysis suggests that Taiwanese subsidiaries in the UK have been found to be tightly controlled by their parent companies in Taiwan. HQs in Taiwan relied heavily on output control, such as cost of operations and productivity measures through regular submission of data by subsidiaries, to control their subsidiaries in the UK. The output based approach is complimented by an extensive control of behaviour, chiefly through strategic appointments of top HQ managers to key managerial positions in UK subsidiaries. The key roles of expatriate managers included preventing deviations from agreed targets and objectives, discouraging dysfunctional behaviours, and ensuring that subsidiary behaviour, processes, and decision making remained consistent with overall MNC's objective. HQs' authority over key aspects of decision making at subsidiaries is evidence of a strong behavioural control by the HQ (Contractor and Lorange, 1988). In such a centralized system, expatriates were engaged in an extensive information gathering and reporting activities and vigorous monitoring of employees at subsidiaries, with limited managerial discretion to direct their subsidiaries and or exert control on how HR activities are designed and performed.

Our findings indicate that output control and behaviour control mechanisms were used for different, but complementing, purposes. Given the tendency to minimize deviations from centrally agreed targets and processes, HQs adopted an output-based approach to motivate subsidiary level managers to meet strategic goals and objectives. This was done chiefly through performance incentives through the use of appraisals and budget performance linked rewards. However, HQs were conscious of the geographical, cultural and institutional distances between the UK and Taiwan which could limit the effectiveness of relying solely on output control mechanisms, and therefore decided to complement them with an extensive behaviour control mechanisms through the use of high level expatriates and extensive communication with the HQ. Both output and behaviour control mechanisms require extensive communication between subsidiaries and the HQ. The four cases in this study built technological platforms to support the extensive reporting process between subsidiaries and HQs which kept the HQ informed about daily activities throughout the subsidiaries.

The dual approach to control subsidiaries supports extant research that suggests that 'every organization elects some combination of input control coupled with output control' (Lebas and Weigenstein (1986: 261) to achieve an effective and efficient level of control over its foreign subsidiaries. Our findings also support the view that output control and behaviour control are interlinked. A number of scholars reported that output based control and behaviour based control do not only co-exist but are mutually dependent (Child, 1984; Ferner, 2003; Ouchi and Maguire, 1975). By the same token, our results question arguments raised by past researchers that because the two control mechanisms rest on different assumptions and are so divergent, they are alternatives and cannot be both incorporated simultaneously within the same company (see Gupta and Govindarajan, 1991: 782). Our analysis shows that output control and behavioural control mechanisms reinforced each other. For instance, output control measures from the centre, such as periodic targets, had a strong impact on managerial attitudes and pattern of decision-making at the subsidiary level. Similarly, when there was a risk that targets were not achieved, expatriate managers resorted to ‘Taiwanese’ practices such us pressuring employees to work overtime, a practice that is very common in Taiwan. Child (1984: 159-61) noted that the use of output based control, such as budgetary controls, are ‘in effect structured controls over the behaviour of units, groups or individuals’ (Child, 1984: 161). Likewise, Ferner (2003: 522) argued that the determination of standard costs establishes ‘a major parameter for the ways in which subordinates can go about their work’.

Interestingly, while Taiwanese subsidiaries in the UK were found to be controlled from the centre, the practices used to control them were not typically Taiwanese. For instance, HR practices particularly associated with Taiwanese firms involve long term employment and job security in exchange for unquestioning loyalty, investment in human resources, emphasis on cultural control and less emphasis on individual performance appraisals. In contrast, our analysis show that in the four subsidiaries in the UK relied on short term contracts using employment agencies to recruit their employees, systematic use of individual performance appraisal and little investment on in human resources development. This approach is a stark contrast to Japanese MNCs which put emphasis on long term perspective rather than short term performance goals, long term employment commitment and investment in employees’ development. Also, contrary to our expectations, managerial practices at subsidiaries of Taiwanese MNCs in the UK were determined mainly by the HQ. Intentions to learn from British practices were not evident. This could be due to the fact that all Taiwanese subsidiaries in our study were not part of an integrated international production network and their explicit purpose was to serve local markets with specific products or services designed in Taiwan. According to this scenario, the UK was selected for the appropriateness of its geographical location rather than because of its technical or managerial capability. This explains, perhaps, why HQs in our studies were reported to act paternally, in their role of guiding and controlling the direction and amount of technology and resources to the subsidiaries. The absence of cultural control may be explained by the fact that, given the short-term perspective, Taiwanese managers did not see the need for indoctrinating British employees with their value system as long as they followed the standardised procedures. In contrast, Japanese MNCs tend to use implicit cultural control mechanisms in their overseas subsidiaries perhaps because of the concern for long-time growth and the willingness and ability to invest in HR and develop trust (Baliga and Jaeger, 1984). In this study we were not able to shed light on the reasons for using practices that were not typically Taiwanese to control subsidiaries in the UK. This is an avenue for future research. Another question worth investigating is why Taiwanese MNCs adopted different control mechanisms abroad while Japanese MNCs use typically Japanese control mechanisms?

Finally, the results of this study must be seen as highly tentative given the limitations of this study. Our research findings draw on a narrow sample of Taiwanese case studies, so one needs to be very cautious about making any generalizations at this point. The use of subsidiary level managers as primary sources for the study may introduce further bias. However, while the small size of the sample presents methodological limitations, data from the four cases yielded valuable insights into control mechanisms and types of control in Taiwanese MNCs in the UK. Our study will hopefully stimulate more future research on the increasing number of MNCs from emerging and developing countries in western countries.

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Table 1: Breakdown of interviews by subsidiary and origin and level of interviewee

	Techco	Itco	Comco	Shco	Total
Expatriate Managers	8	4	2	2	16
British managers	2	0	12	8	22
British national of Chinese origin	6	7	0	0	13
Local functional manager	4	1	8	2	15
Interview in Mandarin	14	11	2	2	29
Interview in English	6	1	20	10	37

Table 2: Profile of four case study companies

Name	Total number of employees (worldwide)	Number of employees in UK subsidiary	Business	Method of establishment	First subsidiary in advanced economy	Union density
Techco	>10,000	>150	Computer, electronic facilities, repair and service centre	Greenfield	USA	Non-unionised
Itco	>2,200	>70	Repair and service centre for PDA and mobiles	Greenfield	USA	Non-unionised
Comco	>20,000	>140	Repair and service centre for computers	Greenfield	USA	Non-unionised
Shco	>22,000	>90	Shipping goods	Greenfield	USA	Non-unionised

Figure 1: Methods of control within four subsidiaries in the UK

Subsidiaries		***TECHCO***	***ITCO***	***COMCO***	***SHCO***
Methods of Control					
Expatriate	Expatriate MD	Yes	Yes	Yes	Yes
	Expatriate Finance Manager	Yes	Yes	No	Yes
	Expatriate Repair and Service Manager	Yes, 2 expatriate and repair and service managers on site	Yes, 1 expatriate manager on site	No	No
	Expatriate Repair and Service Engineers	Yes, 9 expatriate engineers on site	Yes, 1 or 2 sent by the HQ on three months basis	Yes, depending on training needs	No
	Expatriate IT engineers	Yes, 2 expatriate IT engineers	No	Yes, but the duration of the IT engineer is only 3 to 6 months	No
	Expatriate Auditing team	No	No	No	Yes, a group of auditing sent from the HQ for 1 to 2 months
Technology	World wide online accounting system)	No	No	Yes	No
Standardized HRM practices	Performance Appraisal Criteria	Yes, similar to the HQ	Yes, similar to the HQ	Yes, similar to the HQ	No performance appraisal on site
	Quality Control practice	Yes, similar to the HQ	Yes, similar to the HQ	Yes, similar to the HQ	Yes, similar to the HQ

Source: interview data.