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**Information technology and electronics firms  
from Taiwan Province of China  
in the United Kingdom: emerging  
trends and implications**

by

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# **Information technology and electronics firms from Taiwan Province of China in the United Kingdom: emerging trends and implications**

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This article examines the modal choices, key activities and motivations of non-dominant information technology and electronics firms from Taiwan Province of China in the United Kingdom, against the backdrop of recent trends in the global economy. Its main findings include the limited prospects of the sample firms' evolution into manufacturing activity in the United Kingdom and the increasing importance of inter-firm logistics collaboration. Among the key policy implications discussed in the article are: the need for appropriate measures to support the United Kingdom's positioning as a gateway to, and a preferred base for intelligence gathering on, other European markets; the need for "high-wage" advanced economies to capitalize upon their not-easily-replicable location-specific advantages (e.g. reputable research-and-development clusters; substantial domestic market) in targeting foreign direct investment in the research and development, design and sales-related areas; and the importance of a more balanced investment attraction strategy that actively targets major global players (and their capacity to attract secondary inward investment) without compromising support for indigenous growth companies. Future research should pay greater attention to the intra-regional, rather than intra-country, context of firms' evolution in international markets.

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**JEL codes:** Microeconomics (D), International Economics (F), and Economic Development, Technological Change and Growth (O).

## Introduction

Previous research into the transnational business activities of East Asian companies, including “Third World” transnational corporations (TNCs), State-owned enterprises, and general trading companies, has generated a number of key conclusions. Among these are the widely acknowledged importance of the above-mentioned players in global business and foreign-direct-investment (FDI) flows; the active role of the State, through its support for “national champions”, in the emergence and growth of East Asian TNCs; the observed importance of inter-firm linkages (e.g. *sogo shosha*, *chaebol*), personal, ethnic and network relationships (or social organization) in influencing the international market development patterns of East Asian enterprises; and the limited relevance of incremental, stepwise approaches.<sup>1</sup>

Several accounts exist in the literature regarding East Asian TNCs, notably general trading companies and State-owned enterprises, financing significant acquisitions and joint venture investments in developed-country markets as a way of gaining instant access to strategically-relevant markets,<sup>2</sup>

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<sup>1</sup> See Johanson and Vahlne, 1977, 1990. For a summary on the transnationalization of East Asian firms, see also Brecher and Pucik, 1980; Monkiewicz, 1983; Krueger, 1985; Burton and Saelens, 1986; Chernotsky, 1987; Buckley and Mirza, 1988; Aggarwal and Agmon, 1990; Smart and Smart, 1991; Lecraw, 1993; Leung, 1993; Tolentino, 1993; Ulgado, Yu and Negandhi, 1994; Yeung, 1994, 1998, 1999; UNCTAD, 1996; Zhang and Van Den Bulcke, 1996; Young, Huang and McDermott, 1996; Young, Hood and Lu, 1998; Mirza, 1999.

<sup>2</sup> Donald Lecraw has described this type of East Asian investments as “export enhancing”, whilst applying the term “operations-extending” to resource-seeking investments made in less developed country markets (Lecraw, 1993).

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technology or process knowledge.<sup>3</sup> It could be argued, however, that the international market entry and development pattern described above is more typical of the larger East Asian enterprises<sup>4</sup> than their smaller, non-State-owned counterparts, which may lack the requisite resources (financial and political) to support significant levels of FDI (Gynawaii and Fogel, 1994).

Unlike in other East Asian tiger economies, Taiwan Province of China's outward FDI has been led, not by its large, vertically integrated enterprises, such as Chinese Petroleum, Formosa Plastics Group, Tatung, and Acer, but by the country's preponderant small and medium-sized enterprises (SMEs).<sup>5</sup> Whilst this SME dominance does not detract from Taiwan Province of China's importance as a source of FDI (ranked the 7th largest in the world, with around \$2 billion annual FDI since the early 1990s; Guiheux, 1998), it appears to have contributed to a limited investigation of the FDI activities of smaller Taiwanese firms (Guiheux, 1998). Fresh insights into these non-dominant firms' behaviour within foreign markets have become particularly important in view of the recent relevant developments in the global economy. Among these are the increasing level of inter-firm collaborations in supply chain and global logistics management (Bagchi and Virum, 1998; Bowersox and Calantone, 1998) – partly fuelled by the continuing advancement in information technology; greater access to key global markets, occasioned by the World Trade Organization (WTO) regime; the increasing tendency on the part of TNCs to view their FDI configuration in regional, rather than national, terms (Mirza, 1999); and the weakening competitiveness of the more advanced economies as locations for manufacturing-based FDI (Brown, 2002). These points, taken together, raise major questions regarding the prospects for FDI attraction and retention in the more advanced economies.

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<sup>3</sup> See Lall, 1983; Burton and Saelens, 1986; Tolentino, 1993; Young et al., 1996, Young et al., 1998; Yeung, 1999; Mirza, 1999.

<sup>4</sup> See Brecher and Pucik, 1980; Burton and Saelens, 1986; Lecraw, 1993.

<sup>5</sup> See Chang and Grub, 1992; Guiheux, 1998; Mirza, 1999; Britain in Asia Pacific, 2002.

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The aim in this article, therefore, is to explore possible changes in the nature of FDI in advanced economies, by examining the entry and development mode decisions, future intentions, key activities and motivations of non-dominant Taiwanese information technology (IT) and electronics firms operating in the United Kingdom. It is envisaged that this will improve understanding regarding the effects of deepening globalization and regionalization on TNCs' development within particular foreign markets, and provide further useful insights into the impact of global logistics collaboration on the transnationalization behaviour of smaller firms. The focus on the United Kingdom is particularly germane because the country has traditionally received a significant percentage of Taiwanese Europe-bound investment: about half of all FDI from Taiwan Province of China to Europe during the 1952-1998 period (Ministry of Economic Affairs, 1998), and over 70% of all Taiwanese manufacturing investment in Europe (Britain in Asia Pacific, 2002).

The remainder of this article is organized as follows. The next section discusses the key themes of the present study based on relevant insights from the literature. It also outlines a number of assessable propositions. This is followed by an explanation of the study's methodology. In the subsequent section, the results of the analysis are presented, complete with appropriate discussion of the findings and references to the study propositions. The penultimate section discusses some managerial and public policy issues, while the final part considers a number of limitations and future research directions.

## **Conceptualizations and propositions**

### *The transnationalization of the firm and emerging trends*

Most of the work on the transnationalization of the firm has concerned its evolution in manufacturing – arguably reflecting the dominance of the transnationalization process model. This model, which grew out of Nordic research,<sup>6</sup> posits

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<sup>6</sup> Johanson and Widersheim-Paul, 1975; Johanson and Vahlne, 1977; Luostarinen, 1980.

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that firms develop in an incremental, evolutionary manner in specific foreign markets, gradually deepening their commitment and investment (that is, no regular export activities; export via agents; export via sales affiliates; production via foreign affiliates) as they gain in market knowledge and experience (Johanson and Vahlne, 1977). Firms are also said to target initially neighbouring, psychically close countries, and subsequently enter foreign markets with successively larger psychic distance.

Probably owing to the intuitive appeal of the above propositions (Sullivan and Bauerschmidt, 1990), attention has also been paid to the pre-manufacturing stages in firm transnationalization research. The classic pattern is thought to mirror the historical evolution of Japanese enterprises in major foreign markets, i.e. building up a finance and sales presence through heavy investment to support exports initially, and later evolving into manufacturing activity (Chernotsky, 1987; Mason, 1992; Park, 2003). Arguably, however, the evolution within specific national markets may be less important in the future (Clark and Mallory, 1995). A number of reasons may account for this.

The first is that global markets have become more accessible than they used to be (the evolution of Japanese enterprises into manufacturing was at least in part due to tariff and non-tariff barriers in European and American markets – Chernotsky, 1987; Lecraw, 1993). For example, better access to global markets occasioned by the WTO regime has significantly neutralized the fears of a “Fortress Europe”, which had accounted for much Japanese inward FDI into Europe during the late 1980s and early 1990s (Mirza, 1999). Secondly, there appears to be an increasing trend towards considering regional (rather than national) market factors in making firms’ FDI decisions. Hafiz Mirza, for example, observed that many TNCs increasingly utilize “a regional division of labour for international production” (Mirza, 1999, p. 206). An example is Matsushita, which selectively appropriates the variable factor endowments, competencies and markets of countries such as

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Indonesia, Malaysia, the Philippines, Singapore and Viet Nam (Mirza, 1999, p. 210).

The third factor in the declining importance of manufacturing-bound evolution within particular country markets could be that hardware is becoming more commodity-like (Fawcett and Clinton, 1997; Brown, 2002), and manufacturing less significant in terms of marketing to the customer. As was noted: “product technologies have advanced to the point that everyone can imitate everyone else except in the most complex products” (Bowersox and Calantone, 1998, p. 85). This suggests that there will increasingly be greater value added from sales and service, with more substantial investment in the latter. There is, indeed, some evidence that companies that emphasize these softer dimensions of value – that is, the world class marketers, the excellent brand builders, the expert aggregators and augmentators – are increasingly emerging as the leading players in most industries; world class manufacturing remains important, but apparently less so than achieving “world class logistic practice” (Fawcett and Clinton, 1997, p. 20).

Developments in information technology (IT) and inter-firm collaboration (Parker, 1994), particularly in global supply chains and logistics management (or “globalisatics” according to Tyndall Gopal, Partech, and Kamauff, 1998), appear to be fuelling this trend. Increasingly, it has become a competitive standard for larger, global companies to outsource, collaborate with and depend on capable third party providers for several aspects of their non-core, value-adding activities (Bagchi and Virum, 1998) in order to assure logistical continuity (Bowersox and Calantone, 1998).

Among the industries most affected by this trend is the IT and electronics industry. The observation made earlier regarding the increasingly commodity-like nature of hardware applies particularly to this industry - see Fawcett and Clinton, 1997; Brown, 2002. In their pursuit of global competitiveness, major players within this industry, and indeed many other industries, have generally required their key value chain partners – original equipment manufacturer and original design

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manufacturer (OEM/ODM) subcontractors, component suppliers, logistics partners, service firms – to follow them into new, foreign markets (Brown, 2002); this is to facilitate the implementation of efficiency-seeking practices such as the build-to-order (BTO) manufacturing mode, and related strategic initiatives, including “just-in-time, just-in-time II, quick response, continuous replenishment, and collaborative planning, forecasting and replenishment” (Bowersox and Calantone, 1998, p. 84).

The literature is replete with evidence of firms that commenced transnational operations mainly to maintain their position in the supply chain of major customers that had expanded to particular foreign markets. Though initial accounts of customer-driven transnationalization came from service firms, including financial services,<sup>7</sup> other scholars, notably Jim Bell (1995) and Nicole Coviello and Hugh Munro (1995, 1997), have found similar evidence of client-followership among high-technology, manufacturing (computer and electronics) firms. The overall conclusion from this literature is that firms that are “bounced” into transnational operations (that is, those that follow their key customers into foreign markets) are less likely to exert control over their entry mode choice or market selection pattern. They are also less likely to prioritize market-specific knowledge/experiential learning, take a long term view of, or evolve within particular country markets in the manner suggested by the conventional wisdom or the incremental transnationalization model (Sullivan and Bauerschmidt, 1990).

Taiwanese manufacturing enterprises arguably provide good case examples. Based on their well-earned reputation for productive efficiency, resourcefulness and technological adeptness, many firms from this East Asian economy became OEM/ODM subcontractors and/or component suppliers to major transnational players.<sup>8</sup> The relationships, which initially focused on labour-intensive industries (Levy, 1988), have in later years

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<sup>7</sup> E.g. Burton and Saelens, 1986; Hellman, 1996; O’Farrell, Wood and Zheng, 1996.

<sup>8</sup> See Buckley and Mirza, 1988; McDermott, 1991; Chang and Grub, 1992; Guiheux, 1998; Mirza, 1999.

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shifted to technology-intensive industries, particularly electronics and information technology. It is likely that this long established involvement of Taiwanese manufacturing enterprises in global supply chains and logistics, and the recent trends in these relationships, might affect the nature and pattern of their transnational expansion. It is thus proposed that:

*Proposition 1: Taiwanese IT and electronics firms operating in the United Kingdom are likely to undertake activities associated with the effective provision of their major customers' logistics needs.*

### ***Motivations for outward FDI***

A number of major motivations have been identified in the transnational business literature as underpinning firms' transnational expansion. Among the most commonly mentioned are resource-seeking factors; market-seeking factors; efficiency-seeking factors; and strategic asset-seeking (including knowledge- and relationship-seeking) factors (Dunning, 1993; Bell and Young, 1998; Mirza, 1999).

A close examination of Taiwan Province of China's FDI history, dating back to the mid 1960s, suggests that these key motivations have had varying levels of importance at different stages of the country's economic history. Resource-related motivations (e.g. to take advantage of lower costs of labour and land) largely accounted for the earlier waves of Taiwanese FDI to South East Asia, Latin America and China.<sup>9</sup> Indeed, between 1952 and 1998, the members of the Association of South-East Asian Nations (ASEAN) and Latin American countries respectively received 33% and 32% of Taiwanese FDI, which, excluding that to China, totalled \$18.6 billion (Taiwan Province of China, Economic Affairs, 1998).

The next waves of Taiwanese outward FDI were dominantly market and knowledge seeking. During the 1970s

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<sup>9</sup> See Chen, 1986; Chen, 1992; Guiheux, 1998; Park, 2003.

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and 1980s, they were largely driven by the need to circumvent trade barriers, improve access to the lucrative United States and Japanese markets (including the cutting edge technological and process knowledge embedded therein) and acquire brand names and sales networks (Guiheux, 1998). These drivers also underpinned the significant increase in Europe-bound FDI during the mid-1980s, to mitigate the potential impact of a “Fortress Europe” (McDermott, 1991), reduce market dependence on the United States and diversify technological acquisition and transfer links beyond the United States and Japan (Guiheux, 1998). Some of these investments resulted from the concerted effort of East Asian and European Union governments, under the Asia Europe Meeting (ASEM) initiative, to increase FDI activity between the two regions (Mirza, 1999).

It would seem that the recent trends towards greater inter-firm collaboration in global supply chains and logistics have increased the importance of relationship-based (customer-following) motivations in the outward investment activity of Taiwanese IT and electronic companies. Indeed, a recent survey of Taiwanese enterprises by the Taipei Representative Office highlighted these drivers (in addition to market- and knowledge-seeking factors) as having consistently risen in importance since 1987 (Taipei Representative Office, 1997). Resource-seeking factors have, on the other hand, declined in importance. This reflects the conclusion reached by Stephen Young et al. (1996) on East Asian TNCs. It is thus proposed that:

*Proposition 2: Relationship-based (customer-following) motivations are likely to be of major importance in Taiwanese IT and electronics direct investment in the United Kingdom.*

*Proposition 3: Market- and strategic asset seeking factors are likely to be of major importance in Taiwanese IT and electronics direct investment in the United Kingdom.*

These propositions are assessed subsequently based on empirical evidence from the sample firms.

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## Methodology

The primary data for this article came from a wider investigation into the international market development behaviour of Taiwanese foreign affiliates operating in the United Kingdom. The study population was defined as including IT and electronics sales operations listed by the Taiwan Trade Centre, London, and the development agency, Scottish Enterprise. The focus on IT and electronics companies reflects the industry's particular susceptibility to the earlier discussed global trends (including inter-firm global logistics collaboration - Fawcett and Clinton, 1997; Brown 2002) and its preponderance amongst the Taiwanese firm population in the United Kingdom (Britain in Asia Pacific, 2002). The decision to focus on sales operations is also important as it provides a good vantage point for examining the issue of modal evolution from two ends, i.e. (a) whether Taiwanese sales affiliates showed lesser commitment, "toe-in-the-water", approaches (e.g. export agents, export distributors) before setting up sales operations in the United Kingdom; and (b) whether they have progressed or are planning to progress towards manufacturing operations in the United Kingdom. It should be noted, in addition, that previous studies (e.g. Wheeler, Jones and Young, 1996), successfully employed comparable sales-based samples in researching aspects of firm transnationalization and mode evolution.

Data collection was undertaken in three phases. At the first stage, a semi-structured questionnaire was designed and pilot-tested on some five Scottish-based Taiwanese sales operations listed by the local development agency. Based on the insights obtained from the pilot-test, the semi-structured questionnaire was revised and structured. In the second phase, all the 95 Taiwanese companies in the United Kingdom listed in the earlier indicated sample frame were contacted by telephone. These contacts had two main objectives: establishing the eligibility of the companies for the study (they must be sales, and not manufacturing, operations) and requesting the cooperation of an appropriate "key informant" (Philip, 1981). Some 51 Taiwanese sales operations in the United Kingdom were

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identified, through the above telephone-based screening process, as meeting the criteria for the study, and were subsequently mailed structured questionnaires. An effort was made to minimize the shortcomings associated with the key informant technique (Philips, 1981), by targeting only those officials who were considered most likely to possess the appropriate level of knowledge regarding the issues of interest in the present study; these included the Chief Operating Officer, the General Manager, the Branch Manager, and the Sales/Marketing Manager, in that order.

Although the total number of questionnaires received by the cut-off date was 31 (a 60% response rate), subsequent screening reduced the number of useable questionnaires to 21; this represents an effective response rate of 40%, which is relatively good for studies amongst organizational populations (Baruch, 1999; Ibeh, Brock and Zhou, 2004). Furthermore, though the study's sample size might seem low in absolute terms, it is arguably quite representative, particularly when viewed in relation to the relevant population as a whole.

The third phase of data collection involved follow-up telephone interviews, of 45-60 minutes duration, with the key informants of the responding sales affiliates. Telephone interviews were considered more appropriate in this case because of the disparate locations of Taiwanese sales operations in the United Kingdom, and the target respondents' preference for telephone interviews over face-to-face interactions. The background preparation for each follow-up interview consisted of an examination of the completed questionnaire returned by a particular company (Calder, 1977). The actual interview sessions were made as unstructured as possible, with the topic guide merely serving to prompt and/or steer discussions as deemed necessary. Sufficient care was also taken to ensure that the interview procedures reflect recommended best practice, including the use of open-ended questions to stimulate free ranging conversation, whilst steering the discussion in a semi-structured fashion (Calder, 1977; Churchill, 1995). The fairly high standard of spoken English among the interviewees

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obviated any real difficulties, either in terms of communication or the quality of data obtained. In addition, the fact that the interviewer was Taiwanese meant that any linguistic misunderstandings were easily dealt with. Appropriate notes<sup>10</sup> were taken during the interviews, and were expanded upon immediately after each session.

## **Analysis and findings**

### ***Sample profile and modal behaviour***

The analysis presented below is based on completed questionnaires and follow-up interviews conducted with 21 Taiwanese IT and electronics sales operations in the United Kingdom. All of these sales operations are privately owned, and 20 have manufacturing parent companies in Taiwan Province of China. (Only one sales operation has a trading company parent). The average number of employees is 15 (see table 1).

As table 1, below, shows, the study firms dominantly commenced their United Kingdom operations with high-to-full control entry modes, including wholly-owned affiliates (directly established or acquired) and joint ventures (Young, Hamill, Wheeler, and Davies, 1989; Driscoll and Paliwoda, 1997); two sales affiliates were formed as joint ventures with local companies, while the remaining Taiwanese operations are wholly owned affiliates, directly established or acquired by the parent companies in Taiwan Province of China. A majority of the Taiwanese IT and electronics sales operations in the United Kingdom were, indeed, not preceded by lesser commitment modes of transnationalization such as agent/distributor relationships.

Survey and depth interview data further suggest little intention on the part of the sample firms to evolve or progress towards manufacturing investment in the United Kingdom. On

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<sup>10</sup> These interviews were not tape-recorded because of the well known reluctance of most developing country managers with regard to tape-recorded interviews (see, for example, Crick and Chaudhry, 1995).

**Table 1. Profile of Taiwanese IT and electronics sales operations in the United Kingdom**

Company code	Number employed (Taiwanese/local)	Main product	United Kingdom location	Initial entry mode/ year established	Current mode/ year established
A	3 (1/2)	Computers/ peripherals, networking card	Watford/ Herts	...	Wholly-owned sales affiliate/1989
B	54 (1/53)	Computers, laptop, notebooks	Basingstoke / Hampshire	...	Directly established sales branch/NA
C	9 (1/8)	PC cases, power supply	Tottenham / London	...	Directly established sales branch /1990
D	13(0/13)	Cables, connectors	Bracknell / Berks	Distributor / 1988	Joint venture representative office/ 1990 (40% Taiwan Province of China)
E	20(1/19)	Computer peripherals,	Wallington / Surrey	Distributor /pre-1991	Joint venture sales affiliate / 1990 (97% Taiwan Province of China)
F	48(3/45)	Monitors	Watford/ Herts	...	Wholly-owned sales affiliate / 1992
G	14(2/12)	Computer components	Stevenage / Herts	Distributor / 1983	Wholly-owned sales affiliate / 1992
H	4(2/2)	Key pads	Witney / Oxfordshire	Distributor / 1982	Directly established sales branch /1992
I	48(3/45)	Computer network	Stammore / Middlesex	Distributor / 1986	Directly established sales affiliate/1992
J	4(1/3)	Computer cases, accessories	Park Royal / London	Distributor / 1991	Directly established sales branch /1993
K	40(2/38)	Computer components	Kingston / Milton Keynes	Direct selling /pre-1994	Wholly-owned sales affiliate / 1994
L	4(2/2)	PC cases	Reading / Berkshire	...	Wholly-owned sales affiliate / 1996
M	5(2/3)	PC accessories	Brownhill / Milton Keynes	...	Wholly-owned sales affiliate / 1996
N	8(3/5)	PC notebooks	Clydebank / Glasgow	...	Directly established sales branch /1997
O	6(1/5)	Computer work station	Luton / Bedfordshire	Agent / 1990	Wholly-owned sales affiliate / 1997
P	NA	Computer accessories	Beeston / Nottingham	...	Directly established sales branch /1997
Q	7(1/6)	Computer accessories	Uxbridge / Middlesex	Distributor / 1989	Directly established sales branch /1997
R <sup>a</sup>	10(1/9)	Computer accessories	Park Royal / London	...	Acquired sales affiliate / 1997
S	3(1/2)	PC/Mac & multimedia	Tongwell/Milton Keynes	Distributor / 1993	Directly established sales branch /1998
T	1(1/0)	PC accessories	Glasgow	...	Wholly-owned sales affiliate / 1998
U	5(1/4)	Keyboards	Clydebank / Glasgow	...	Directly established sales branch /1998

Source: Research data.

<sup>a</sup> All but one sales operation (R, a trading company) have private Taiwanese manufacturing parents.

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the contrary, there was an observed case of a sales affiliate reverting into a representative office (with the removal of warehousing operations) (see also Rosson, 1987; Turnbull, 1987; Wheeler et al., 1996). The only significant evolution that seemed to have occurred pertains to the enlarged portfolio of functions undertaken by the surveyed Taiwanese sales operations, i.e. expanding from sales offices with conventional functions (including exploring new local customers, marketing, providing repair and after sales service, collecting market intelligence, and warehousing/distribution facilities) to sales offices, which also have responsibilities for simple/final processing or assembling.

The observed non-likelihood of manufacturing-bound evolution seems to deviate from the historical pattern associated with Japanese and East Asian TNCs in major foreign markets, i.e. building up a sales presence through heavy investment to support exports initially, and later evolving into manufacturing activity (Krueger, 1985; Chernotsky, 1987; Mason, 1992; Park, 2003). It also suggests little support for the Uppsala-popularized establishment chain model (Johanson and Widensheim-Paul, 1975; Johanson and Vahlne, 1977). This conclusion should be taken with caution, however, in view of the present study's reliance on expressed intentions rather than actual behaviour, and the limitation of its dataset to mainly customer-following sales affiliates, to which market specific knowledge and long term growth might be less relevant.

### ***Key activities of the sample firms and impact of major global trends***

In order to generate relevant data on proposition 1, the respondents were asked to indicate and rank-order (from a list of variables developed from previous relevant literature) the major activities they undertake in the United Kingdom market. They were also asked to indicate the relative distribution of these activities among the following customer groups: transnational customers in the United Kingdom; Taiwanese customers in the United Kingdom; local United Kingdom customers; and other European customers. Based on an aggregate analysis and insights

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from the interviews, three generic forms of activities can be associated with the study firms; these include OEM/ODM, original brand manufacturing (OBM), and selling products/brands of other companies (table 2 below).

OEM/ODM activities, involving the supply of components (including motherboards, VGA/Power supply or connectors) to transnational clients and other Taiwanese customers operating in the United Kingdom, were found to be particularly important among Taiwanese IT and electronics sales operations. These Taiwanese operations generally provide their transnational customers (including Compaq, IBM, HP) with varying levels of processing, and flexible, quick product adjustments to meet the specifications of various European markets. Company U, for example, supports Compaq by altering keyboards' letters to meet the language requirements of the different European markets served by the latter. As one interviewed manager observed: "there is an increasing and inevitable trend towards setting up sales branches or affiliates with the function of simple/final processing or assembling work for Europe". This trend seems likely to continue, given its consistency with the emphasis, among world class companies, on achieving enhanced logistics effectiveness and efficiencies – not merely by customizing products to better satisfy country-specific demand and local customs, but also "postponing such customization until orders are received and then finishing the product in local distribution facilities" (Bowersox and Calantone, 1998, pp. 86-87).

It further emerged from in-depth interview evidence that these United Kingdom-based Taiwanese operations do not take OEM/ODM orders directly from their major transnational customers in the United Kingdom. Such orders are normally forwarded to the headquarters in Taiwan Province of China, with the United Kingdom operations merely functioning as contact or service centres. On the other hand, they focus more on exploring new local business, taking orders from smaller United Kingdom and European customers. With time, however, these sales operations generally diversify into marketing of own

**Table 2. Key activities, products and target markets of Taiwanese sales operations in the United Kingdom**

Key activities	Key products	Key target markets
<b>OBM/ODM-related</b>		
Providing warehousing and storage facilities, to maintain adequate inventory of products, replacement parts and maintenance supplies	Components including:	Transnational customers in the United Kingdom
Serving as technical/customer support and after-sales service centre	Mother boards	Existing Taiwanese customers in the
Handling orders and distribution for EU markets	VGA Power supply or Connector	United Kingdom
Exploring new local customers and taking orders from smaller United Kingdom and European customers		Local customers Other European customers
Simple processing and assembling (new trend)		
<b>OBM-related</b>		
Exploring new local customers and taking orders Promotion and marketing	Final Products including:	Local customers Other European
Monitoring market trend and gathering information	Notebooks Monitors Scanner	customers
Managing local agents and distributors	Mouse PC	
<b>Trading-related</b>		
Exploring new local customers and taking orders	Final Products including:	Local customers
Promotion and marketing	Notebooks Monitors Scanner Mouse PC	

Source: Research data.

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brands (OBM activities, table 2 above). Taiwanese firms engaged in OBM activities mainly market final products such as notebooks, monitors, scanner, mouse, and personal computers (PCs) to United Kingdom and European customers. Marketing of own-brand products, with its capacity for higher profit margins, grew in importance during the early 1990s, when IT products enjoyed favourable market conditions. However, following the stiff competition in global markets, including the price war led by a key industry player, many Taiwanese IT and electronics companies that could not match the major players reverted to operating on complementary OEM/ODM basis in order to secure sales and diversify risk.

Overall, it can be concluded that, whilst a majority of the study firms operate on both an OEM/ODM and OBM basis, the significant focus on OEM/ODM functions suggests support for proposition 1, regarding the increased importance of activities aimed at meeting major customers' logistics requirements. This highlights the heightened significance of inter-firm collaboration in supply chain and logistics management in driving the transnationalization of smaller subcontractors and component suppliers, operating in highly competitive and increasingly commoditized industries. The rising prominence of these logistics-focused (OEM/ODM) forms of transnationalization strengthens the case for the broadening of the transnationalization process model to recognize more explicitly critical network and relationship influences,<sup>11</sup> alongside such other traditionally highlighted factors as firm resources, market-specific learning/experiential knowledge, and psychic distance (Johanson and Vahlne, 1977). Furthermore, the observed tendency of the study firms to look beyond the United Kingdom market, towards the wider European (regional) market, particularly in their OBM activities reflects recent research evidence that firms are increasingly taking a regional, rather than national, view of their transnational operations (Mirza, 1999). The coordinating challenges raised by such a regional

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<sup>11</sup> See Johanson and Mattsson, 1988; Johanson and Vahlne, 1992; Bell, 1995; Coviello and Munro, 1995, 1997.

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strategy might explain the reported continuing involvement of the study firms' parent organizations in the handling of their transnational clients' OEM/ODM orders.

### *Motivations for Taiwanese FDI in the United Kingdom*

To obtain relevant data for assessing propositions 2 and 3 (relating to the importance of a range of motivations on the study firms' entry into the United Kingdom), the respondents were asked to indicate, and rank order (from a list of variables developed from previous relevant literature), the major motivating factors for their entry into the United Kingdom. Based on the analysis of questionnaire and interview data, three dominant motivations would appear to be important (table 3 below).

**Table 3. Major motivations for Taiwanese IT and electronics sales operations in the United Kingdom**

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**Relationship-based factors**

- To get closer and provide better support to customers
- To provide repair and after-sales service and warehousing and storage facilities
- To respond to the demand of existing transnational customers who have set up operations in the United Kingdom
- To meet the demand of existing Taiwanese customers who have set up operations in the United Kingdom

**Market-seeking factors**

- To exploit United Kingdom's high market potential
- To increase market share/penetration in the United Kingdom
- To increase control over marketing and distribution
- To explore new local customers
- To react more quickly to business opportunities
- To build direct relationships with local customers

**Knowledge-seeking factors**

- To gain in-depth knowledge of United Kingdom market trends and obtain information / feedback from customers
  - To collect marketing intelligence on European markets and transfer back to the parent company
  - To meet parent company's strategic objectives
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*Source:* Research data.

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*Relationship-based motivations*

“Customer-followership” seems to be a major motivation for several Taiwanese IT and electronics operations within the study sample. This reflects the presence of major global players in the IT and electronics industries in the United Kingdom and the strategic need by the study firms to maintain their OEM/ODM links with these key account customers (McDermott, 1991). It also highlights the increasing importance of physical proximity to major customers as a driving force in firm transnationalization (Bell, 1995; Coviello and Munro, 1997). This is because proximate location is a sine qua non for tapping into the efficiency gains accruable from such leading-edge manufacturing practices as build to order (BTO) manufacturing mode and just-in-time (JIT) inventory management system.

The BTO mode (that is, the activation of production processes based on received orders) is increasingly becoming standard practice among efficiency-seeking IT and electronics companies, as it enables them to supply appropriately tailored global market requirements, with little risk of high buffer stocks or technological obsolescence. Given the importance of the JIT inventory system to effective BTO manufacturing, many Taiwanese OEM/ODM suppliers have had to set up operations in the United Kingdom in order to assist their partners’ United Kingdom-based plants to deliver European orders promptly and accurately. These Taiwanese sales operations generally provide warehousing functions, technical service and simple/final processing and assembling to support the manufacturing operations of their major customers, which supply European markets. Their establishment generally reflects a strategic move on the part of their Taiwanese-based parent firm to enhance relationships with these key account customers and to establish mutual dependence (Fawcett and Clinton, 1997). The operations are positioned as intermediaries to deliver “value-adding” services to their key account customers, by providing technical support, after sales service, quick component replacements and replenishment (Fawcett and Clinton, 1997; Bowersox and Calantone, 1998).

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Overall, Taiwanese IT and electronics sales operations have gradually positioned themselves at the heart of the supply network for major industry players, thus supporting this article's second proposition, that relationship-based (customer following) motivations are likely to be important in Taiwanese IT and electronics direct investment in the United Kingdom.

*Market- and knowledge-seeking motivations*

Taiwanese IT and electronics investments in the United Kingdom appear to be driven also by market- and knowledge-seeking factors (table 3 above). Among the most important market-seeking factors are to explore the United Kingdom's high market potential (the third largest domestic market in Europe, with the highest per capita expenditure on electronics products); to increase market share and achieve further penetration of the United Kingdom market; to increase control over marketing and distribution channels; to provide more expeditious response to market opportunities; and to build relationships with local customers through direct interactions.

Also highlighted in table 3 are knowledge-seeking factors, including collecting and transferring marketing intelligence on United Kingdom and European markets to the parent companies. Given the relative recency of Taiwanese FDI activity in Europe, and the likely difficulties of transplanting experiences from their traditional American and ASEAN markets into Europe, useful market intelligence seems particularly necessary in assisting the parent companies of the study firms to learn and develop strategies for European markets. Overall, these major drivers reflect the long term, regionally focused, strategic objective of the parent companies. Taken together, the foregoing suggests some support for proposition 3, that market- and knowledge-seeking factors are likely to be important motivations for Taiwanese IT and electronics direct investment in the United Kingdom.

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## Conclusions and implications

This article has examined the entry and development mode choices, future intentions, key activities and motivations of non-dominant Taiwanese IT and electronics firms operating in the United Kingdom, against the backdrop of recent relevant trends in the global economy. Its main findings include the limited prospects of the sample firms' evolution into manufacturing activity in the United Kingdom and the increasing importance of inter-firm logistics collaboration (or customer-followership), market- and knowledge-seeking factors in motivating Taiwanese IT and electronics investments in the United Kingdom. Further discussion of these findings is undertaken below, including key managerial and public policy implications.

The first point to be made concerns the observed importance of relationship-based motivations in influencing the nature and pattern of Taiwanese IT and electronics investments in the United Kingdom. In addition to reinforcing the conclusions reached in previous relevant research (e.g. Bell, 1995; Coviello and Munro, 1995, 1997), this present study provides fresh insights that suggest the rising importance of inter-firm logistical collaboration in underpinning the transnationalization of smaller OEM/ODM or component suppliers (Fawcett and Clinton, 1997). This observed trend has at least two key implications. One is the need for smaller firms seeking to secure their positions within strategically-important and increasingly competitive supply chains to follow their key account customers into foreign markets and, more importantly, to strive to augment their partners' business through efficiency-seeking, value-adding practices such as speed of delivery, design quality, resource and management support, and research and development (R&D) and IT use (Chang and Grub, 1992). The second challenge raised by the observed importance of inter-firm logistics collaboration in the transnationalization process is the need for policy makers and other relevant actors to strive continually to improve their country's attractiveness to major global players (Morgan, Kelly, Sharpe and Whitley, 2003; Floyd, 2003), in view of the latter's

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potential to attracting secondary inward investments from logistics and other network partners.

Another important discussion point relates to the sample firms' apparent lack of interest in commencing manufacturing operations in the United Kingdom. This seems to suggest an emerging pattern, different from the previously observed transnationalization behaviour of Japanese and East Asian TNCs in major foreign markets (Krueger, 1985; Chernotsky, 1987; Mason, 1992; Park, 2003). This lack of manufacturing prospects could be explained, in part, by the limited relevance of intra-market learning and growth to the mainly customer-following, OEM/ODM-based, study firms (smaller, less resourced, Taiwanese sales affiliates); and the greater suitability of sales-based structures (with their customer skills and cost advantages) for cross-border logistics collaboration. The present article views the trend as reflecting a much wider issue of decreasing FDI inflows into Europe;<sup>12</sup> this, arguably, derives from the significant reduction in the protectionist fears that had fuelled much of the pre-1992 FDI flows into Europe, the general downturn in global FDI flows, and the weakening attractiveness of the more advanced economies (including the United Kingdom) for foreign manufacturing/assembly investments (UNCTAD, 2004).

The increasing evidence that foreign direct investors are taking advantage of the integrated European market by choosing alternative, lower-cost regional locations (e.g. Central and Eastern Europe – Brown, 2002; UNCTAD, 2003; Morgan et al., 2003) for their manufacturing operations seems to reinforce the last point, above. It also reflects Mirza's (1999) previously noted observation regarding the increasing tendency of TNCs to make market commitment decisions on a regional rather than national basis. Furthermore, it highlights the need for policy makers and key managers of inward investment promotion agencies to update continually their knowledge regarding their countries' location-specific advantages, with a view to focusing their promotional efforts in the most effective manner.

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<sup>12</sup> See *The Economist*, 2001; Brown, 2002; UNCTAD, 2003; OECD, 2004, *The Wall Street Journal*, 2004.

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Given that the loss of inward manufacturing investment to lower cost countries, especially China but also Central and Eastern Europe is a long-term process, policy makers and investment promotion managers in high wage countries such as the United Kingdom need to do more to identify, develop and promote their more advanced, not-easily-replicated, country-specific resources, e.g. internationally-reputable R&D clusters and their associated knowledge spillovers.<sup>13</sup> This will assist advanced economies to remain attractive for certain kinds of inward investment, particularly in the design and R&D areas (Brown, 2002; Morgan et al., 2003). Indeed, the latter are now a major focus for promotional targeting efforts.

Another kind of inward investment that could, perhaps, be more actively sought by United Kingdom agencies is sales-based FDI, including sales affiliates and branch offices. Given the observed effect of the United Kingdom's market size and strategic position (for Europe-wide intelligence gathering) in motivating Taiwanese IT and electronics investments, relevant United Kingdom agencies should seek to position and promote the country as a "must-be" location, which requires, at the very least, an appropriate structure for facilitating sales and intelligence gathering.

It is interesting that, in the past, targeting sales affiliates was regarded as significant for inward investment agencies, because of the influence such affiliates had on subsequent manufacturing investment decisions made by the foreign parent corporation. In today's environment, sales affiliates may evolve subsequently into design and R&D operations, and hence targeting these operations through promotional programmes may again be valuable, albeit for different reasons.

This, to be sure, raises the challenge of minimizing possible hindrances to the United Kingdom being seen as a gateway to other European Union (EU) markets, and as a preferred location for effective intelligence gathering for the

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<sup>13</sup> See Keeble et al. 1998; Fahy, 2002; Cantwell and Piscetello, 2002; Morgan et al., 2003.

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European market. Among the key steps that could be taken towards improving the quality and munificence of the United Kingdom's operating environment are making sustained improvements/investments in United Kingdom transportation/distribution infrastructure and holding the Euro referendum at the earliest time feasible. These have become particularly urgent for a number of reasons. One, anecdotal evidence suggests that such concerns are contributing to the recent high profile closures/re-locations by foreign manufacturing/assembling plants operating in the United Kingdom (Brown, 2002; Morgan et al., 2003; EIU ViewsWire, 2003),<sup>14</sup> particularly within the IT and electronics industries. Two, the continued "exodus" of major global players from the United Kingdom will severely weaken several of the country's key industry clusters, and this, added to the present study's finding on the importance of "customer-followership", could lead to corresponding closure, re-location or avoidance of the United Kingdom by smaller foreign investors.

Overall, there is little doubt that the reduced inflow of foreign manufacturing investment into the United Kingdom and other advanced economies requires a policy agenda focusing upon a twin-pronged, inward-outward, approach to FDI. This coincides with the renewed debate in policy and research circles over the economic justification and long term sustainability of bidding in inward FDI auctions and reflects the mounting calls for greater policy focus and support for more locally-grown TNCs.<sup>15</sup> The present article's position is to support a complementary, mutually-reinforcing, inward-outward investment strategy, which would ensure the continuing viability of the United Kingdom's current key industry/regional clusters (e.g. Silicon Glen; Oxford, Cambridgeshire – Keeble et al., 1998; Brown, 2002), as well as stimulate the emergence of new international clusters.

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<sup>14</sup> According to this source, the United Kingdom's share of total FDI inflows in the EU in 1998, just before the single currency's launch, stood at 29%. In 2002, three years after the euro's launch, this share had fallen to just 8%.

<sup>15</sup> See Bellak, 2004; Hood et al, 2002; Ibeh et al, 2004.

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## Limitations and future research directions

It remains to highlight a number of limitations in the context of which the present study's conclusions should be viewed. The first is that the IT and electronics industries from which the study sample was drawn has been experiencing a serious global recession that might have influenced some of the behaviour observed. On the other hand, however, the single industry focus of the study is useful as it enables more solid conclusions, by obviating the shortcomings of previous studies with unknown industry effects (Zou and Stan, 1998).

The second limitation relates to the reliance on the study firms' expressed intentions, rather than observed behaviour, in assessing the issue of manufacturing evolution within the United Kingdom. Previous research, not only in social psychology and consumer behaviour research (e.g. Ajzen and Fishbein, 1980), but also in exporting (Eshghi, 1992), has noted that intentions may not always be a good indicator of actual behaviour. This consideration, coupled with the relatively low average age of Taiwanese operations in the United Kingdom, suggests the need for future longitudinal research, to capture the actual development patterns of Taiwanese IT and electronics firms in the United Kingdom. A related challenge facing future researchers is that of mobilizing necessary resources to enable the inclusion of the studied affiliates' Taiwan Province of China-based parent firms in the data collection effort. This is important because these parent firms are often the most authoritative source of reliable insights regarding the future intentions of their foreign-based affiliates.

Another future research issue concerns the continued wisdom of studying firms' foreign market evolution in national terms, in the face of the deepening regionalization of the markets and investments (Mirza, 1999; Brown, 2002; Buckley, Clegg, Forsans and Reilly, 2003). Given the potential usefulness of adopting a regional perspective, researchers are urged to pay greater attention to firms' intra-regional evolution, whilst also exploring the within-country dimension. They are also

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encouraged to go beyond the single country design of the present study, and investigate the behaviour of non-dominant firms from other developing countries/regions operating in more economically advanced regions.

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