

The Institution of Engineers of Ireland **Developing the Subsidiary Mandate**

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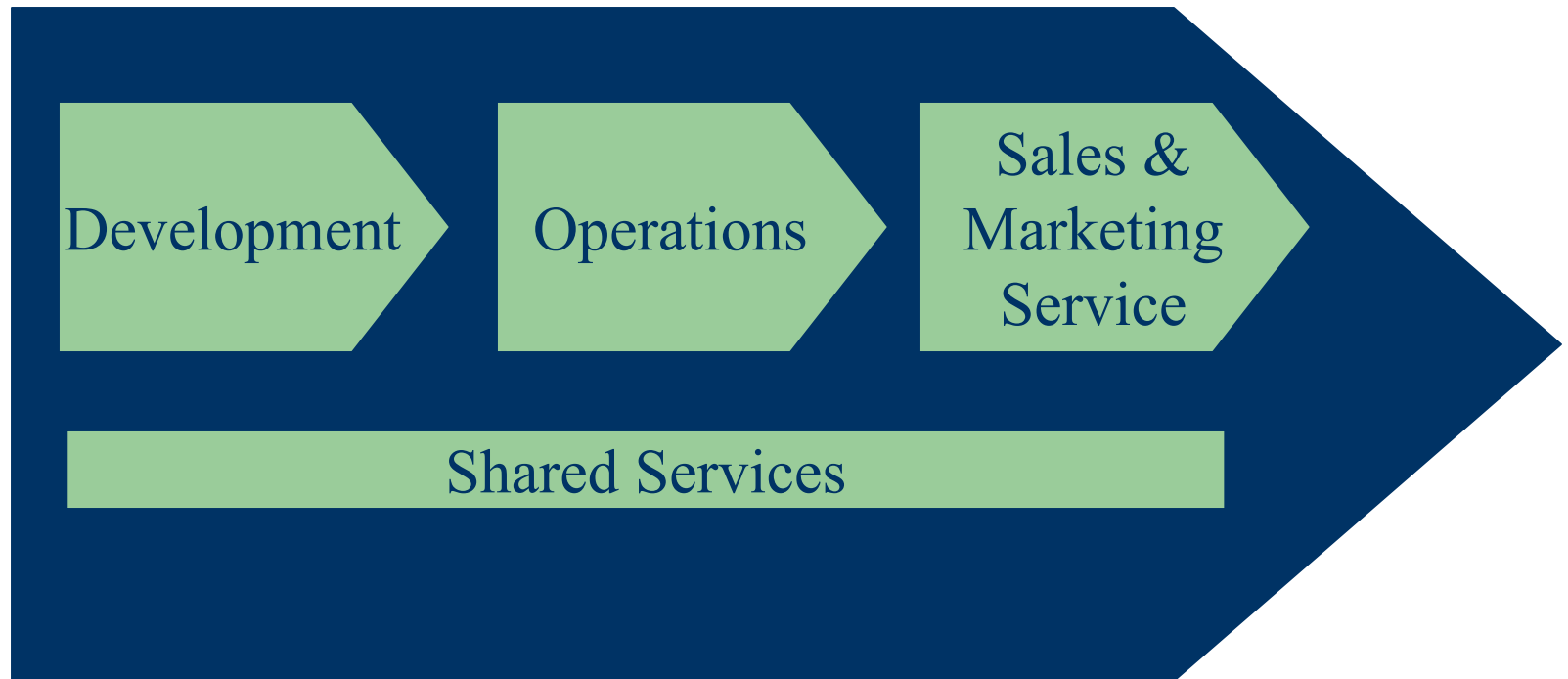
Agenda of Presentation

- The Corporate Configuration Decision
- The Inherent Threat to the Subsidiary in Ireland
- The Opportunity for Strategic Development of the Subsidiary in Ireland
- The Summary Agenda

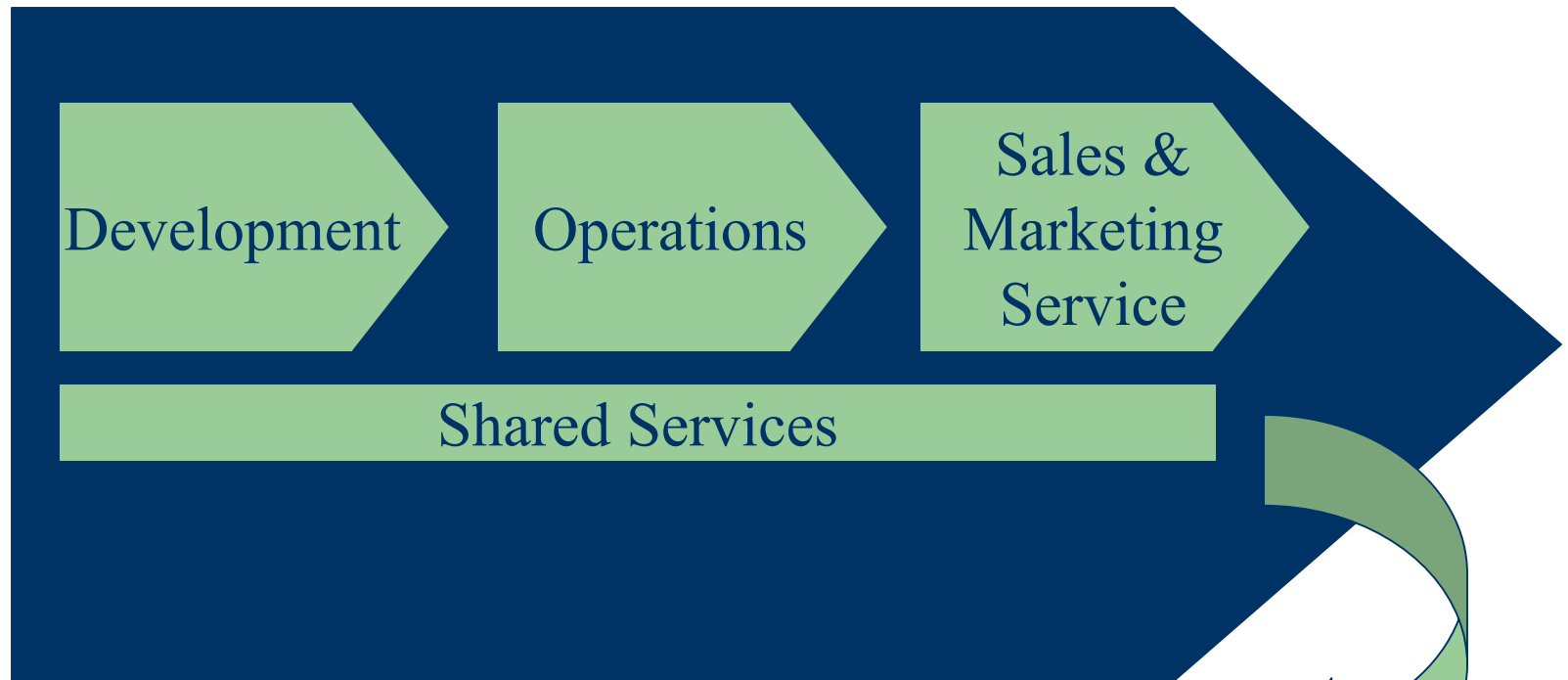
The Corporate Configuration Decision : Why have Subsidiaries been set up in Ireland?



Corporate Value Chain

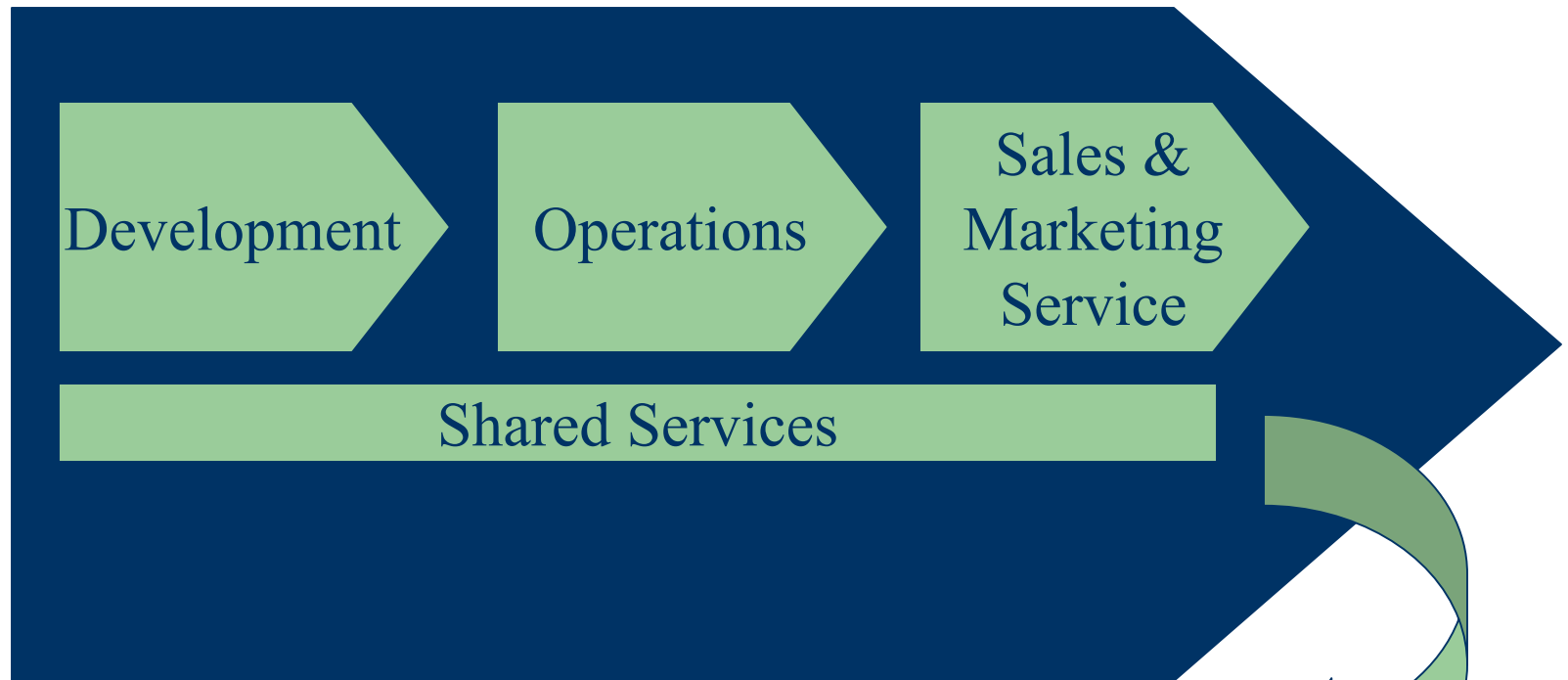


'The Configuration Decision' in Corporate Value Chains



**Where is the optimum location
for each value activity?**

Configuration Decisions in Corporate Value Chain



Potential Relocation Decision

Reasons for Configuration Change /Relocation

- Cost or Cost-related Reasons
 - Low labour cost
 - Grants & Incentives
 - Low Tax Rate
 - Access to low cost materials
- Market Reasons
 - Access to markets
 - Advantage in markets
- Differentiation Reasons
 - Superior labour or technology

Reasons for Relocating to Ireland

- Historic
 - Labour Cost
 - Grants & Incentives
 - Tax Rates
 - ‘Fortress Europe’
- Modern
 - Access to Technology/ Intellectual Capital
 - Access to high skilled labour in specific activities
 - Cluster Advantages

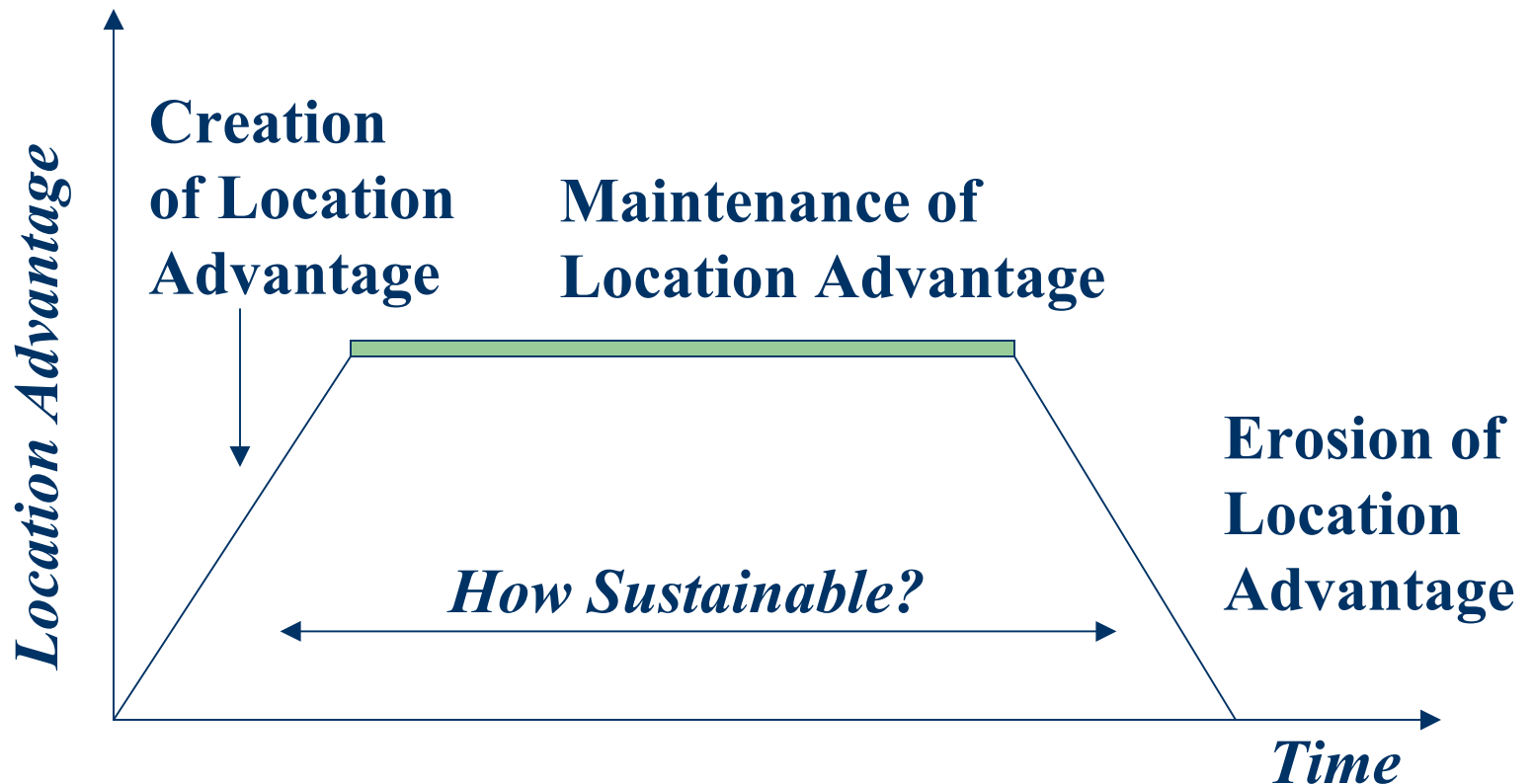
Types of Subsidiaries Relocated to Ireland

- Marketing Satellites
- Rationalised functions
 - Manufacturing operations centres
 - Call centres
 - Shared service centres
 - Development centres
 - Portfolio of centres
- Miniature Replica Businesses (historic but now very rare)

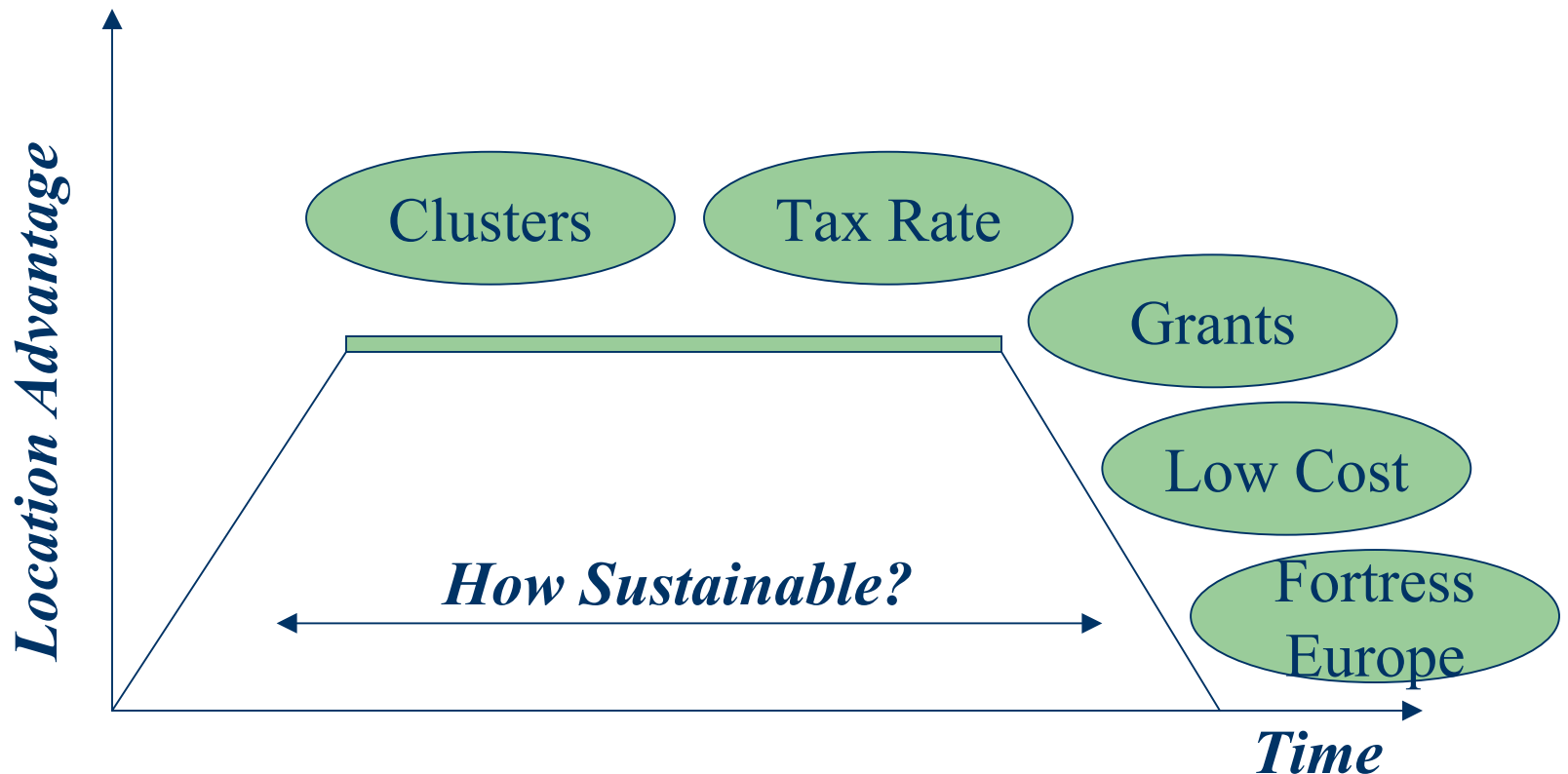
The Threat to MNC Subsidiaries in Ireland



Sustainability of Location Advantage – Life Cycle



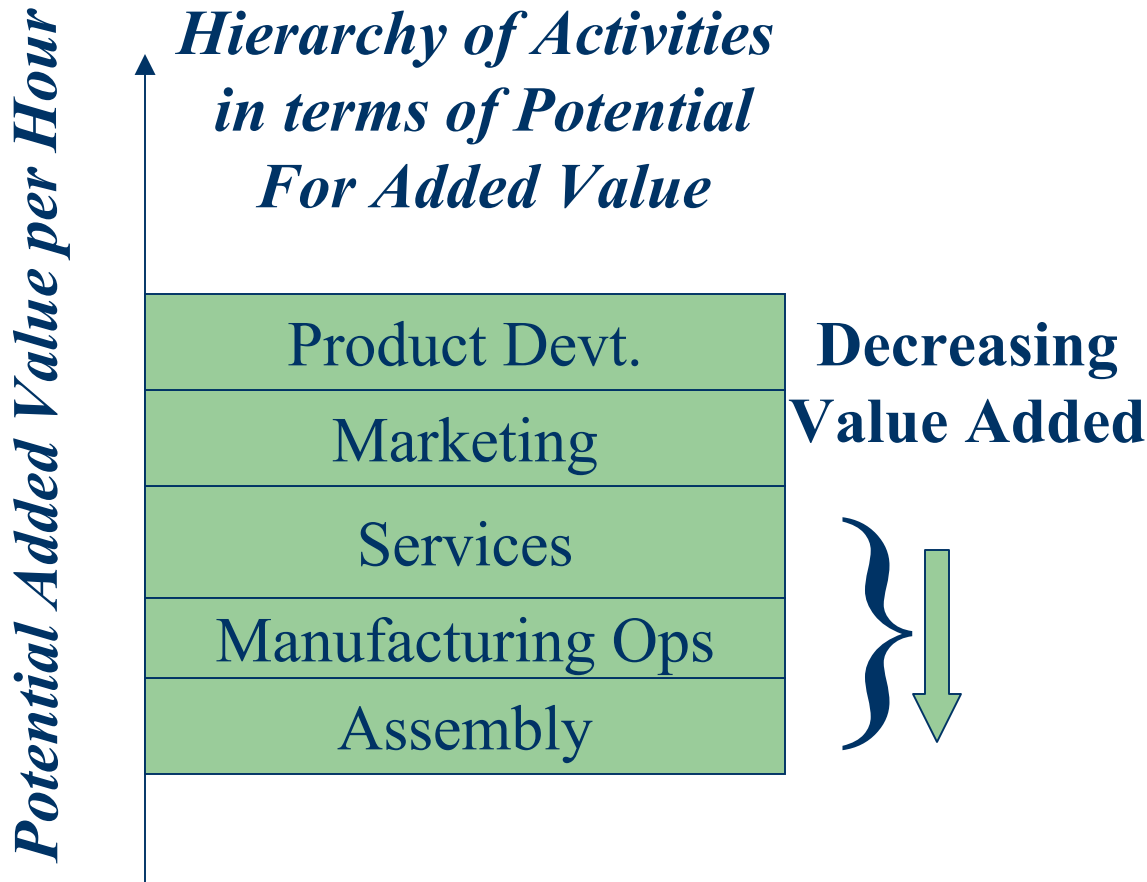
Sustainability of Location Advantage – Ireland's Life Cycle



Potential Value Added by Function

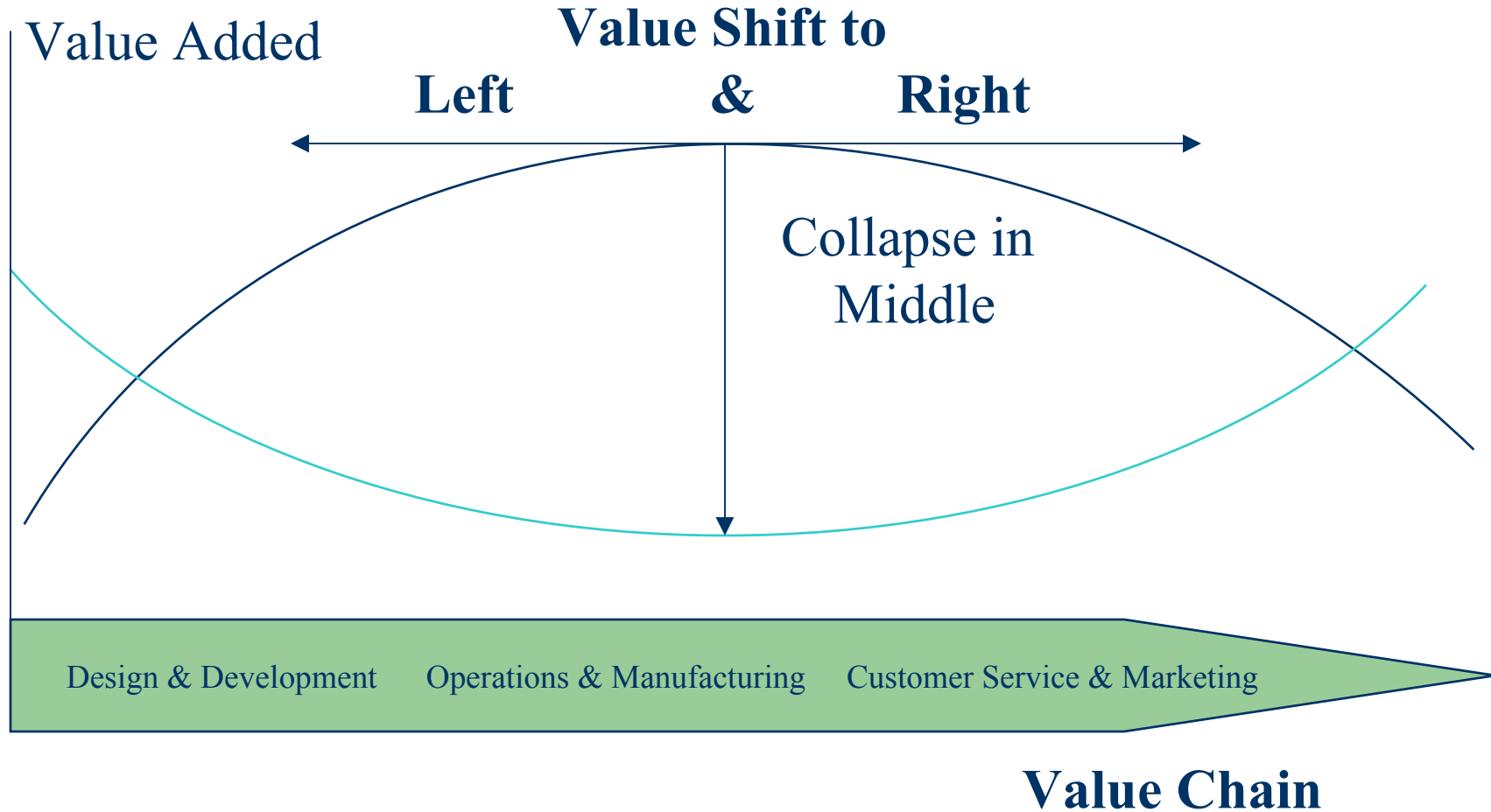


Decreasing Value Added over Time



Smiley Curve or Fish Curve

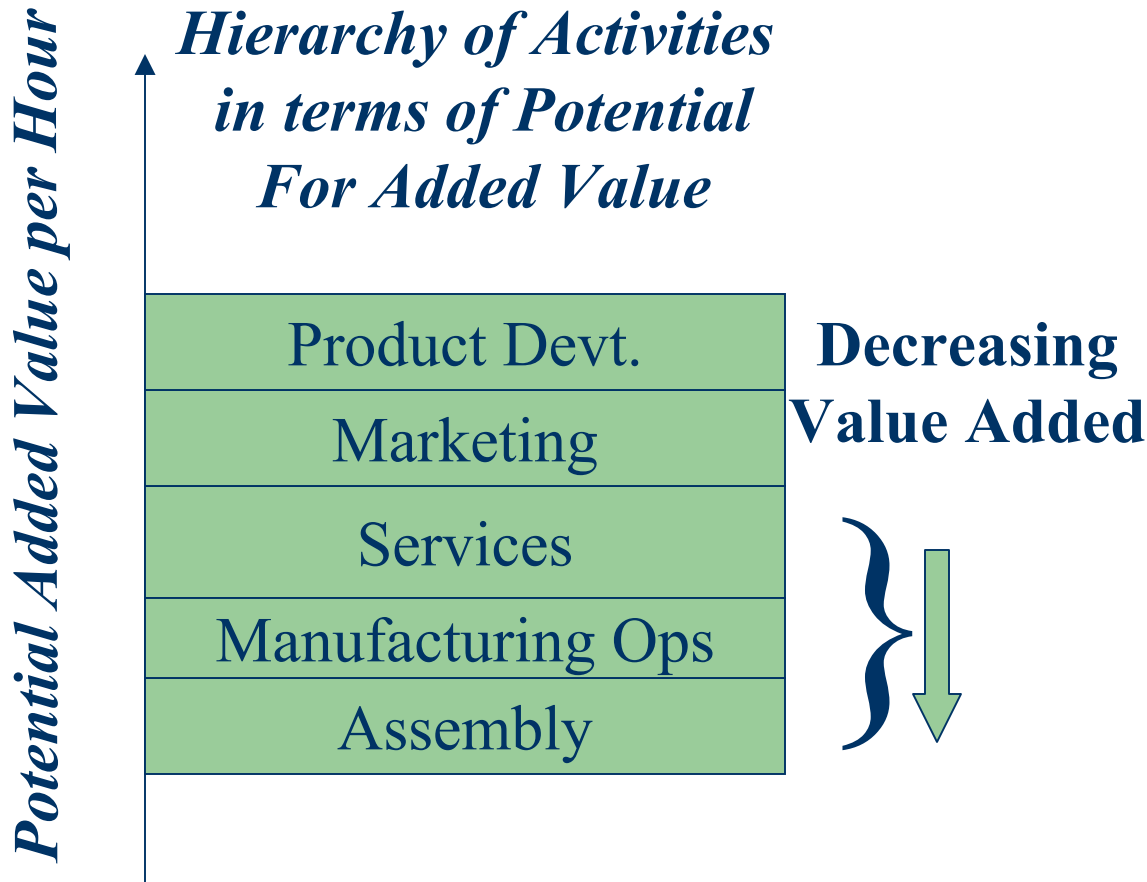
(Origin: Digital & McCabe)



Underlying Causes of Value Collapse

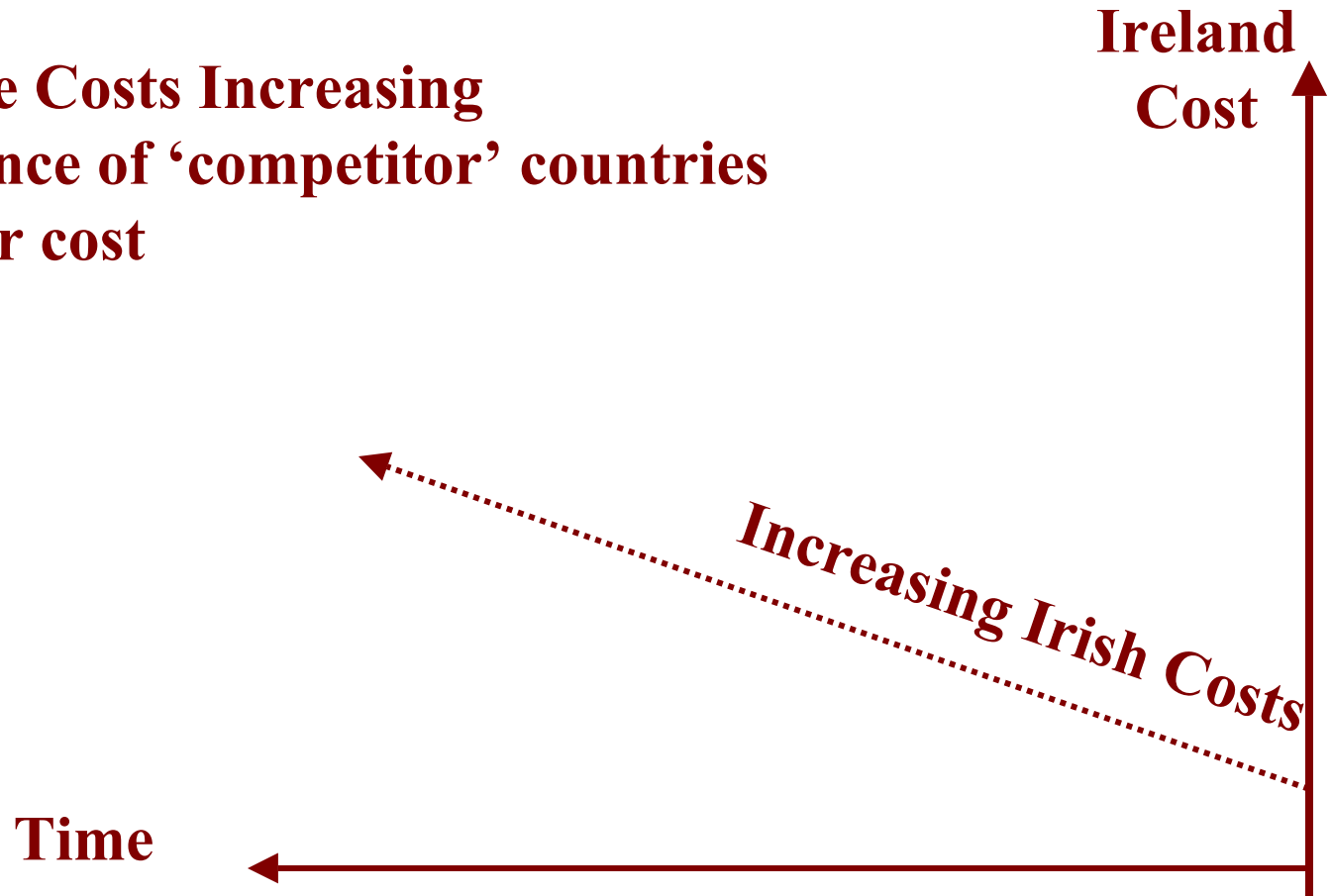
- Codification of knowledge advantage
- Packaging of codified knowledge
- Developing standardised / common knowledge
- Broadcasting of common knowledge to other locations
- Competition changes to cost – no differential knowledge

Decreasing Value Added over Time



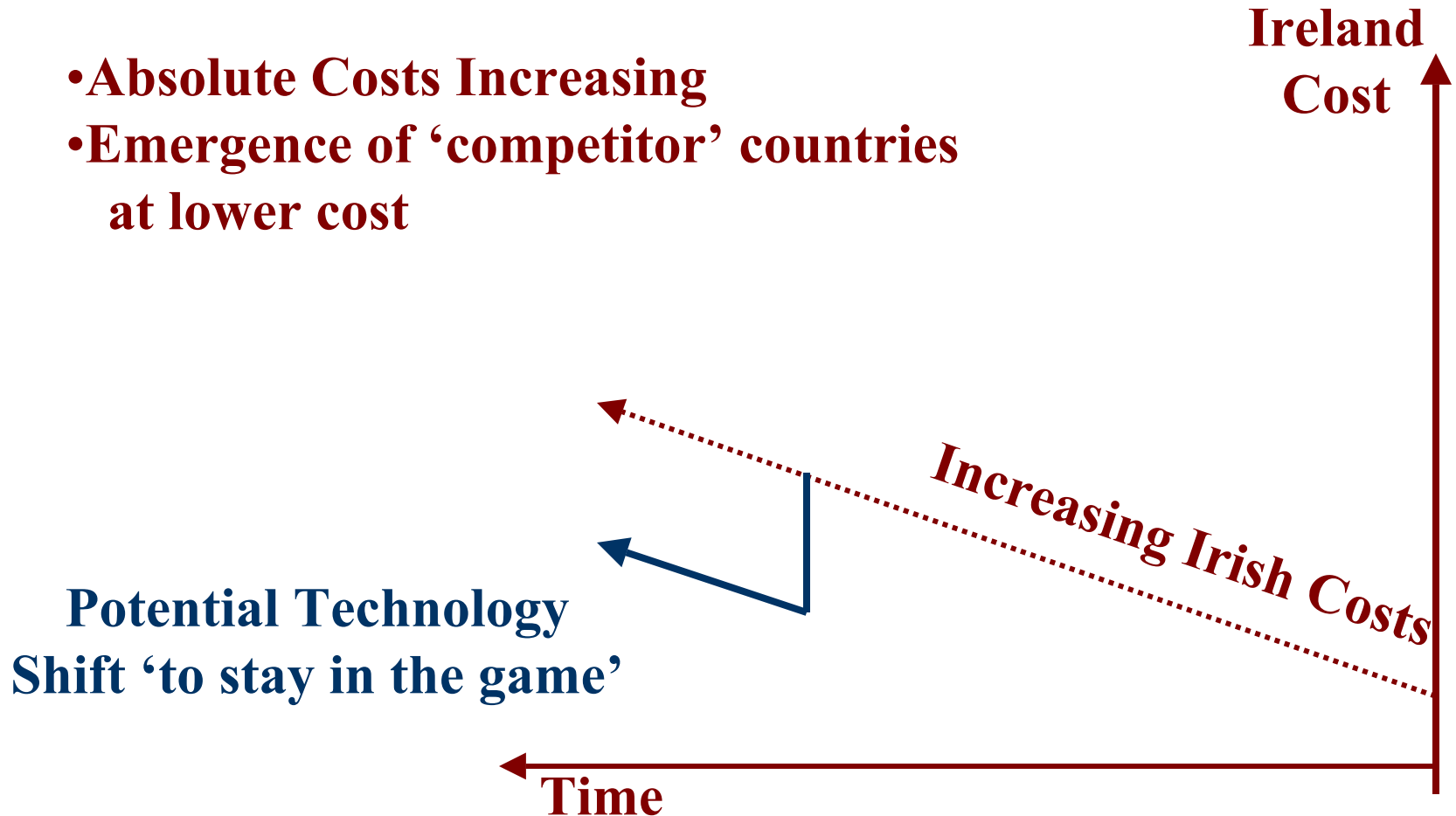
Ireland Relative Costs Increasing

- Absolute Costs Increasing
- Emergence of 'competitor' countries at lower cost

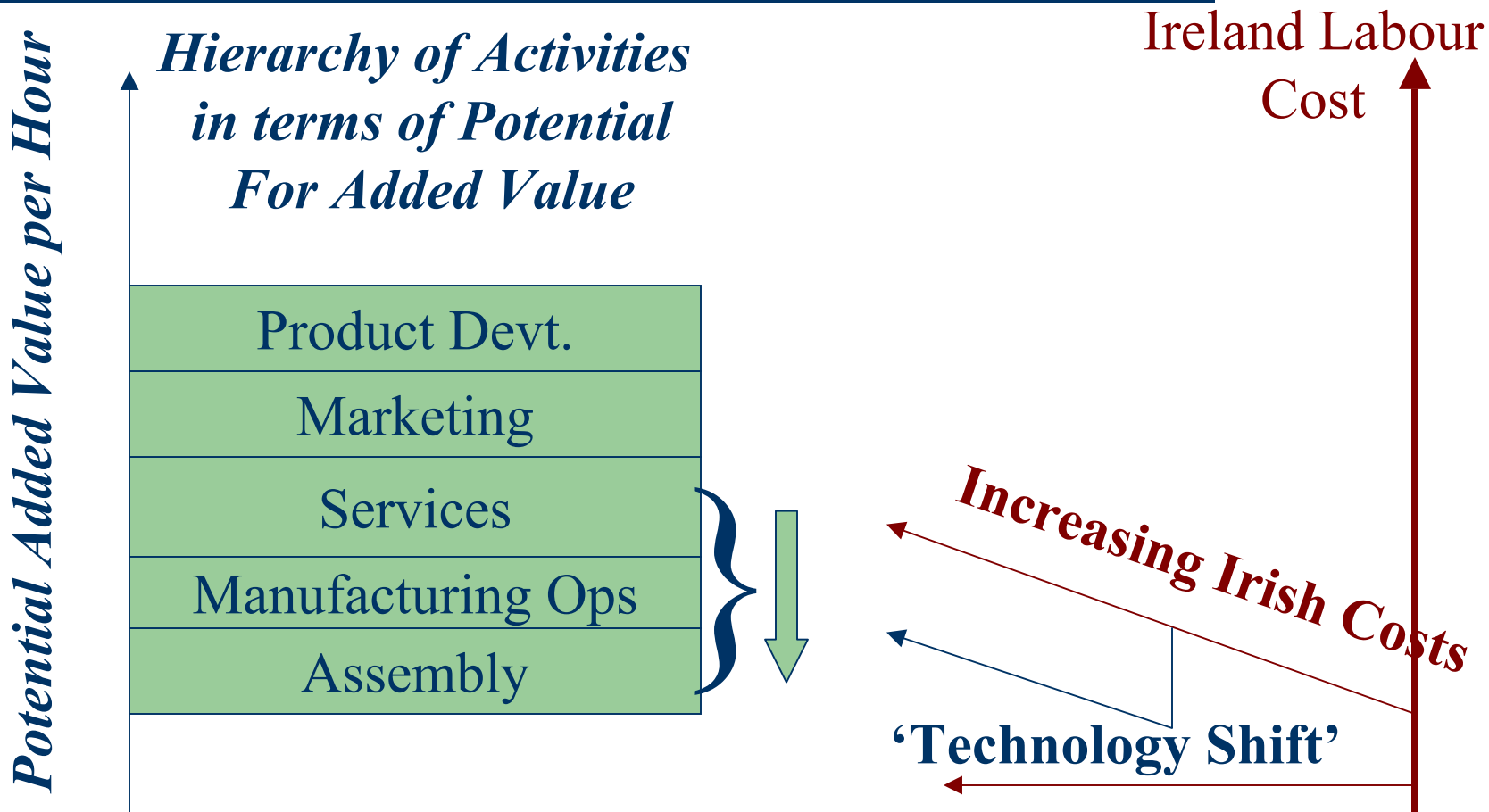


Ireland Relative Costs Increasing - though some use technology to offset

- Absolute Costs Increasing
- Emergence of 'competitor' countries at lower cost



Potential Value Added vs. Ireland Cost –unable to compete in many activities



Impact of Threat

- Dependent on Industry
 - Mobility
 - Standardisability
 - Level of Technology
 - Regulations
 - Barriers to Entry

The 'Threat-caused' Imperative

- Ireland cannot compete 'in the traditional way' in lower value added activities that were our entry point to the MNC Corporate Reconfiguration Opportunity



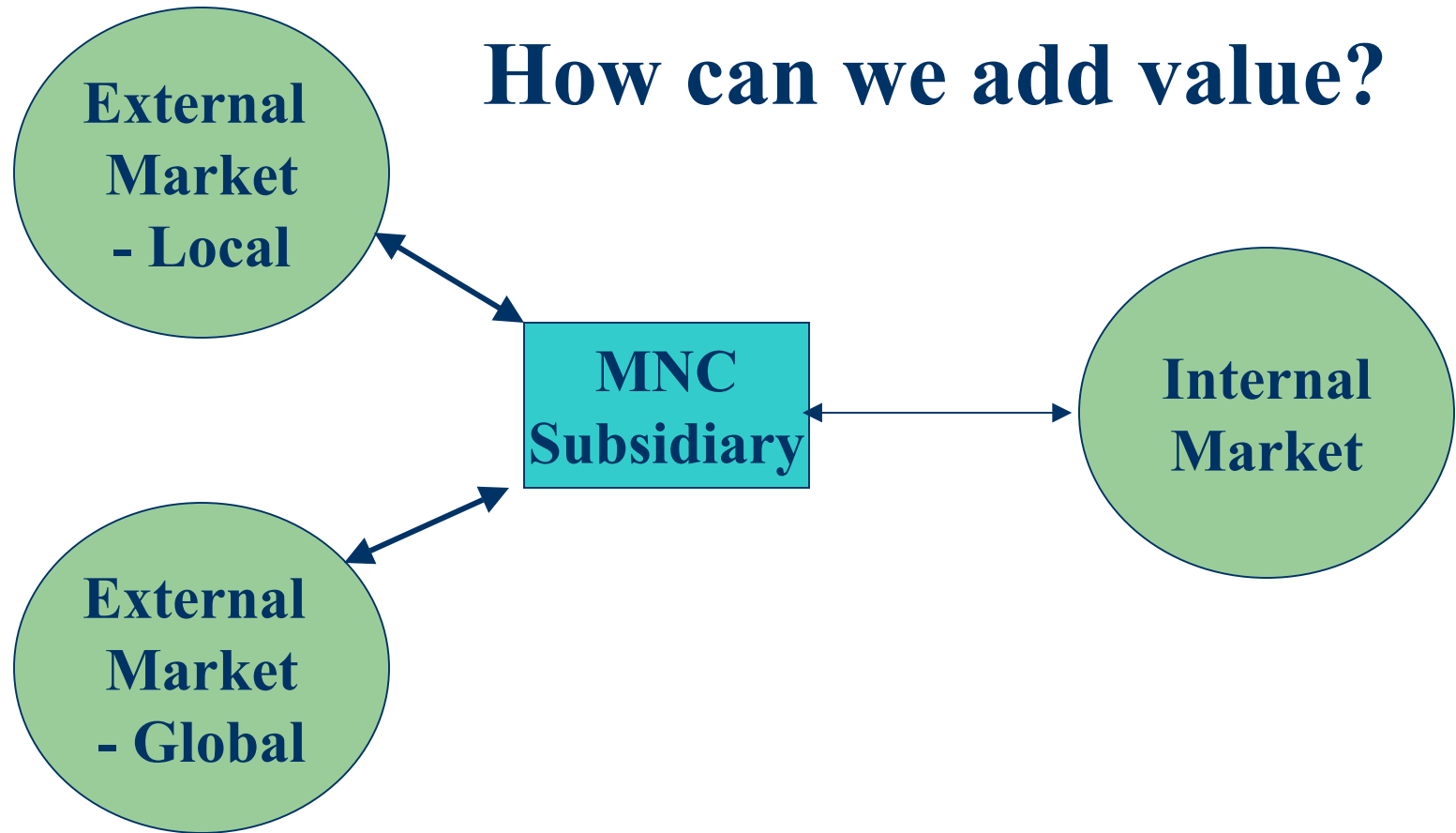
- Must find 'lower cost' ways of competing
- Must find higher value added activities

The Opportunity for MNC Subsidiaries



Subsidiaries need to Understand Three Markets

How can we add value?



The Opportunity to Build on Success in the Original Mandate

- Pursue new business opportunity in local/global market
- Bid and win new corporate investment
- Increase scale of existing operation
- Extend 'scope' of business activities
 - upstream to design
 - downstream to customer
 - into shared services
- Reconfigure operations e.g. close a factory, streamline logistics and customer service, change the business model

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Development Opportunity for Individual Subsidiary is a function of the Parent/Industry Environment

- **How Favourable is the Industry Environment?**
 - Growth, Competitiveness, Capital Intensity, Regulatory
- **How Favourable is the ‘Internal Parent Market’?**
 - Parent profitability, market share and its growth, level of product development, parent competence
- **How Favourable are the Parent Organisation Characteristics?**
 - Long term focus, Ambition of parent goals, Hierarchy of structure, Ethnocentricity
- **Is the Parent disposed towards Subsidiaries Developing?**
 - Degree of financial/strategic control, Positive attitude to initiative, Extent of Internal, political Competition?

Development Opportunity for Individual Subsidiary is a function of the Subsidiary Position

- **Subsidiary's Current Strategic Position**

- Relative scale
- Involvement in critical part of value chain
- Perceived performance
- Credibility of and confidence in subsidiary at parent
- Strength of relationships with head office
- Level of influence over decision-making
- Strength of relationships with end customers

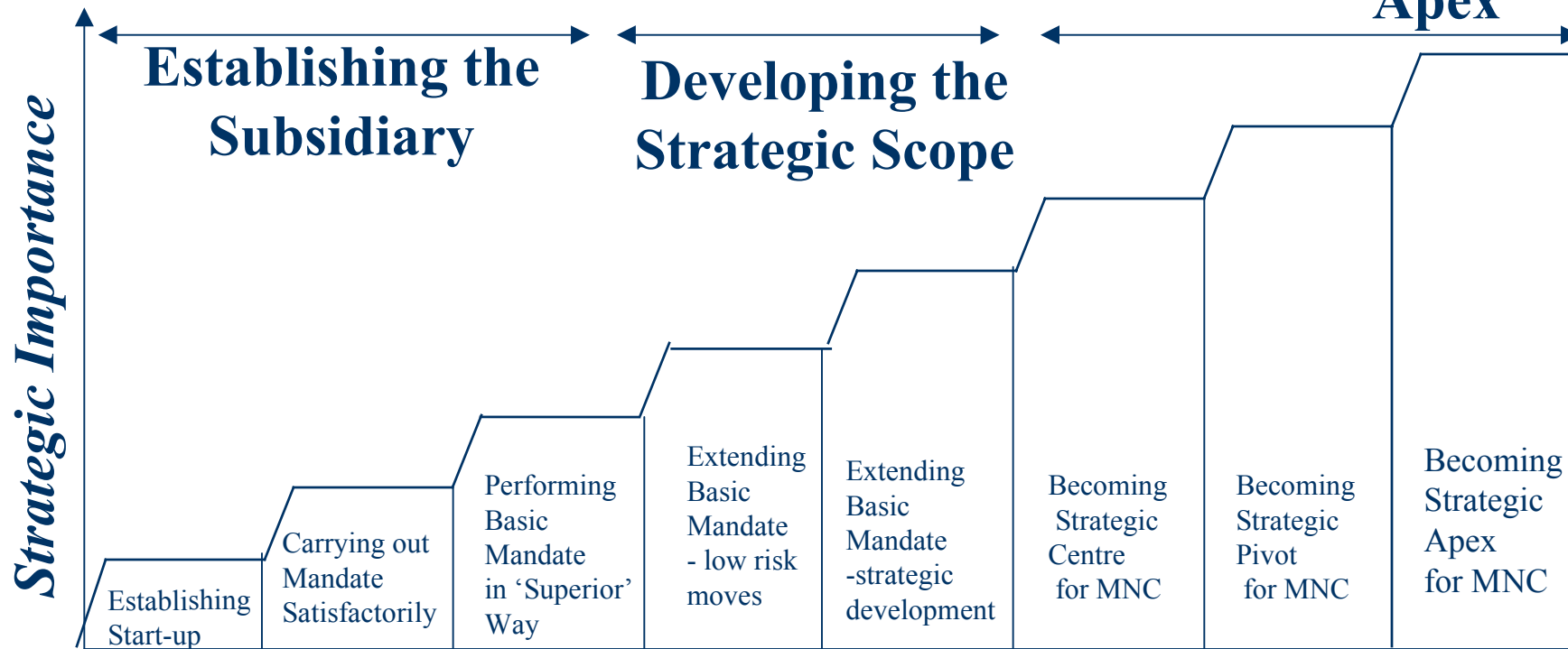
Development Opportunity for Individual Subsidiary is a function of the Subsidiary Potential

● Subsidiary's Potential

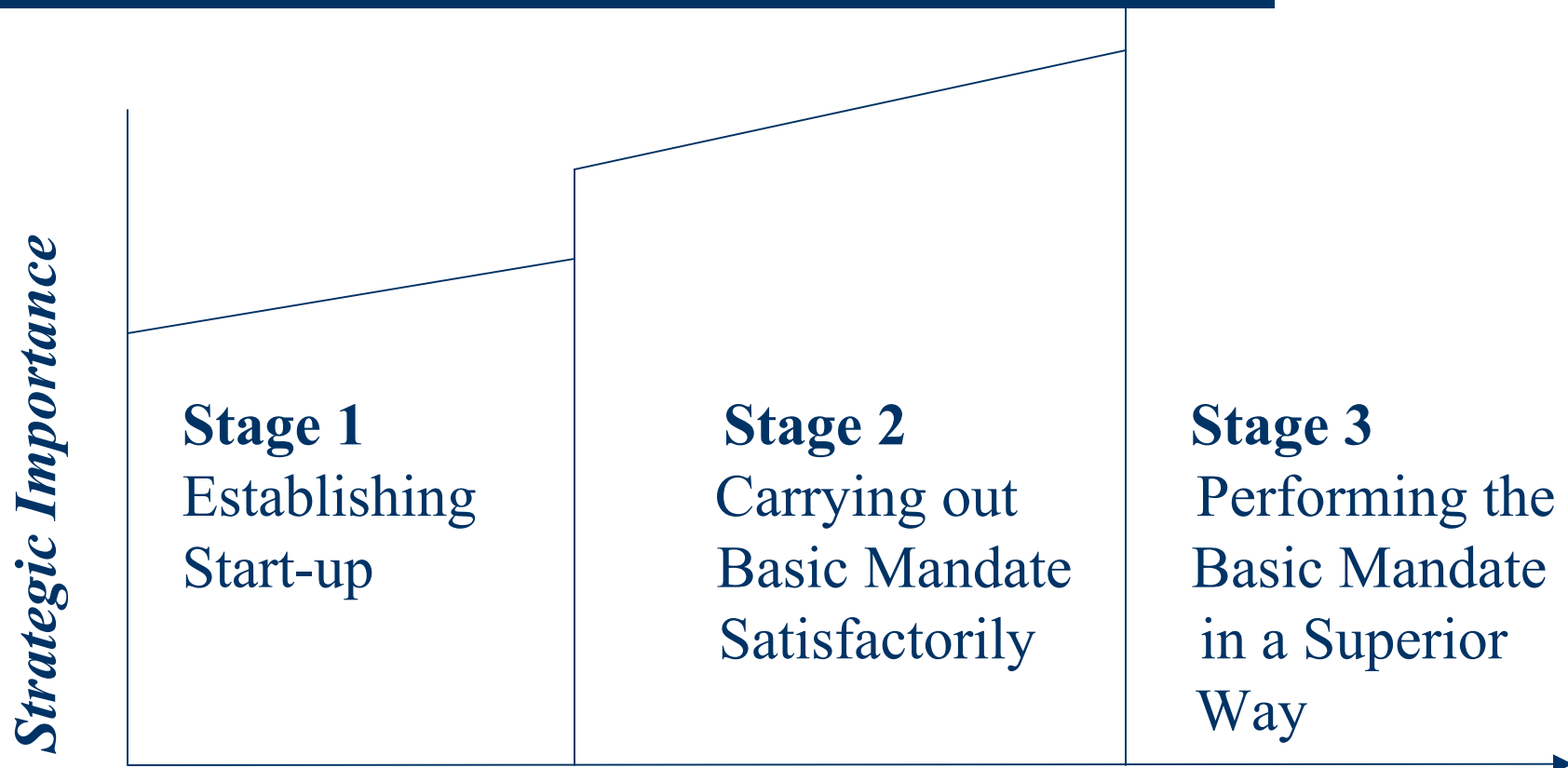
- Critical functional competences
 - R&D
 - Marketing & End Customer Insight
- Strategic competence of subsidiary
- Political competence of subsidiary
- Drive & Ambition of Management Team

8 Stages of Development of Subsidiary - the basic model

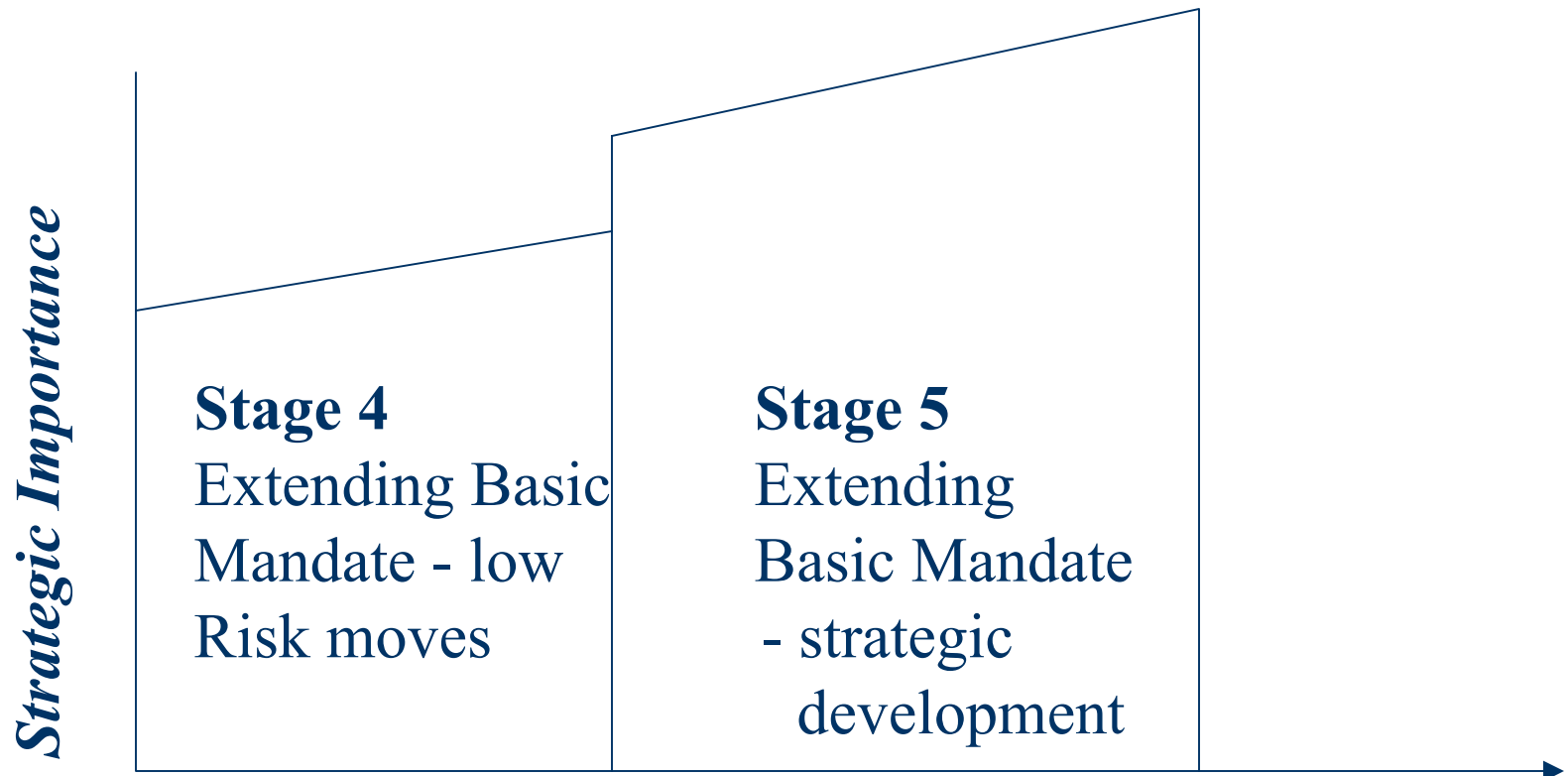
Moving to
Apex



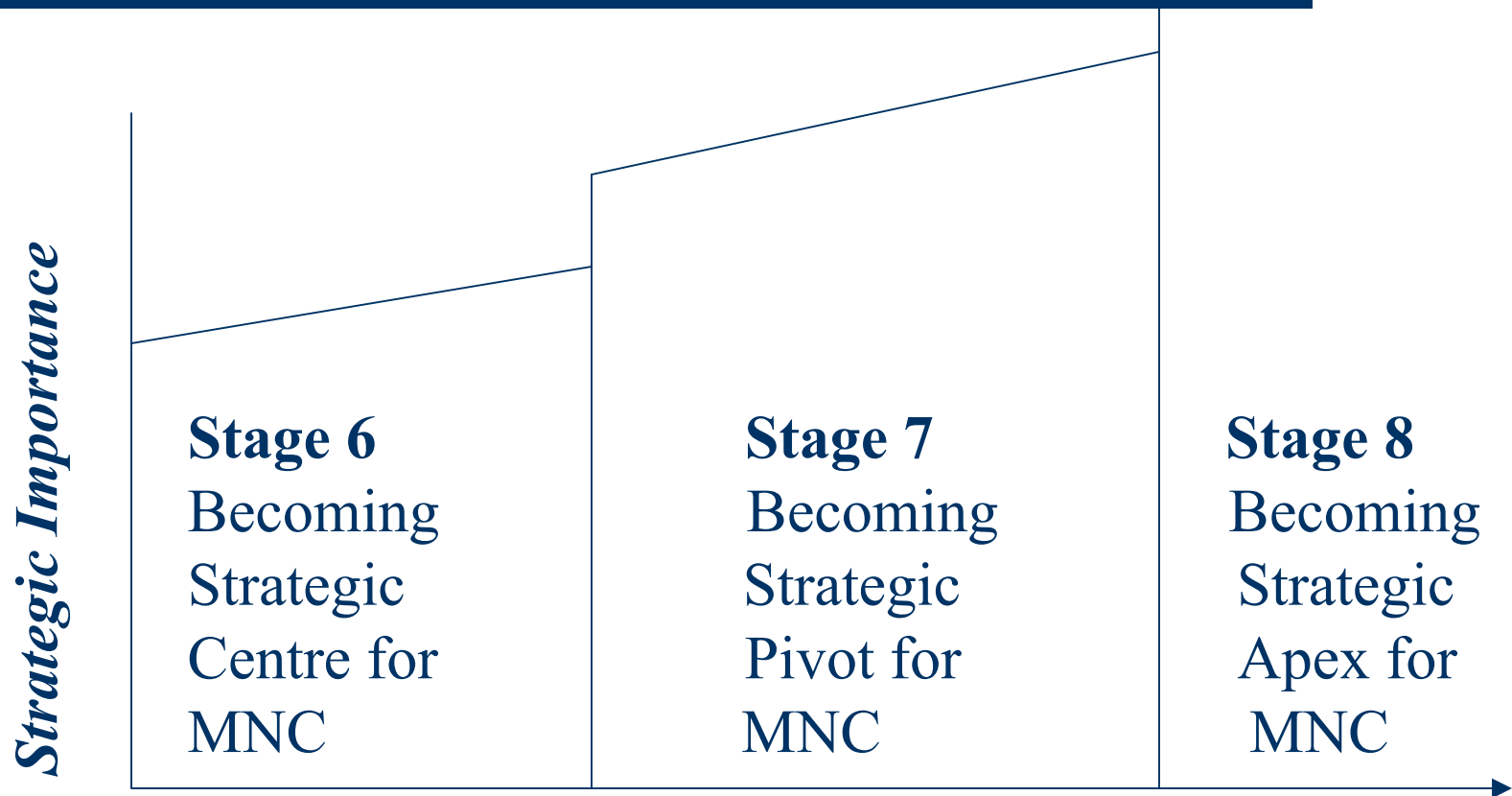
Stages of Development of Subsidiary – Stages 1-3: Establishing the Subsidiary



Stages of Development of Subsidiary – Stages 4-5: Developing the Strategic Scope of the Subsidiary



Stages of Development of Subsidiary – Stages 6-8: Moving to Strategic Apex of Corporation



Critical Success Factors for Developing the Strategic Mandate

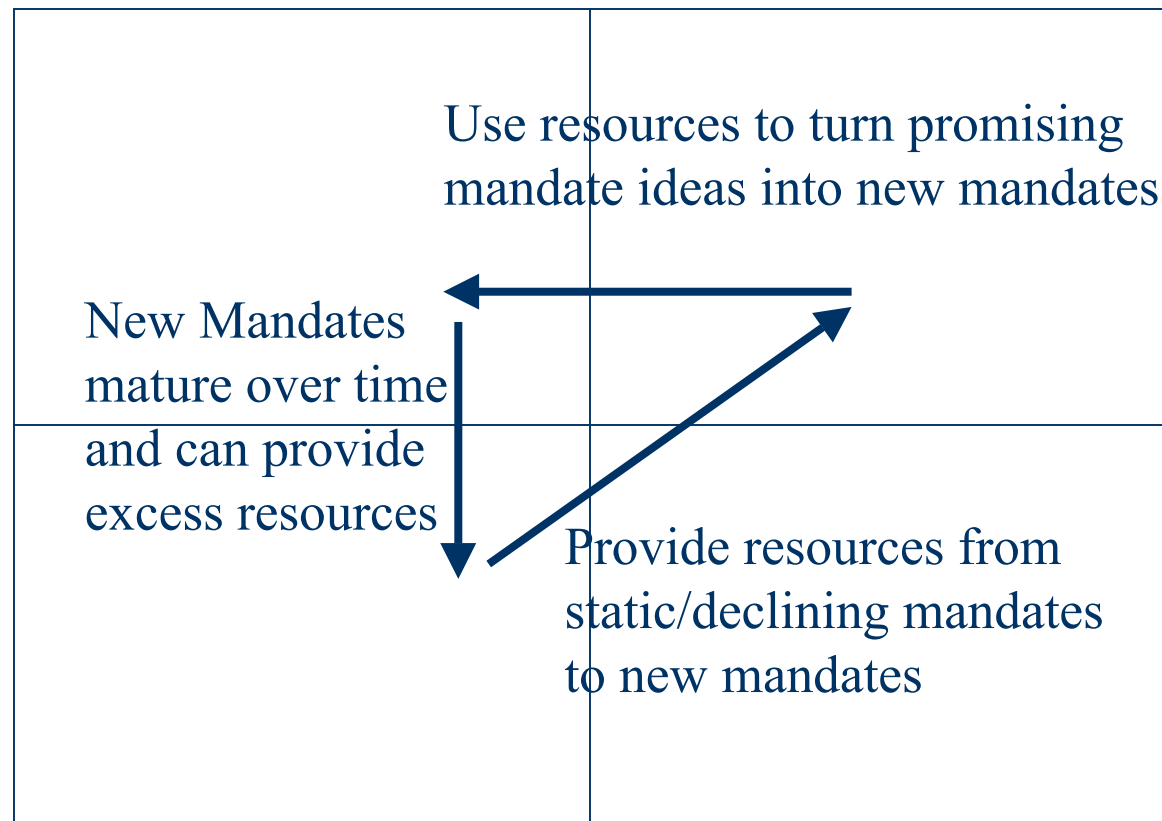
- Maintain high performance and credibility in current activities
- Devote time and resources to the strategic agenda and new strategic mandate opportunities

Mandate Portfolio Matrix 1

High

**Potential of
Mandate to
Provide
Long-term
Site
Sustainability**

Low

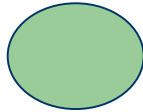


High Current Credibility and/or Competence Low

Mandate Portfolio Matrix 2

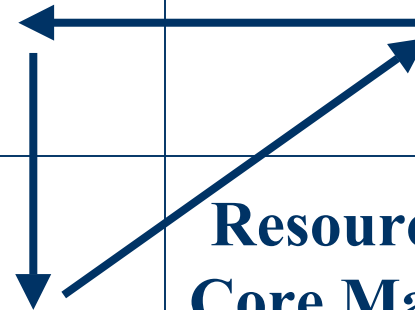
High

Growing Mandates



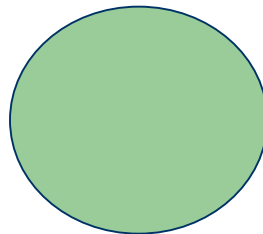
● Development Opportunities

Potential of Mandate to Provide Long-term Site Sustainability



Resources ex Core Mandate

Low



High Current Credibility and/or Competence Low

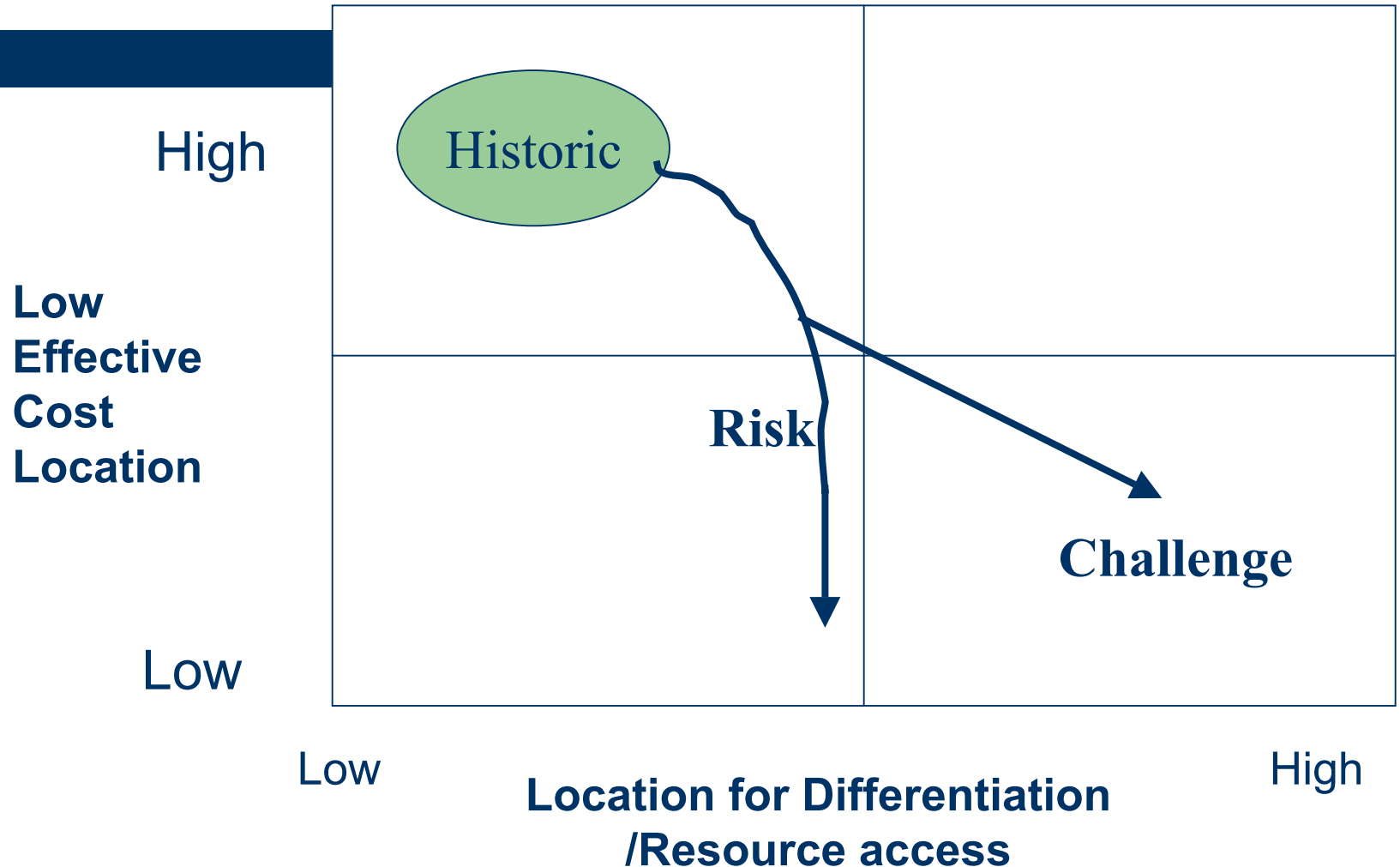
Critical Success Factors for Developing the Strategic Mandate

- Maintain high performance and credibility in current activities
- Devote time and resources to the strategic agenda and new strategic mandate opportunities
- Identify real corporate added value in the strategic agenda
- Sell the Irish Strategic Agenda

The Summary Agenda



The Ireland & Your Offer in the Global Network



Sustaining and Developing Location Advantage in Ireland

- National Agenda
 - Sustaining historic advantages
 - Minimising location disadvantages
 - Investing to build new advantages
- MNC Subsidiary Management Agenda
 - Maintain and build location advantage of existing activities
 - Take advantage of corporate and national/global environment to identify new reconfiguration opportunities
 - Increase strategic added value to MNC