

THE INTERNATIONAL MARKET DEVELOPMENT OF TAIWANESE IT AND ELECTRONICS FIRMS IN THE UK: EMERGING TRENDS AND THEORETICAL INSIGHTS

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ABSTRACT

This paper draws on survey and interview data to provide preliminary insights regarding the underlying motivations, key activities and modal decisions of smaller Taiwanese IT and electronics firms operating in the UK. It finds support for the increasing importance of cross-border logistics collaboration (or customer followership), and market- and knowledge-seeking motivations in driving firm internationalisation, and highlights the limited ability of the incremental internationalisation model to explain the study firms' modal decisions, including their non-progression into manufacturing. Among the key conclusions emerging from the paper is the urgent need for the UK authorities to address concerns regarding the country's weakening competitiveness as a preferred location for manufacturing and assembly operations aimed at European markets. Future researchers on firms' modal evolution in international markets are also urged to pay greater attention to the intra-regional, rather than intra-country, context.

Key words

Inter-firm collaboration, logistics, internationalisation, IT and electronics, Taiwan, and the UK

INTRODUCTION

A considerable amount of research has been undertaken into the international marketing activities of East Asian companies, including third world multinationals (TWMNEs), the State-owned Enterprises (SOEs), and the General Trading Companies (GTCs) (see for example, Lecraw, 1993; Tolentino, 1993; Ulgado, Yu and Negandhi, 1994; Young, Huang and McDermott, 1996; Yeung, 1994, 1999; Mirza, 1999). A major strand of this previous work has focused on the outward expansion of the East Asian enterprises into major advanced economies, including the role of their financial institutions in the process (Brecher and Pucik, 1980; Burton and Saelens, 1986; Chernotsky, 1987).

Among the key conclusions from this previous research are the following: (i) East Asian enterprises are significant players in global business and foreign direct investment (Krueger, 1985; Buckley and Mirza, 1988; UNCTAD, 1996; Young, Hood and Lu, 1998; Yeung, 1994, 1999; Mirza, 1999); (ii) inter-firm linkages (e.g. sogo shosha, chaebol), personal, ethnic and network relationships (*or social organisation*) have dominantly influenced the international market development patterns of East Asian enterprises (Buckley and Mirza, 1988; Smart and Smart, 1991; Leung, 1993; Zhang and Van Dan Bulke, 1996; Yeung, 1994, 1999; Mirza, 1999); (iii) the State, through its support for 'national champions', has played active roles in the emergence and growth of these 'East Asian-Developing Country Multinationals' (Monkiewicz, 1983; Buckley and Mirza, 1988; Aggarwal and Agmon, 1990; Young et al., 1998; Yeung, 1994, 1998, 1999; Mirza, 1999); and (iv) the incremental, step-wise approach to internationalisation, as popularised by the Uppsala school (Johanson and Vahlne, 1977; 1990) has been little in evidence (Lecraw, 1993; Zhang and Van Den Bulcke, 1996; Young et al., 1996).

On the contrary, several accounts exist in the literature regarding East Asian multinationals, notably the GTCs and SOEs, financing significant acquisitions and joint venture investments in developed country markets as a way of gaining instant access to strategically-relevant markets, technology or process knowledge (Lall, 1983; Burton and Saelens, 1986; Tolentino, 1993; Young *et al.*, 1996; Young *et al.*, 1998; Yeung, 1999; Mirza, 1999) - Lecraw (1993) has applied the terms “export enhancing” and “operations-extending” to these investments, the latter referring mainly to investments in less developed country markets.

It is arguable that the observed international market entry and development patterns could be more reflective of the larger East Asian enterprises (Brecher and Pucik, 1980; Burton and Saelens, 1986; Lecraw, 1993) than their smaller, non-State-owned counterparts. This is because smaller East Asian enterprises might not have the requisite resources (financial and political) to support comparable levels of foreign direct investment as their larger counterparts (see Gynawaii and Fogel, 1994). This calls for further research into the modal choices and evolutionary pattern of smaller, privately-owned East Asian firms in particular foreign markets.

This present paper reports the findings of a study involving smaller, privately-owned Taiwanese firms operating in the UK. Its specific aim is to examine the factors and motivations underpinning the entry mode selection, modal evolution and internationalisation behaviour of non-dominant Taiwanese IT and electronics firms operating in the UK (the UK received the highest proportion, 50 percent, of all Taiwanese direct investments to Europe during the 1952-1998 period – Ministry of Economic Affairs, 1998). It is envisaged that this study would contribute to a greater understanding of the effect of deepening globalisation and regionalisation on firm evolution within particular foreign markets, and provide further useful insights into the impact of global logistics collaboration on the internationalisation behaviour of smaller firms.

The remainder of this paper is organised as follows. Section 2 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 in section 3, with some explanation of the study methodology. In section 4, the analysis results are presented, complete with appropriate discussion of the findings and references to the study propositions. The final part of the paper highlights some theoretical, managerial and policy implications.

CONCEPTUALISATIONS AND PROPOSITIONS

Firm internationalisation and emerging trends. Most of the work on the internationalisation of the firm has concerned evolution into manufacturing - arguably reflecting the dominance of the internationalisation process model. This model, which grew out of Luostarinen (1970), Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) Nordic research, posits 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 subsidiary; and production via foreign subsidiary) as they gain in market knowledge and experience (Johanson and Vahlne, 1977). Firms are also said to initially target 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, p.29), considerable attention has been paid to the pre-manufacturing stages in firm internationalisation research. The classic pattern is thought to mirror the historical evolution of Japanese enterprises in major foreign markets, that is, building up a finance and sales presence through heavy investment to support exports initially, and later evolving into manufacturing

activity. It is arguable, however, that evolution within specific national markets will be less important in the future. 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, the greater access to global markets occasioned by the WTO regime has significantly neutralised the fears of a 'Fortress Europe', which had accounted for many Japanese inward FDI into the Europe during the late 1980s and early 1990s (see Mirza, 1999). Secondly, there appears to be an increasing trend toward considering regional (rather than national) market factors in making firms' foreign investment decisions. Mirza (1999, p.206), for example, observed that many MNEs increasingly utilise "a regional division of labour for international production" (these include Matsushita, which selectively employs variable factor endowments, competencies and markets of countries such as Malaysia, Singapore, the Philippines, Vietnam and Indonesia – 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 Bowersox and Calantone (1998, p.85) noted, "product technologies have advanced to the point that everyone can imitate everyone else except in the most complex products". 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 which emphasise 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 less so than achieving “world class logistic practice” (Fawcett and Clinton, 1997, p.20).

Developments in IT and inter-firm collaborations (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, p.86).

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 particularly applies to this sector - see Fawcett and Clinton, 1997). In pursuing global competitiveness, therefore, major players within this industry, and indeed many other industries, have generally required their key value chain partners – 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 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).

Indeed, the literature is replete with evidence of firms which commenced international operations mainly to maintain their position in the supply chain of major customers that had expanded to particular foreign markets. Initial accounts of these customer-driven internationalisation came from service firms, including financial services (e.g. Burton and Saelens, 1986; Hellman, 1996; O’Farrell, Wood and Zheng, 1996). Other scholars, notably

Bell (1995) and Coviello and Munro (1995, 1997), have found similar evidence among high-technology, manufacturing (computer and electronics) firms. The overall conclusion from this literature stream is that firms which are ‘bounced’ into the international operations (i.e. those that follow their key customers into foreign markets) are less likely to reflect ‘psychic distance’ in their market selection pattern. They are also less likely to evolve within particular markets in the manner suggested by the conventional wisdom or incremental model (Sullivan and Bauerschmidt, 1990).

Taiwanese manufacturing enterprises arguably provide good case examples. Based on their well earned reputation for productive efficiency, resourcefulness, and technologically adeptness, many firms from this East Asian country became OEM/ODM subcontractors and/or component suppliers to major multinational players (Chang and Grub, 1992; Buckley and Mirza, 1988; McDermott, 1991; Mirza, 1999). The relationships, which initially focused on labour-intensive industries (Levy, 1988), have in latter years shifted to capital technology-intensive sectors, particularly electronics and information technology. It is likely that 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 international activity, including their evolution within particular foreign markets. It is thus proposed that:

P1: The entry mode decisions and modal evolution of Taiwanese IT and electronics enterprises operating in the UK are unlikely to reflect an incremental pattern

P2: Taiwanese IT and electronics firms operating in the UK are likely to undertake activities associated with effective provision of their major customers’ logistics needs

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

A close examination of Taiwan's foreign direct investment history suggests that these key motivations have had varying levels of importance at different stages of the country's economic history. The first major wave of Taiwanese FDI dates back to the mid-1960s, and was mainly resource-seeking, driven as they were by the rising costs of labour and land, the appreciation of the new Taiwan dollar, and mounting pressures from environmental groups. The main investment destinations were, therefore, South East Asia, and later Latin America (Chen, 1986), to take advantage of lower costs of production. The easing of cross-strait contact with China in 1987 also led to large-scale transfer of labour-intensive industries to China (Chen, 1992). Available figures suggest that between 1952 and 1998, the ASEAN and Latin American countries respectively received 33 per cent and 32 percent of Taiwanese FDI, which, excluding those to Mainland China, totalled \$18.61 billion (Ministry of Economic Affairs, 1998).

The next waves of Taiwanese outward direct investments were dominantly market-and knowledge-seeking. Taiwanese FDI, during the 1970s and 1980s was largely driven by the need to obtain, retain and improve access to the lucrative US and Japanese markets, including the cutting edge technological and process knowledge embedded therein. These drivers also underpinned the significant increase in Europe-bound Taiwanese FDI activity during the mid-1980s: to mitigate the potential impact of a 'fortress Europe' (see McDermott, 1991), reduce market dependence on the United States, and diversify technological acquisition and transfer

links beyond the USA and Japan. Some of these investments resulted from the concerted effort of East Asian and European Union governments, under the ASEM [Asia Europe Meeting] initiative, to increase FDI activity between the two regions (see Mirza, 1999, p.211).

It would seem that the recent trends toward greater inter-firm collaboration in global supply chain 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 (1997) highlighted these drivers (in addition to market- and knowledge-seeking factors) as having consistently risen in importance since 1987. Resource-seeking factors have, on the other hand, declined in importance. This reflects the conclusion reached in Young *et al.* (1996) study of East Asian MNEs. It is thus proposed that:

P3: Relationship-based (customer following) motivations are likely to be of major importance in Taiwanese IT and electronics direct investments in the UK.

P4: Market- and strategic asset seeking factors are likely are likely to be of major importance in Taiwanese IT and electronics direct investments in the UK.

These propositions are assessed subsequently based on empirical evidence from the study firms. But first, here are some insights into important aspects of the study methodology.

METHODOLOGY

The primary data for this paper came from an investigation into the international market development behaviour of Taiwanese enterprises operating in the UK, including banking and financial services firms, IT and electronics firms, and others from the transportation, machine tool, textile, and sports equipment sectors.

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 development agency, Scottish Enterprise. Based on the insights obtained from the pilot-test, the semi-structured questionnaire was revised and structured. At the second phase, Structured questionnaires were mailed to 51 Taiwanese sales operations in the UK listed by the Taiwan Trade Centre, London. A total of 31 properly completed, useable questionnaires were received by the cut-off date (representing a response rate of 60%); these included six from banking sector, one each from the transportation, machine tool, textile, and sport equipment sectors, and 21 from the IT and electronics sector. The third phase of data collection involved follow-up telephone interviews with the general managers of the responding sales subsidiaries. Telephone interviews were considered more appropriate in this case because of the disparate locations of Taiwanese sales operations in the UK. Also, the respondents appeared to prefer telephone interviews to face-to-face interactions. The duration of the interviews ranged from 45 minutes to one hour.

The focus in this present paper is on the IT and electronics enterprises within the sample. This is because, in addition to constituting about 70 percent of the respondents, the IT and

electronics companies are highly affected by the trends toward inter-firm collaboration in global supply chain and logistics management (see Fawcett and Clinton, 1997; Brown 2002).

ANALYSIS AND FINDINGS

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

The subsequent discussion is organised around the focal issues raised in the earlier presented propositions.

Entry mode decisions and corporate evolution. In order to generate relevant data on proposition 1 (*that is, the study firms are unlikely to reflect an incremental pattern in modal decisions*), the respondents were asked to indicate their firms' initial entry mode into the UK, their current governance structure, and how this has developed over time. They were also asked to indicate and explain the future intentions of their firms in the UK market.

An examination of Table I below, shows that a majority of the Taiwanese IT and electronics sales operations in the UK jumped to the higher-full control entry modes, including wholly-owned subsidiaries (directly established or acquired) and joint ventures (see Young, Hamill, Wheeler, and Davies, 1989; Driscoll and Paliwoda, 1997); two sales subsidiaries were formed through joint venture with local companies, while the remaining Taiwanese operations are wholly owned subsidiaries, directly established or acquired by the parent companies in Taiwan.

****Insert Table I around here****

As Table I also shows, the majority of the Taiwanese IT and electronics sales operations were not preceded by such lesser commitment modes of internationalisation as agents/distributor relationships. Indeed, only nine, or 43 per cent, of the sample recruited an agent or distributor before setting up a sales office or subsidiary in the UK. Data obtained further suggests little intention on the part of the study firms to evolve or progress towards manufacturing investments in the UK. On the contrary, there was an observed case of a sales subsidiary reversing into a representative office (with the removal of warehousing operations) (see Wheeler, Jones and Young, 1996).

The only significant evolution that seemed to have occurred pertains to the enlarged portfolio of functions undertaken by the surveyed Taiwanese sales operations. That is, expanding from sales offices with fundamental 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.

Overall, the evidence obtained appears to support this paper's first proposition, that the entry mode decisions and evolution of UK-based Taiwanese IT and electronics enterprises are unlikely to reflect an incremental pattern.

Key activities and impact of major global trends. Data for assessing proposition 2 (*that is, the study firms are likely to undertake activities associated with effective provision of their major customers' logistic requirements*) was obtained by asking the respondents to indicate, and

rank-order, the major activities they undertake in the UK market. They were also asked to indicate the relative distribution of these activities among the following customer groups: multinational customers in the UK; existing Taiwanese customers in the UK; local UK customers; and other European customers.

Based on aggregate analysis and insights from the interviews, three generic forms of activities can be associated with the study firms; these include Original Equipment Manufacturing (OEM) / Original Design Manufacturing (ODM); Original Brand Manufacturing (OBM); and Selling products / brands of other companies (see Table II).

****Insert Table II about here****

OEM/ODM activities, involving the supply of components (including Motherboards, VGA / Power supply or connectors) to multinational clients and other Taiwanese customers operating in the UK, were found to be particularly important among Taiwanese IT and electronics sales operations located in Scotland. These Taiwanese operations generally provide their multinational customers (including Compaq, IBM, HP) with varying levels of processing, and flexible, quick product adjustments to meet the specifications (e.g. language) of various European markets.

For example, among the responsibilities of Company U, a supplier of notebook keyboards to Compaq, is to change keyboards' letters to conform with the language specifications of each European market served by Compaq. As one interviewed Taiwanese manager observed, "*there is an increasing and inevitable trend toward setting up sales branch or subsidiary with the function of simple/final processing or assembling work for Europe*". It is likely that this trend will become increasingly important given its consistency with the emphasis, among world class

companies, on achieving enhanced logistics effectiveness and efficiencies - not merely by customising products to better satisfy country-specific demand and local customs, but also “postponing such customisation until orders are received and then finishing the product in local distribution facilities” (Bowersox and Calantone, 1998, pp.86-87).

For the purposes of these OEM/ODM operations, the Taiwanese sales operations do not take orders directly from their major multinational customers in the UK. Such orders are normally forwarded to the headquarters in Taiwan, with the UK operations merely functioning as contact or service centres. On the other hand, they focus more on exploring new local business, taking orders from smaller UK and European customers. With time, however, these sales operations generally diversify into marketing of own brands (OBM activities) - see Table II, above.

Taiwanese firms engaged in OBM activities mainly market final products such as notebooks, monitors, scanner, mouse, and PCs to UK 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 big players decided to operate 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 OEM/ODM and OBM basis (only one responding firm, the earlier-mentioned trading company, is involved in selling other companies’ branded IT products), the significant focus on OEM/ODM functions suggests support for proposition 2, regarding the increased importance of activities linked to meeting major customers’ logistics requirements.

Motivations for Taiwanese investments in the UK. To obtain relevant data on propositions 3 and 4 (*relating to the importance of a range of motivations on the study firms' entry into the UK*), the respondents were asked to indicate, and rank-order, the major factors that motivated their entry into the UK. Based on the analysis of questionnaire and interview data, three dominant kinds of motivations would appear to be important (see Table III).

****Insert Table III about here****

Relationship-based motivations. “Customer-followership” seems to a major motivation for several Taiwanese IT and electronics operations in the UK. This reflects the presence of major global IT and electronics companies, and the strategic need by the study firms to maintain their OEM/ODM links with these key account customers (see also McDermott, 1991). It also highlights the increasing importance of locational proximity to major customers as a driving force in firm internationalisation. This is because proximate location is a sine qua non for tapping the efficiency gains accruable from such cutting-edge practices as Build-to-Order (BTO) manufacturing mode, Just-in-Time (JIT) inventory management systems, among others.

To improve global competitiveness within the IT and electronics industry, world class manufacturers have increasingly favoured the Build to Order (BTO) manufacturing mode over the Build to Forecast (BTF) approach. This is because the latter approach has become too inflexible in the face of industry characteristics such as shorter life cycle and fast changing demands. It has also become incapable of assuring quick and precise supply of tailored global demands, without incurring excessive buffer stock cost. Unlike the BTF system whereby products are manufactured based on future demand forecast, the BTO mode involves the activation of the production processes based essentially on received orders. Efficiency-seeking

companies are, thus, able to flexibly satisfy various global market needs, while avoiding the pressure of high buffer stocks.

It should be noted that the JIT inventory management approach is central to effective operation of the BTO manufacturing mode. Given this, it has become common practice for key members of the supply chain (including OEM suppliers) to locate near their client company. Many Taiwanese IT and electronics manufacturers and component suppliers relying heavily on OEM / ODM business from key account customers have, thus, had to set up sales operations in the UK in order to assist their partners' UK-based plants to deliver European orders promptly and accurately. These Taiwanese sales operations generally provide warehousing function, 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 parents 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-added" service 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).

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 paper's third proposition, that relationship-based (customer following) motivations are likely to be important in Taiwanese IT and electronics direct investments in the UK.

Market- and knowledge-seeking motivations. Taiwanese IT and electronics investments in the UK appear to be driven also by market- and knowledge-seeking factors (see Table III above).

Among the most important market-seeking factors are to explore the UK's high market potential (the third largest domestic market in Europe, with the largest per capita expenditure on electronics products); to increase market share and achieve further penetration of the UK 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 III are knowledge-seeking factors, including collecting and transferring marketing intelligence on UK 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 strategic objective of the parent companies.

Taken together, the foregoing suggests some support for proposition 4, that market- and knowledge-seeking factors are likely to be important motivations for Taiwanese IT and electronics direct investments in the UK.

CONCLUSIONS AND IMPLICATIONS

This paper has examined the factors and motivations underpinning the entry mode selection, modal evolution and internationalisation behaviour of non-dominant Taiwanese IT and electronics firms operating in the UK. It finds support for the study's major propositions, including the increasing importance of inter-firm logistics collaboration (or customer followership), and market- and knowledge-seeking motivations, in explaining the internationalisation behaviour of Taiwanese IT and electronics operations in the UK. Data analysis also indicates the limited usefulness of the incremental internationalisation model as an explanation for the entry mode choices and evolution of the study firms in the UK. These findings have a number of important implications, which are now discussed.

First, the observed focus on providing value-adding logistical support to key account customers (Fawcett and Clinton, 1997) adds to previous evidence on the importance of relationship-based factors in driving the internationalisation of smaller high technology firms (see e.g. Bell, 1995; Coviello and Munro, 1995, 1997). It also underlines the increasing importance of cross-border logistical collaborations with major customers, to smaller firms (e.g. OEM/ODM or component suppliers) seeking to secure their position within strategically-important supply chains. Furthermore, it highlights the need for such firms to strive to add significant value to their partner's business, through, for example, speed of delivery, R&D and IT use (see e.g. Chang and Grub, 1992), design quality, resource and management support.

This leads to the next relevant issue, namely the modal options employed by the study firms in providing cross-border logistical support to their key account customers. Analysis results suggest that Taiwanese firms operating in the UK largely jumped to higher control (but lower

commitment) investment modes. Although this tendency to use mainly wholly-owned structures reflects previous empirical findings among TWMNCs and internationally active East Asian firms (see e.g. Lecraw, 1993; Ulgado *et al.*, 1994; Zhang and Van Den Bulcke, 1994; and Young *et al.*, 1996), the study firms' apparent lack of interest in commencing manufacturing operations in the UK deviates from previous research findings.

A number of reasons might account for this. One is that sales-based structures, with their capacity for direct, flexible and interactive contacts with customers, arguably represent an effective, efficient, and *feasible* way of providing cross-border logistical support to key account customers. Two, reflecting the preponderance of SMEs in Taiwan's manufacturing and exporting economies (Chang and Grub, 1992; Mirza, 1999), the firms involved in the present study generally possess limited resources, and appear less likely than their larger counterparts covered in previous research (e.g. Lecraw, 1993; Young, Hood and Lu, 1998) to establish manufacturing plants abroad. Third, the significant reduction in the protectionist fears that fuelled much of the pre-1992 investment inflow into Europe would appear to have resulted in a general slowdown in FDI inflows into Europe (see e.g. Brown, 2002).

This seems to be having a particularly negative impact on manufacturing investments in developed country markets, because foreign direct investors are increasingly taking advantage of the integrated European market by choosing alternative, lower-cost regional locations (e.g. Eastern Europe – Brown, 2002) for their manufacturing operations. The above point reflects Mirza's (1999) earlier observation, that many MNEs are increasingly making international production decisions on regional, rather than national basis. This highlights the need for future investigations into firms' internationalisation and modal evolution to pay greater attention on the intra-region, rather than intra-nation, dimension.

Given the observed effect of the UK's weakening competitiveness (as a location for manufacturing and assembly operations aimed at European markets) on the study firms' lack of manufacturing intentions, robust steps should be taken by the relevant authorities to improve the quality and munificence of the UK's operating environment. Examples of required initiatives include making sustained improvements / investments in British 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 UK (Brown, 2002), particularly within the IT and electronics sector (the other major reason seems to be the recessionary situation being experienced by the sector in major global markets). Two, the continued 'exodus' of major global players from the UK 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 UK by smaller foreign investors.

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Table I: Profile of Taiwanese IT and Electronics Sales Operations in the UK

Company code	Number employed (Chinese/local)	Main Product	UK Location	Initial mode/ established	entry Year	Current mode/ Year established
A	3 (1/2)	Computers/peripherals, networking card	Watford/Herts	NA		Wholly-owned sales subsidiary / 1989
B	54 (1/53)	Computers, laptop, notebooks	Basingstoke / Hampshire	NA		Directly established sales branch / NA
C	9 (1/8)	PC cases, power supply	Tottenham / London	NA		Directly established sales branch / 1990
D	13 (0/13)	Cables, connectors	Bracknell / Berks	Distributor	1988	Joint venture representative office / 1990 (40% Taiwan)
E	20 (1/19)	Computer peripherals,	Wallington / Surrey	Distributor	pre-1991	Joint venture sales subsidiary / 1990 (97% Taiwan)
F	48 (3/45)	Monitors	Watford/Herts	NA		Wholly-owned sales subsidiary / 1992
G	14 (2/12)	Computer components	Stevenage / Herts	Distributor	1983	Wholly-owned sales subsidiary / 1992
H	4 (2/2)	Key pads	Witney / Oxfordshire	Distributor	1982	Directly established sales branch / 1992
I	48 (3/45)	Computer network	Stanmore/ Middlesex	Distributor	1986	Directly established sales subsidiary / 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 subsidiary / 1994
L	4 (2/2)	PC cases	Reading / Berkshire	NA		Wholly-owned sales subsidiary / 1996
M	5 (2/3)	PC accessories	Brownhill / Milton Keynes	NA		Wholly-owned sales subsidiary / 1996
N	8 (3/5)	PC notebooks	Clydebank / Glasgow	NA		Directly established sales branch / 1997
O	6 (1/5)	Computer work station	Luton / Bedfordshire	Agent	1990	Wholly-owned sales subsidiary / 1997
P	NA	Computer accessories	Beeston / Nottingham	NA		Directly established sales branch / 1997
Q	7 (1/6)	Computer accessories	Uxbridge / Middlesex	Distributor	1989	Directly established sales branch / 1997
R*	10 (1/9)	Computer accessories	Park Royal / London	NA		Acquired sales subsidiary / 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	NA		Wholly-owned sales subsidiary / 1998
U	5 (1/4)	Keyboards	Clydebank / Glasgow	NA		Directly established sales branch / 1998

*All but one sales operation (R, a trading company) have private Taiwanese manufacturing parents.
Source: Research data

Table II: **Key activities, products and target markets of Taiwanese sales operations in the UK**

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

Source: Study Data

Table III: Major Motivations for Taiwanese IT and Electronics Sales Operations in the UK

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 multinational customers who have set up operations in the UK

To meet the demand of existing Taiwanese customers who have set up operations in the UK

Market-seeking factors

To exploit UK's high market potential

To increase market share/penetration in the UK

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 UK 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

Source: Study Data