PERGAMON

Long Range Planning 34 (2001) 335-355

LRP long range planning

www.lrpjournal.com

How Germany Wins out in the Battle for Foreign Direct Investment: Strategies of Multinational Suppliers in the Car Industry

Eric Pfaffmann and Michael Stephan

Whilst many expected that mature industries such as automotive would necessitate strategic shifts in favour of low cost countries, we will demonstrate how the precise opposite has occurred, with respect to Germany.[1] We examined the investment and value-creating activities of 20 non-German multinational automotive suppliers in the German market and found that they invested $14 billion in Germany between 1987 and 1997. This discovery triggered our research to develop a conceptual framework to explain the core motives behind these investment activities. Two critical strategic propositions illuminate the activities: the first proposition tackles the pressure on suppliers to *grow and diversify* in response to the global trend of restructuring the value chain in the car industry. The second proposition uncovers the forces behind the current trend why automotive suppliers adjust their strategies *globally*. This proposition deals with the implications of the increasing use of global strategies in production and single sourcing by major automotive customers such as Volkswagen or DaimlerChrysler.

Globalisation and foreign direct investment in the car industry have received considerable attention in international business research and automotive studies. Most of the management studies build upon the premise that stresses cost-based factors for competitive success, yet cost factors cannot explain the high foreign direct investment in Germany. Furthermore, most of the

Dr Eric Pfaffmann is project manager in the corporate development department of Deutsche Bahn and associated senior research fellow in the Department of Business

0024-6301/01/$ - see front matter
PII: S0024-6301(01)00038-3

studies deal only with the globalisation of automotive manufacturers, so-called Original Equipment Manufacturers (OEMs), while research on the suppliers and their strategies is weak, especially for Europe and Germany. Although some studies examine the globalisation in the automotive supply industry,[2] most of the work is simply deduced by research on OEMs.[3] In this paper, we focus on the automotive supplier industry and shed light on the globalisation strategies of multinational automotive suppliers in Germany.

After a brief introduction to recent changes in value-added strategies of OEMs we present our conceptual framework and then explain why supplier companies globalise and diversify.

Administration at Hohenheim University. His interests cover fields such as strategic management of technology and innovation, theory of the firm, modularisation of technical systems and organisations, foreign direct investments, and buyer–supplier relationships. He was educated at Johann Wolfgang Goethe-University, Frankfurt am Main, where he graduated in business administration.

Michael Stephan is an instructor and doctoral candidate in the Department of Business Administration at Hohenheim University. His research interests include technological diversification of multinational corporations, globalisation of R&D, and measurement issues of foreign direct investment data. He was educated at the University of Basel and at Hohenheim University where he graduated in economics. Corresponding address: Hohenheim University, Center for International Management and Innovation, 70599 Stuttgart, Germany. E-mail: stephanm@uni-hohenheim.de

Sources of new opportunities for supplier companies

Changes in value-added strategies of OEMs

Three value creation strategies have emerged as critical for German OEMs: outsourcing, globalisation, and platform concepts (Table 1).

Outsourcing

German OEMs have externalised a significant proportion of production since the beginning of the 1990s. This is in line with the core competence approach which preaches that a firm should no longer manage the development and production of most product components and parts in-house. A firm is much better off if its outsourcing strategy covers the entire value chain where suppliers and OEMs co-operate and possess distinct and complementary core competencies.[4] An automobile is a complex product that consists of several thousand parts and components which are combined to form larger systems and/or modules. From the per-

Table 1. Changes in valued-added strategies of OEMs in the 1990s

Changes in Value-Added Strategies	Motivation of OEMs
Outsourcing	To simultaneously achieve innovative products, short development times, competitive prices, and high quality standards
Globalisation of production	To facilitate local responsiveness to particular customer needs and to make use of low cost bases
Platform strategies	To simultaneously reduce costs, associated with product variety and complexity, by standardisation and meet multi-market objectives