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# Descriptors of Server Capabilities in China: cases of multinational companies subsidiaries

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**Abstract:** China with the huge market potential it possesses is an important issue for subsidiaries of western multinational companies. The objective of this paper is therefore to strengthen researchers' and practitioners' perspectives on what are the descriptors of server capabilities. The descriptors are relevant to determine subsidiary roles and as an indication of the capabilities required. These descriptors are identified through extensive literature review and validated by case studies of two Danish multinational companies subsidiaries operating in China. They provided the empirical basis for this paper. The characteristics of the subsidiaries were analyzed and the results suggest a number of descriptors of server capabilities.

## 1. INTRODUCTION

Western companies decide to offshore to emerging countries and their decision making have several consequences, one of such is the need to develop the required capabilities to match their subsidiary roles in the host country. But, the phenomenon is not well understood theoretically. Recent theorizing (e.g. Ambos et al., 2006) conceives subsidiaries as organizations with the potential to take initiatives, develop value-added activities and implement autonomous decision making. As multinational companies (MNCs) are confronted with the simultaneous need for global standardization and local adaptation, subsidiaries may differ in their role in an MNC's strategy, the scope of their operations, their set of responsibilities, the importance of the markets they serve, their level of competence and their organizational characteristics (Taggart, 1998; Jarillo and Martinez, 1990; Bartlett and Ghoshal, 1986; White and Poynter, 1984) and, thus, the server capabilities required to alleviate the pressure to reduce time-to-market, increase customer service, improve or adapt products to local tastes, and collaborate with customers (Adeyemi et al., 2012).

Server capabilities are the abilities to develop, improve, adapt, distribute, market and sell products based on learning, knowledge accumulation and competence development. In order to determine patterns of competence building in MNCs, Rugman and Verbeke (2001) developed an organizing framework based on three types of knowledge bundles: non-location bound firm specific advantages (FSAs); location-bound FSAs; and subsidiary specific advantages. The framework was developed by testing Bartlett and Ghoshal's (1989) classification of generic roles of subsidiaries based on the competence of the local subsidiary, and the importance of the local market to the parent company. Birkinshaw and Hood (1998) argued that a subsidiary's role and development could be determined by the interaction of the three

mentioned factors. This view is shared by Westney and Zaheer (2001) who maintain that a subsidiary's role is formed through a combination of its own capabilities, the decision-making processes of the MNC and the resources that are available in the local environment. Birkinshaw and Hood (2000) in their later work, present that the parents and local environment influences the determination of subsidiary roles and the additional influence of subsidiary management cannot be neglected.

However, despite many researchers' interest in subsidiary roles "... *there has been very little research that looks explicitly at the determinants of subsidiary roles*" (Manolopoulos, 2010). The next section introduces the research design of the study. Following a case description, the results are analyzed for the purpose of identifying the signifiers of server capabilities from extensive literature review. Based on identification, a number of descriptors of server capabilities are suggested. A discussion of the results is presented and the contribution concludes the paper.

## 2. RESEARCH DESIGN

An extensive review was conducted (Tranfield et al., 2003) of relevant operations management, strategy management and international business publications, found using title, keyword and abstract content. This approach was supplemented by a citation review of the key literature. EBSCO, ProQuest and Scopus were searched with Google Scholar used for triangulation purposes. Most articles were systematically analyzed from the early nineties and the most promising ones were selected for further analysis. As a result, a range of descriptors of server capabilities was identified. In order to validate and, if necessary, extend this set of descriptors, a qualitative approach, i.e. case studies of two Danish MNC subsidiaries was adopted. The data sources were; interviews with key informants, annual reports, press

releases, media material, presentation materials to customers and stakeholders, and other company documents.

The interviewees were contacted by emails and telephone calls were used to follow-up in scheduling a convenient time and place for interviews. The interviews mostly lasted for 2 hours and plant tours after the interview sessions were used to ease the fatigue of conducting interviews and to deepen understanding of the operations. A case study protocol was developed to guide the data collection, validation and analysis (while allowing the identification of unexpected data relevant to the study). Based on the data, the descriptors of server capabilities were identified and validated by peers.

### Case description

#### Case A

The company is a logistics, sales and service support unit for highly manufactured distinctive and exclusive range of products that combine technological excellence with emotional appeal. Its basic strategy is to replicate key functions from HQ to China but the local knowledge, marketing resources and proper product introduction skills are lacking in China. It has fifty-two (52) stores across the whole Greater China region to achieve its basic strategy, support growth ambitions, to be closer to the customers and to reinforce the brand awareness. Based on its growth initiative, case A has a new business area and partners with four orient state-of-art original equipment manufacturers (OEMs) having huge market share in China. To import products to China, it uses contract licensees before it got its importation license and it sells products through key account customers and master dealers.

The products and service kits have a warranty of three years. Because of B-B relationship, the products are sent to the Chinese facilities of all the partners except one of them. Case A shares knowledge with its' business partners in a range of areas with strong focus on their partnerships. Due to poor management of some of its dealership outlets, case A acquired some stores in China to initiate further growth and to set best-practice example of managing a dealership outlet. Case A's brand knowledge is limited on Chinese mindset and the companies' marketing budget has to be doubled to accommodate product launching at clubs and other means of accessing local consumers on social media.

Case A has partial autonomy from the HQ and it uses market scope, local market mindset, product design and sales with OEM and aftersales support to serve the market.

#### Case B

The company produces and sells wooden and steel structural products for support and aesthetics in specific industries. 100% of the raw materials are sourced from China e.g. plywood. About 50% other woods such as peach, berg, harps comes from Romania, while the remaining percentage comes from France and Germany. It is being processed by suppliers before purchase and it has to go through quality control inspection before use. Case B also process finished products. Steel is sourced from two distributors from a big steel company in China. It is better to produce steel related than

wooden related products in China owing to its' low cost of production than in the other sites. More than 90% of the products are manufactured in the Chinese factory and most of them are exported to the Danish site while approximately 5% are produced for other companies. Some of the products are seasonal, that is, they are produced during certain period of the year. The Danish site is involved in R&D, product design, production, marketing, and sales activities. Though, most of the product design is from Denmark but the Chinese employees are gradually involved with the design because sometimes, the design has to be adapted. A local Chinese company has been hired to work with the adaptation of product designs.

To sell products in China, case B has difficulty in dealing with just one distributor to a city unlike other countries where they operate through chain stores with products availability. Attempts to penetrate the Chinese construction market pose difficult in terms of acceptable price and quality. Although, EU does not have a common standard for case B's product range, the standard varies from country to country in Europe, but it is compulsory that all products are tested to meet the required quality and safety standard of each country. And a lot of investment is made in the quality control department in order to have the specified quality. Case B is not autonomous from the HQ and it uses product design, product adaptation, and products scope to serve the market. It also serves the market exclusively through retailers (i.e. chain stores).

### 3. RESULTS

On the basis of the existing literature we expected to find descriptors such as: strategic mandate, outset/configuration, local management, market scope, autonomy, level of knowledge outflows/inflows, product brands/variants, product specifications, resource inflows/outflows, we confirmed descriptors such as: strategic mandate, local management, market scope, level of knowledge outflows/inflows, resource inflows/outflows and also found local market mindset of (expatriate) employees and building informal market relationships as other descriptors.

### 4. DISCUSSION

We found that some differences exist between the two cases in terms of their server capabilities. In terms of process, case B must have benefited from high level of market relationship and accumulated experience in China. Case B has been delivering based on acceptable standards in export markets and its distribution network is also improving in the local market. Case A is exploring and developing its functional capabilities in China to redress the carefree attitude of its employees and loss of sales to exclusive master dealers. The effects have led to increased efforts to improve and further develop its positional capabilities. It is worth noting that case B recently started to serve the Chinese market in an effort to have local business presence and to diversify their customer base. Case A developed a new business area in an attempt to do likewise and in order to defend its' domain (Delany, 2000). Efforts are geared towards developing server capabilities though the level of autonomy from the HQ remains low for both cases A and B. It is interesting to

observe that both cases A and B have low management skills and low level of autonomy from the HQ. Perhaps this observation could be explained by their activities because they are not directly involved with new product development (NPD) and other related tasks though they could be useful at gathering information for NPD.

After the transfer of capabilities in the early stages, all the subsidiaries considered local site resources important in developing their own typical capabilities (Frost, 2001). And a number of studies have indicated the significance of the subsidiaries' environment as a prime source of new knowledge (Cohen & Levinthal, 1990; Lane & Lubatkin, 1998; Andersson & Forsgren, 1996, 2000; Andersson et al., 2001) that could perhaps aid organizational learning for the purpose of developing server capabilities. The level of control on subsidiaries' embeddedness (Andersson and Forsgren, 1996) could also be influenced by the application of different management skills and therefore impact the subsidiaries performance.

## 5. CONCLUSION

Based on a review of the literature and supported by data collected through interviews and the subsidiaries' documents, the principal contribution of this paper is to shed more detailed, albeit initial, light on "... the determinants of subsidiary roles" (Manolopoulos, 2010). Thus, the relevance of this paper is a presentation of a number of descriptors of server capabilities that capture companies' development, improvement, adaptation of products and processes and it further our understanding of building market server capabilities in China. The findings are tentative guides on how companies can maximize the benefits of their subsidiaries roles, and add to the theory on server capabilities development.

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