

Developing Dynamic Capabilities: The Case of Western Subsidiaries in Emerging Market

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Abstract : The purpose of this paper is to investigate the process of capability building at subsidiary level and the challenges to such process. The relevance of external factors for capability development, have not been explicitly addressed in empirical studies. Though, internal factors, acting as enablers, have been more extensively studied. With reference to external factors, subsidiaries are actively influenced by specific characteristics of the host country, implying a need to become fully immersed in local culture and practices. Specifically, in MNCs, there has been a widespread trend in management practice to increase subsidiary autonomy, with subsidiary managers being encouraged to act entrepreneurially, and to take advantage of host country specificity. As such, it could be proposed that: P1: The degree at which subsidiary management is connected to the host country, will positively influence the capability development process. Dynamic capabilities reside to a large measure with the subsidiary management team, but are impacted by the organizational processes, systems and structures that the MNC headquarter has designed to manage its business. At the subsidiary level, the weight of the subsidiary in the network, its initiative-taking and its profile building increase the supportive attention of the HQs and are relevant to the success of the process of capability building. Therefore, our second proposition is that: P2: Subsidiary role and HQ support are relevant elements in capability development at the subsidiary level. Design/Methodology/Approach: This present study will adopt the multiple case studies approach. That is because a case study research is relevant when addressing issues without known empirical evidences or with little developed prior theory. The key definitions and literature sources directly connected with operations of western subsidiaries in emerging markets, such as China, are well established. A qualitative approach, i.e., case studies of three western subsidiaries, will be adopted. The companies have similar products, they have operations in China, and both of them are mature in their internationalization process. Interviews with key informants, annual reports, press releases, media materials, presentation material to customers and stakeholders, and other company documents will be used as data sources. Findings: Western Subsidiaries in Emerging Market operate in a way substantially different from those in the West. What are the conditions initiating the outsourcing of operations? The paper will discuss and present two relevant propositions guiding that process. Practical Implications: MNCs headquarter should be aware of the potential for capability development at the subsidiary level. This increased awareness could induce consideration in headquarter about the possible ways of encouraging such known capability development and how to leverage these capabilities for better MNC headquarter and/or subsidiary performance. Originality/Value: The paper is expected to contribute on the theme: drivers of subsidiary performance with focus on emerging market. In particular, it will show how some external conditions could promote a capability-building process within subsidiaries.

Keywords : case studies, dynamic capability, emerging market, subsidiary

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