In the recent literature on the MNC the role of foreign subsidiaries has been increasingly stressed. There has been a shift from focusing on the efficient exploitation of a firm-specific advantage created at home towards realizing that subsidiaries have the potential to contribute to the strategic development and competitive advantage of the corporation. In *The Emergence and Impact of MNC Centres of Excellence* the focus is on subsidiaries that fulfill two criteria:

1. they are ‘excellent,’ i.e. they have some kind of distinct competence that give them a competitive advantage, and
2. they are ‘centers’ in the MNC in the sense of their competencies being of use for other corporate units. This book is the result of an international research project into the concept of subsidiary Centers of Excellence (CoE) and most of the empirical research reported in the book stems from the collaborative research project. The volume is edited by Ulf Holm (Uppsala University) and Torben Pedersen (Copenhagen Business School).

The book is divided into four different parts. The first part, written by the editors of the book, presents the international research project on CoEs, including the underlying research questions, methodology and some empirical observations. Within the research project, data were collected on 1,793 MNC subsidiaries located in Sweden, Finland, Denmark, Germany and the UK. The tentative conclusion based on a review of the whole data set is that CoEs are not uncommon and that they are most likely to emerge in development, production, and marketing and sales while CoEs in research are less common. The rest of the book deals with the determinants of CoEs, their development, and 2000 finally the use and integration of subsidiary competence within the MNC.

Part II, Determinants and Features of Centres of Excellence, begins with a conceptual paper by Mats Forsgren, Jan Johanson and Deo Sharma who present a comprehensive model of determinants of a subsidiary’s role as a CoE in the MNC. This chapter may be the theoretically most important paper of the book. Forsgren et al. persuasively argue that there may be an inherent conflict between the knowledge and competence developed in interaction with demanding, local business partners and the possibility and likelihood of that knowledge being transferred and used within the MNC. The context specificity of knowledge development by subsidiaries embedded in networks of demanding business relationships makes it more difficult to transfer knowledge. Furthermore, knowledge transfer often entails the engagement of expensive and often unique experts who are also engaged in, and needed in the competence development process of the subsidiary. A number of propositions are developed, providing a useful platform for future empirical research. Several of their propositions are in fact discussed further and tested in other chapters of the book.

Mats Forsgren and Torben Pedersen (chapter 4) draw on the framework developed in chapter 3, and test a model of the determinants of a CoEs based on data on 301 foreign-owned subsidiaries in Denmark. Their main result is that subsidiaries with specialized competence have the choice of either strengthening the relationships with organizations in the local business environment and becoming more autonomous, or becoming more involved in MNC strategies and learning and becoming a CoE. In chapter 5, Cecilia Pahlberg show through her case study how the main driving forces behind the subsidiary developing into a COE was the impact of its relationship with important business partners.
Part III is entitled ‘Development of subsidiary competence’ and consists of five chapters. Gabriel Benito explores the existence of foreign-owned CoEs in Norway, and investigates whether their emergence can be traced to particular economic sectors classified as industrial clusters. Benito finds a high degree of consistency between the self-reported level of competence across various activities and whether or not the subsidiary has been formally labeled a CoE. He concludes that perhaps close to one-third of the total sample of 255 foreign subsidiaries can be classified as CoEs. Benito finds some, albeit mixed support for the assertion that CoEs predominately appear in the sectors of the Norwegian economy with industrial cluster characteristics. In particular, their presence was substantial in the strong Norwegian maritime cluster.

The two next chapter deal with R & D in CoE. Lee Davis explores the role and importance of MNC research subsidiaries in Denmark. Of the 310 respondents in the Danish CoE project, just under a fifth of the total sample carried out research. Relatively more pharmaceuticals and chemicals subsidiaries conducted research in Denmark. The chapter by Prescott C. Ensign, Julian M. Birkinshaw and Tony S. Frost examines R & D CoEs in Canada. This chapter draws on the findings from a five-year study of the emergence of CoEs in foreign-owned units. The main conclusion of the research was that the emergence of R & D CoEs was driven primarily by external (local) sources of competence rather than MNC-internal ones. Another important finding was that the autonomy of the subsidiary was positively related to it being recognized as a CoE. The authors conclude that ‘we can see that R & D centres emerge through a drawn-out, path-dependent process that involves tapping into local sources of competence, initiative by subsidiary management, and a considerable amount of luck. Big new investments are extremely unusual, especially in the R & D area. Incremental investments building on the existing stock of activities are far more likely, and will probably end up with a stronger presence both in the host country and in the parent company’ (p. 149-150).

Karl Moore is the author of chapter 9, The competence of formally appointed centres of excellence in the UK. In a study of 203 foreign-owned subsidiaries, Moore finds support for his hypothesis that a unit formally appointed as a CoE will have competencies superior to those of a subsidiary without such a formal appointment. The findings are consistent with those obtained by Benito (chapter 6) in his research on foreign-owned units in Norway. While the positive relationship between competence level and (formal) CoE recognition appears to be clear, more research is needed on the interaction between the two. Also chapter ten by Mats Forsgren, Claus Mathisen and Torben Pedersen deals with subsidiary competence creation and MNC recognition. The chapter consists of a detailed analysis of LM Ericsson Denmark, a subsidiary of LM Ericsson Telecommunications Sweden. Based on their analysis of four different examples of how to acquire a role as competence, Forsgren et al. argue that a basic distinction can be made between the headquarters’ and the subsidiary’s role in the process. Another important factor is the level of competence in the subsidiary at the beginning of the process. The case also nicely illustrates the importance of the business network in which the subsidiary is embedded.

The final part of the book is on the use and integration of subsidiary competence within the MNC. Luciano Fratocchi and Gianni Lorenzoni examine how CoEs are established during the reorganization of an MNC following mergers and acquisitions. Two interesting cases of large Italian firms being acquired by European MNCs are described and analyzed: Nestlé-Casa Buitoni and Electrolux-Zanussi. In both cases, many of the MNC activities were redistributed as an outcome of the acquisition integration process, with the acquired units obtaining important roles within the MNC network of CoEs. This chapter points to the importance of conducting more research on international M & As, an area that remains under-researched by IB scholars (Melin, 1992).

Patrick Furto takes as his point of departure Bartlett and Ghoshal’s (1986) typology of subsidiary roles. In Bartlett and Ghoshal’s typology, subsidiaries located in highly competitive environments and with a high degree of competence are labeled ‘strategic leaders’. Based on a cluster analysis of foreign subsidiaries in four different countries Furto concludes that strategic leaders, compared with the other subsidiary types, are more deeply embedded in their local context (a finding that is consistent with those reported in other chapters), and that their research competence is used to a particularly high degree by other MNC units. Maria Andersson and Christine Holmström report on a case study of ABBGeneration, a subsidiary in the ABB Corporation. The subsidiary is shown to follow a process of three stages into a formal CoE: (1) identification of its specialized knowledge and its positioning vis-à-vis sister units, (2) the development of an informal role within the organization, and (3) formalized recognition by headquarters of its role as CoE. Andersson and Holmström describe this process in some detail and discuss the dilemma facing the CoE as its knowledge is integrated and shared within the MNC.

Finally, while some previous chapters have examined competence transfers from CoEs to other parts of the MNC, Ulf Holm and
Deo Sharma investigate the perceived contribution of CoEs to MNC performance. In a LISREL model and based on the Swedish CoE data, Holm and Sharma test both for a direct relationship between the capabilities accumulated in CoEs and their exploitation elsewhere in the MNC, and for an indirect effect on MNC performance via competence development in the MNC. The empirical evidence suggests that CoEs impact on MNC performance both directly and indirectly through MNC learning, with the latter effect being the stronger.

One of the strengths of this book is that it is organized around one key concept, and that most of the empirical research reported is based on similar data sets collected in multiple countries. Although some kind of dialogue between the authors of the different chapters would have even further improved the readability of the book, the common definition of CoE does allow the reader to compare empirical findings across the individual papers. The book makes an important empirical contribution to our knowledge about the existence of CoEs found among MNC subsidiaries in a variety of locations. Importantly, this volume makes a strong case for the local environment of the subsidiary in general and its embeddedness in important business relationships in particular as a key determinant of whether a foreign-owned subsidiary becomes a CoE. The theoretical model presented by Forsgren et al. on determinants of an MNC subsidiary’s role as CoE also provides a fertile base for further empirical research on this topic.

Where I find the book somewhat weaker is in its analysis of knowledge transfer from CoEs to other parts of the MNC. For instance, the impact of headquarters use of different control/integration mechanisms on knowledge transfer is not examined. As the editors also point out (p. 8), more work is needed on knowledge transfer in the MNC from a political perspective. Most of the empirical analyses reported in book also suffers from a common method error with the data collected through questionnaires filled in by one respondent in each of the foreign-owned subsidiaries. Some of the empirical papers would have benefited from a more critical discussion of the limitations of the analyses.

In conclusion, the editors should be commended for having produced an interesting and timely book on an important topic. It deserves to be widely read by IB scholars. It is less likely to become a best seller among practitioners.

References


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