Exploring the changing roles of Western subsidiaries in China – balancing global priorities with local demands

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Abstract
Over the past 30 years of economic development, the role of subsidiaries in China has changed. China has become an important host country for subsidiaries of western multinational companies seeking cost advantages and/or access to the emerging market potential. The objective of this paper is to explore the effects of the emerging strategic mandate of subsidiaries to serve local demands while meeting global corporate standards and operations priorities. We confirm well established dimensions such as strategic importance and operations capabilities while embeddedness into local business networks and level of process optimization are suggested as other dimensions that have contextual impact on a subsidiary serving a local market. These dimensions are established through literature review and validated by case studies of four Chinese subsidiaries of Danish industrial companies.

Keywords: Server capabilities, MNC, Subsidiary roles

Introduction
The workings of global operations has been a key concern for practice as well as research over the past two decades – the dramatic upsurge of the cost seeking motive for offshore operations experienced were initiated in most western counties in the 90'ties and although survey results still support the cost seeking motive as the key motive for offshoring, it has more recently been followed by an increased intention to capture the potentials opening-up in emerging economies such as the Chinese. This trend also indicates a transition from cost to market seeking operations. As China is attracting a growing number of investments from multinational companies (MNCs), which are not only oriented towards utilizing operations cost gaps, it becomes increasingly important to understand the indigenous resources and capabilities of these offshore subsidiaries, contextual implications, effects of subsidiary changing roles and thus to understand the build-up of server capabilities. Therefore, the development of MNC subsidiaries in emerging markets has gained more attention from practice as well as research. To many companies it becomes clear that serving an emerging market is not the same as serving western markets and serving, therefore, requires the build-up of local capabilities to qualify the company for local orders. Hence in broad terms it may be said that while global capabilities may still act as order winning criteria that overcome liabilities of foreignness (Zaheer, 1995), local capabilities ensure that the company is considered for the order.

From an operations process perspective capabilities represent a firm's ability to deploy its resources so as to achieve specific results. They are tangible or intangible processes that are firm-specific and are developed over time through complex interactions among the firm's resources (Amit and Schoemaker, 1993). Capabilities may also be regarded as complex bundles of resources, skills and collective learning, exercised through organizational processes that ensure superior coordination of functional activities (Day, 1994). Similarly, capabilities represent the means for acting-out a particular strategic role, and as such they are shaped by the strategic role of a subsidiary, but the two are not necessarily aligned. Capabilities - due to their experience based nature are always likely to lack behind the strategic role of a subsidiary. Understanding the dimensions that have contextual implications on the changing subsidiary roles are important in order to ascertain the attributes leading to the transformation and development of the local subsidiaries and its capabilities. In terms of practical implications, this perspective is important because subsidiary role change influences capability development within a local market context and that is recognized as one of the most sensitive business parameters as MNCs engage in different market contexts, where they are likely to be met with liabilities related to their foreignness (Zaheer, 1995).

The next section introduces the theoretical background of the study, which concludes with the research question of the study. Followed by a description of the research design, four case studies serve to illustrate the trajectories shaping subsidiary roles and their contextual implications. Then the case results are discussed against extant literature and the paper is concluded by a discussion of the limitations of the study and directions for further research.

Theoretical background

A subsidiary i.e. operational unit controlled by the multinational company (MNC) and situated outside the home country (Birkinshaw et al., 1998, p. 224). The term may refer to the totality of an MNC's holdings in a host country or to a single entity (such as a sales operation), and there may be one or many subsidiaries within a host country (Birkinshaw & Hood, 1998). Ambos et al. (2006) considers subsidiaries as organizations with the potential to take initiatives, develop value-added activities and implement autonomous decision making. That objects to previously held beliefs in two important ways. First, recent work points to models that question the strong hierarchical relation between an MNC's HQ and its subsidiaries, where all decision making is controlled centrally, and present a rather lateral network where multiple centers of excellence exist for different aspects of an MNC's businesses as stated by Hedlund (1986). Second, and in effect, the role of subsidiaries as passive recipients of HQ's mandates is questioned. As multinationals 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).

However, despite many researchers' interest in subsidiary characteristics during the 2000s (e.g. Birkinshaw et al., 2005; Benito et al., 2003), "… *there has been very little research that looks explicitly at the role of foreign owned subsidiaries in a host country*" (Hogenbirk and van Kranenburg, 2006) and the dimensions having contextual implications on subsidiary roles (Manolopoulos, 2010). In addition, subsidiaries in a local market (local subsidiaries) are changing roles autonomously due to the strategic importance of the local environment, leading to the development of activities according to subsidiary's transformed roles. The transformed roles lead to an aftermath such as developing the subsidiary which entails developing the capabilities required to function properly in the subsidiary's new roles. The transformation demands new operational configurations, proper management of existing capabilities and building of new capabilities so as to cater for arising challenges and to achieve desired operations. Taking a broad perspective a server can be regarded as an operational configuration that develop, improve, adapt, produce, distribute, market and sell products in a local market, specific region or host country only. As such, a server subsidiary is a local subsidiary with a server role that is supplying specific national or regional market. It has autonomy to adapt products and production methods suitable for local markets though, it has relatively developed capabilities. And, server capabilities are the abilities necessary to set up a new subsidiary to operational level and to facilitate the development of existing subsidiaries in order to serve a local market based on learning, knowledge accumulation and capability development. These server capabilities could help managers to gain acumen in resources allocation to a local subsidiary towards enhancing a subsidiary's server role throughout its international operations networks.

Subsidiary's role typology

Barnevik (1994) and Porter (1990) proposed a set of motivations such as: advantages of competitive positioning and informational advantage, economies of scale and scope and shortening product lifecycle among others, for firms to formulate their global strategies. Thus, the key decision making for a MNC has been centered on how to configure foreign subsidiaries to take advantage of the potential benefits of global operations: namely, gaining access to new markets, acquiring essential supplies, utilizing local skilled and talented labor, gaining access to knowledge spillovers, and taking advantage of multinational market positions. Although the selection of the location of a foreign subsidiary defines its initial role in the MNC's global network, new roles evolution of a subsidiary is influenced by the level of its capabilities (Kim et al., 2011). But, the studies of subsidiary management have focused on what strategic roles should be taken by subsidiaries from the perspective of global network optimization (Meijboom and Vos, 1997). Not much investigation has been conducted on the changing roles of subsidiaries serving a local market and its contextual implications from the subsidiary standpoint.

Accordingly, literature suggests a multitude of ways to classify the strategic roles of subsidiaries: Enright and Subramanian (2007) propose a four-dimensional approach based on characteristics such as: geographical scope, product scope and capabilities; White and Poynter (1984) classify subsidiary roles with dimensions like market scope, the types of product and the range of value-adding activities; Bartlett and Ghoshal (1989) describe subsidiary types using attributes like competence in the subsidiary and the importance to the company's global strategy. Similarly, Jarillo and Martinez (1990) suggest attributes like the localization of functional activities and the degree of the integrations of the activities to provide a classification of subsidiary roles. Gupta and Govindarajan (1991) characterize subsidiary's roles from the perspective of knowledge flows within the MNC across countries. Ferdows (1997) also contributed to the understanding of MNC's global operations by suggesting a framework of foreign plant (subsidiaries) that are: offshore, source, server, contributor, outpost and lead factories. Furthermore, Ferdows' framework has been tested extensively, its validity has largely been confirmed (e.g. Vereecke and Van Dierdonck, 2002; Maritan et al. 2004) and it has gained recognition (Meijboom and Vos, 2004; Vereecke et al., 2006; Feldmann and Olhager, 2013). But, we propose that the above dimensions are not fixed and could change along the path of subsidiary role transformation (e.g. transformation from an offshore to a server) in a local market. Hence, the relevance of exploring dimensions that has contextual implications on the role changes of a subsidiary and required capabilities to serve a local market.

The role change of subsidiaries

A subsidiary changes its role through an incremental process of integrating the various activities of the company (Malnight, 1995). The different roles that each subsidiary plays could be assigned to it by the MNC HQ or assumed by the subsidiary in an attempt to gain higher degree of autonomy. In a MNC network, some specific units are granted more autonomy, either because they have made their own strong strategic choices (Ghoshal and Nohria, 1989) or because they are perceived by a MNC as strategic. More autonomy is demanded by subsidiaries that face a local environment which is complicated and volatile, or in which consumers' demands for localization is strong, so that local managers can bring their crucial local knowledge into play (Ghoshal and Nohria, 1989; Gates and Egelhoff, 1986). Therefore, the role of a subsidiary, shaped mainly by the factors of integration and local responsiveness, may be a key determinant of its level of autonomy. Similarly, Hood and Taggart (1999) suggest three major factors in changing a subsidiary's role, that is, the task assigned by HQ, the subsidiary's choices, and local market forces. As such, strategic role changes demonstrate clear patterns of capability development that could later become a key capability.

In addition, Westney and Zaheer (2001) 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. Similarly, Birkinshaw and Hood (2000) in their later work present that the parents and local environment influences the determination of subsidiary roles and the added influence of subsidiary management cannot be neglected. As such, a subsidiary increasingly builds up its position in the local environment by acquiring alternative value-added resources with the help of external network partners (Schmid and Schurig, 2003) and that could influence the determination of subsidiary roles as an effort towards subsidiary development.

Following Hogenbirk and van Kranenburg's (2006) observation of the roles of foreign-owned subsidiaries in emerging markets and Manolopoulos (2010) suggestion to further explore the dynamics of these role sets, the research question of this study is: *how does the shift of primary strategic motive from serving global to local demands influence the capabilities and roles of local subsidiaries?* The answer to that question is a step in understanding the development trajectories of subsidiaries working under the diverging formative pressures of HQ and subsidiary with its contextual implications.

Research Design

The present study is of an exploratory nature which is for furthering understanding of particular issues or concepts which have not been deeply investigated so far (Eisenhardt 1989; Voss et al. 2002; Yin 2009). Following Tranfield et al.'s (2003) recommendations, a review was conducted 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. As a result, a range of dimensions that has contextual implications on the roles of subsidiaries and the required capabilities in a local market are suggested. In order to validate and, if necessary, extend this set of dimensions, a qualitative approach, i.e. case studies of four Chinese plants of Danish-based industrial companies was adopted. Interviews with key informants, annual reports, press releases, media materials, presentation material to customers and stakeholders, and other company documents were used as data sources. 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 2 hours and were complemented by plant tours.

A case study protocol was developed to guide the data collection, validation and analysis. An analysis of the case studies, particularly a confrontation of the cases with existing literature, aided the suggested dimensions determining subsidiaries roles and their capabilities in a local market context and that was validated by peer researchers.

Case description

Alpha

The company is a subsidiary of a western MNC with expertise in advanced compressor technologies. All its sales were focused on the European market, where the company sold a major part of its products and solutions through its sales offices and authorized distribution channels. In 2008 the company decided to move production and product development to China in order to provide better support for the local market, to facilitate production process and to avoid fluctuations in exchange rates. This meant that an entirely new capability would be required in China to fulfill local market demands. Alpha already sold its products for light commercial and mobile applications in China. To serve the Chinese market better and since it is autonomous from HQ operations; the company expanded its business focus by introducing household applications. Based on a new platform, the new series of household products were a significant upgrade to a range that covers the entire field of household appliances.

The manufacturers of household appliances can also save considerable R&D and production resources when optimization was needed by utilizing the efficiency of the products and the production process. Furthermore, the ratio between outsourced units and in-house production of the product have increased from 50/50 in the early 2000 to approximately 80/20 in 2011, requiring an augmented set of skills in the China office from purchasing to supply development. Through outsourcing, Alpha penetrate the local networks and exploits inherent benefits.

Beta

The company is a subsidiary of one of the world's leading pump manufacturers. It later grew to have sales offices in each region of China to support its customers. Most of the products and solutions sales in China were project related, and some through licensed dealers. The company moved production to China in 1997 in order to be present in a market that represents 25% of the company's global sales. Establishing operations in China brought with it the need to establish R&D there, too, to support global product development and to develop local products. However, the company's R&D was set up in China by employees without formal training or experience in R&D. Therefore, it took a lot of time to build R&D and production capabilities suitable for local operations.

Entering the local business networks is important so as to focus on the appropriate niche market because the Chinese market for pump manufacturers is strategically divided into three levels. Level A concerns strategic products that are sold to environmental treatment plants, governmental and world financed projects. Level B is where the company competes with local brands under another name which cannot be traced to it. The purpose is to prevent the local competitors from graduating into level A where the company is having a strong competitive edge. Competing on level B also gives Beta the opportunity to develop new product variants with local customers to achieve performance levels that no other company could promise. Targeting local customers, level C is where the company competes under an entirely different name as well, with lower-quality products, which cannot be traced to it. These products are adapted to local customers' requirement in order to aid the customer's business.

In order to adapt to local market conditions and so as to enhance the operation process, Beta also gives aftersales licenses to some accredited companies to coordinate their services. Likewise, it has reduced the number of its dealerships by upgrading some of the previous dealers to licensed dealers. Those upgraded as licensed dealers are the dealers who are big enough in terms of annual turnover or those that have shown a steady growth in their business with a close relationship with Beta. Beta is autonomous from HQ operations.

Gamma

The company is a logistics, sales and service support unit for a manufacturer of televisions, music systems, loudspeakers, telephones, and multimedia 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 and sales resources and proper product introduction skills are still not fully operational 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, Gamma has a new business area and partners with four orient state-of-art OEMs having huge market share in China. To import products to China, it uses contract import licensees before it got its importation license and it sells products through key account customers and master dealers. Because of business-to-business relationship, the products are sent to the Chinese facilities of all the partners except one of them. It also built relationships with non-conventional partners in order to be locally embedded. Gamma shares knowledge with its business partners in a range of areas with strong partnership focus.

Due to poor management of some of its dealership outlets, Gamma acquired some stores in China to initiate further growth and to set best-practice example of managing a dealership outlet. Although the corporate brand is well-established internationally, awareness in the Chinese market remains low and the companies' marketing budget has to be doubled to accommodate product launching at clubs and accessing local consumers on social media. Gamma has partial autonomy from HQ operations.

Delta

The company produces and sells wood and steel-based staircase solutions. Raw materials are sourced mainly from China and Eastern Europe while the remaining supplies come from France and Germany. The raw material is supplied as semi-processed materials, and the subsidiary's main task is to finish the processing and assembling the final products and performing quality control inspection. Steel is sourced from two distributors from a big steel company in China. And it is better to produce steel related than wooden related products in China owing to its low cost and ample supply. Consequently, more than 90% of steel based products are manufactured in the Chinese factory and most of them are exported to the Danish site but, approximately 5% of the volume is dedicated to sub-supplier work for local customers. The Danish site takes charge of R&D, product design, production, marketing, and sales activities. But, a local Chinese company has been hired to work with the adaptation of product designs to match local demands and standards. To sell products in China, Delta has difficulty in dealing with just one distributor to a city unlike other countries where they operate through chain stores with products availability. But, it built relationships with non-conventional partners so as to access local business networks and to be locally embedded. Delta has limited local autonomy and it serves the markets exclusively through retailers (chain stores) relationship, which is managed from the HQ primarily. Attempts to penetrate the Chinese construction market pose difficult in terms of acceptable price/quality mix.

Analysis

The four subsidiaries serve the Chinese market and table 1 presents a summary of important findings or strategies of the subsidiaries and their contextual implications. In the early developmental stages, essential resources and capabilities essential to act as a server role were transferred to the subsidiaries through employees within their internal network, HQ and sister subsidiaries, and worked under a collaborative effort from these, a transfer strategy which is well-known in the literature (Florida and Kenney, 2000; Adeyemi et al., 2014).

As such, the subsidiaries could tap into headquarter resources, established global customers and suppliers relationships, knowledge or competencies to act as a leverage upon which smooth operations could be ensured. The ability to sense and explore local opportunities enable subsidiaries to develop and transform from an initial mandate to a higher mandate, such as for example, from offshore to server. Hence, with such transformation it became important to interact with local suppliers, more local customers, across internal functions and with HQ to gather information for the advancement of local operations and development of products towards satisfying local customer's requirements.

Table I*: Critical findings/strategies and contextual implications*

Subsidiaries	**Critical findings/strategies**	**Contextual Implications**
Alpha	Proximity of production and product development in China Diversification of product application Outsourcing in China Focus on local sales Cross-functional collaboration	Embeddedness into local business networks to facilitate operations Low cost & support for local market as strategic priorities High level of operational optimization Autonomous from HQ operations Operations capabilities for operational set-up
Beta	Local production in China Market segmentation Cross-functional collaboration Local sales agents Localizing through aftersales licenses and dealerships	Excess time in building operations capabilities Penetration into local business networks Development of operational process Autonomous from HQ operations Low cost & market focus as strategic importance
Gamma	Diversification into new business area Cross-functional collaboration Wide coverage of customers through partnerships Replicate key HQ functions Emphasis on subsidiary's values and norms	Proximity to market as strategic importance Contract licensees to optimize operations Budget increase in order to get into local business networks Partnership to leverage operations capabilities Partial autonomy from HQ operations
Delta	Chain stores to access specific markets Cross-functional collaboration Offshore production site Investigating local markets & sales agents	Expansion of operations Low cost as strategic priority Upgrade of operations capabilities so as to adapt products locally Not autonomous from HQ operations Embeddedness into local business networks in order to attract new customers

As a result of that, subsidiaries seek autonomy to reduce the control of headquarter in their operations. A transformation from subsidiary's initial basic responsibilities and standard products supply to an independent operational entity has both benefits and challenges. To resolve the challenges that subsidiaries face while operating in a local market requires the ability to leverage headquarter competences (Bartlett and Ghoshal, 2002) as well as access to external partners' relationships in order to build server capabilities. Such server capabilities could enable subsidiaries to fully explore, respond to local market opportunities/dynamics and to cope with operational difficulties in order to satisfy global and local customers while setting up a subsidiary to operational level. Based on the case subsidiaries, all the subsidiaries except for Gamma have production activities in China so as to be closer to the market they serve and to reduce operational complexity while adapting and developing products for the Chinese customers.

Furthermore, Gamma initiated a new business area and partner with four orient state-of-art OEMs having huge market share in China in order to reinforce its brand awareness and to share knowledge and site resources. 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. It also built relationships with non-conventional partners in order to be socially embedded in the local market. Alpha and Beta have promoted the development of their initial outsourcing partners through training and effective collaboration practices. More involvement of the outsourcing partners' right from the early stages of product development and introduction has helped them to develop capabilities for process integration and local responsiveness. On the other hand, Gamma is relying on its importation of components and products, and therefore depends on the effective performance of its insourcing agents (e.g. UPS) in order to optimize its processes and to reduce lead time delivery of products to customers. Alpha and Beta enjoy extensive autonomy from HQ in their operations which enables quick decision making in connection with the exploration and exploitation of local resources to meet local customers' demand.

Gamma has partial autonomy from HQ in its operations, Delta is still dependent on HQ in its decision making and operations processes, though it is coping well due to its possession of some server capabilities to optimize its processes and for integration in its internal network. Alpha outsources about 80% of its operations due to lack of technical capabilities while Delta outsources a small percent and produces more than 90% of its products due to availability of raw materials and production capabilities. Beta and Gamma used aftersales support as a way of relating to customers, accessing local social networks and for information gathering purposes. In contrast, Delta sells its products exclusively through retailers (i.e. chain stores) in the European market but the approach is difficult to adopt in China due to differences in mindset and buying culture. Master and licensed dealers (Gamma), authorized distribution channel and local sales offices (Alpha and Beta) are used for product sales and to penetrate local business networks. Moreover, subsidiary role may be drawn from its mode of entry into a geographic market, the strategy of HQ/subsidiary, local innovation, customer relationships or supplier relationships. Relationships between HQ and subsidiaries led to the transfer of capabilities in the early stages based on fixed templates detailing the mode of operation. However, as the particular conditions of the subsidiary surfaced the standard practices from HQ were open for adaptation as illustrated in the cases. All the case subsidiaries demonstrate the strategic importance of the local opportunities by establishing a significant operations footprint and slowly redirecting capacity from export to serving local demands as well as by diversifying into new business area (Gamma). This capacity redirection is required to cope with the mandate gain such as from offshore role to server role which demands a mix of existing and new capabilities to match the transformed mandate - server role.

Alpha, Beta, and Gamma specifically exhibit that strategic importance as a result of their proximity to the Chinese market while Delta reflects its relevance due to low-cost production. The scope of all the subsidiaries current activities is increased in China compared to when their primary motive was mainly to access low cost production (offshore role). The increased local operations as a consequence of the strategic importance of the local opportunities is in line with the suggestion of Bartlett and Ghoshal (2002) that strategic importance encourages local subsidiaries efforts to adapt and leverage parent company competences, knowledge developed for foreign operations, their marketing and sales culture and established local customers' relationship. As a result of that, the dimension - strategic importance of local opportunities supports the findings of Bartlett and Ghoshal (1986) in the dimensions of their original subsidiary typology and the framework of roles of foreign factories (Ferdows, 1997 & Kim et al., 2011). Hence strategic importance is affirmed as a key contextual factor that influences the role of a subsidiary and consequently its capabilities. Following Bartlett and Ghoshal (1986) the relevance of capabilities required to serve a local market was evident in the analysis of the four subsidiaries. Diversifying or adapting product applications to local conditions demands new sets of operations capabilities different from that used for global products applications. Leveraging and upgrading of operations capabilities were evident across Gamma and Delta in order to match desired operations level of internal processes within the subsidiaries. So as to cater for the demand of new capabilities as the strategic motive is changing from serving global to local demands. This argument is in line with the transfer strategy suggested by Florida and Kenney (2000) whereby resources and capabilities required to fulfil a server role are transferred from internal networks, HQ or sister subsidiaries to the server subsidiary.

The competences and experience dominant in the four subsidiaries are expressed as knowledge based resources; market relationship and managerial skills/authority and that could be linked to the resources enhancing internal operations and those resources could influence the strategic role of a subsidiary according to the framework of Bartlett & Ghoshal (1986), Ferdows (1997) & Kim et al., (2011) and consequently the capabilities to match such roles. The devotion of time used by Beta in building R&D and production capabilities depicts the necessity of operations capabilities in adapting products to local market requirements. As such the product requirement of a local market influences the required capabilities by the subsidiary serving that market. Alpha's expansion of business focuses by introducing household products in order to serve the local market places a demand on operations capabilities to accomplish the production activities in China. Thus, operations capabilities are another dimension that has contextual influence on the roles and capabilities of a subsidiary.

Alpha and Beta could develop higher levels of management skills than the others, as a result of their concerted efforts to explore the local markets and to increase local R&D activities aimed at reducing production costs and to serve the demand of the Chinese market. The development of higher levels of management skills builds on Birkinshaw and Hood (2000) that the influence of subsidiary management cannot be neglected in the determination of subsidiary roles. Meanwhile, Delta has been delivering products based on acceptable quality standards in export markets and its distribution network through its embeddedness in the business network of the local market is improving. Gamma is exploiting and developing its local business networks in China through access into social media. As such, some of the subsidiaries used local sales offices, authorized distribution channels, outsourcing (Alpha) and market segmentation (Beta) to get into local business networks. On the other hand, Gamma used diversification into new business area and partnerships (Gamma and Delta) to get more involved in the local business networks in order to serve local markets.

The new business area that Gamma has developed is an attempt to develop its domain while managing its customer relationships and gathering information for innovation. The domain development initiative is supported by Delany (2000) as a pursuance of new business opportunity in a local market. As earlier mentioned, involvement in local business networks found support in the work of Birkinshaw and Hood (2000) where it is stated that local environment influences the determination of subsidiary roles. Likewise, it builds on the suggestion of Hood and Taggart (1999) that local market forces (as experienced through diversification and partnerships by Gamma and Delta) is one of the major factors that influence the transformation of a subsidiary's role. Similarly, embeddedness of subsidiaries in local business networks builds on the work of London and Hart (2004) that local business networks and partnership with local actors is strongly related to subsidiary's performance and the responsiveness of a subsidiary to local market as revealed by Jarillo and Martinez (1990). Considering the four subsidiaries initiatives to get involved with local actors so as to serve local market demands hence, embeddedness into local business networks is another dimension that influences subsidiary role and its capabilities as the subsidiary mandate evolves.

In terms of the level of process optimization, Alpha, Beta and Delta must have benefited from high degree of market relationship and accumulated experience of HQ, which had first entered China through the operations of local sales agents. The benefits reflect in the high level of their production process optimization and responsiveness to local requirements. In addition, licensed dealers (Beta), contract import licensees (Gamma) and low cost production of steel compared to its other sites (Delta) was adopted to eliminate sloppy activities and to increase the efficiency of their operations process. Gamma used insourcing agents to improve and further optimize its processes while it increased efforts at sensing and orientating towards local market requirements. The respective optimization activities of all the subsidiaries such as leveraging on existing business relationships, experiences and local market accumulated knowledge to increase operational performance are relevant as the local subsidiaries shift motive from serving global to local demands. Therefore, another dimension determining the role of a subsidiary and its capabilities in a local market is the level of its process optimization. In addition, Hood and Taggart (1999) build on the role of HQ by stating that the task assigned by HQ is one of the major factors in changing a subsidiary's role. As such, the role of headquarter depicted by the level of autonomy of local subsidiaries operations was evident as dimension of subsidiary role in Alpha and Beta but lacks strong support in Gamma and Delta perhaps due to their dependence on HQ operations.

Conclusions, limitations and further research

Based on a review of the literature and supported by qualitative data collected, the contribution of this paper is to look explicitly at the role of foreign owned subsidiaries in a host country (Hogenbirk and van Kranenburg, 2006) with its contextual implications and to increase our understanding on resolving the challenges faced by subsidiaries (Reiner et al., 2008) while operating in emerging markets in order to attract more investments by introducing a set of dimensions that have contextual impact on a subsidiary serving a local market namely; strategic importance, operations capabilities, embeddedness into local business networks and level of process optimization. The contribution is relevant because the shift of primary strategic motive from serving global to local demands influence the capabilities and roles of local subsidiaries based on the presented dimensions. That gives an insight into addressing the challenges of setting up a new subsidiary and/or developing subsidiaries to operational level in order to serve a local market. As a managerial implication, the dimensions could guide managers to ascertain the role of a local subsidiary, the required capabilities to match such role and to exploit such capabilities for the benefit of that subsidiary or other subsidiaries in the international operations network. Managers' understanding of the significance of embeddedness in local business networks for growth and expansion could be improved. Similarly, Managers' could enhance their perception of adapting practices and strategies for future prosperity in order to serve local markets.

The study suffers from the usual limitations associated with the use of qualitative methodology. While it aims to provide an essential platform, further, larger-scale, research will be needed to test, and generalize beyond the Sino-Danish context, a set of dimensions that have contextual impact on a subsidiary serving a local market that is proposed in this study. The authors wish to express their appreciation to the Sino-Danish Center for Education and Research (SDC) for funding this study.

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