Business and business-to-consumer markets

Business

With more than 105. 000 employees spread across more than 140 countries worldwide in 2000 (www. ericsson. com) LM Ericsson (LME) is the world's largest supplier of telecommunications equipment. Ericsson presents itself as a full-range provider serving both in the Business-to-Business and Business-to-Consumer markets. LME is very much a global company with local companies serving the various markets. However, despite the worldwide presence, LME has always had a strong base in the home market, with around 45 % of the workforce employed in Sweden, and most production and R; D undertaken in Sweden.

The overallresponsibilityof product development of this very knowledge intensive company remains firmly in the hands of the parent company and central Swedish product developments units. These units then delegate the responsibility of certain products to different development centers. LME uses the so-called Design Center concept, which enables the access of all global development units to all development resources. This enables the central product development units to benefit from the specific competencies that the different subsidiaries possess. The Design Center status is given to subsidiaries that have acquired critical resources or special competencies within special disciplines.

Furthermore, some subsidiaries have gained a status of a competence center. These competence centers have been given the overall global responsibilities of developing and maintaining a certain competence field. Typically, the competence center will have the decisive influence on the new product development issues within their particular field. Thus, the role of

these centers is more of a managerial character than that of the design centers.

One specific feature of the LME is an internal rating system, which is to determine where the responsibilities of the various competencies are to be placed. Criteria such as technological development skills, cost of development, market knowledge and understanding the production quality are used to rank the different design and competence centers. Consequently this encourages the subsidiaries in improving their performance, since high rankings will provide more participation in future R; D projects.

In reality, all LME divides its two operations and activities into two axes - a market axis and a competence axis - thus, creating a responsibility matrix. The market axis is then subdivided geographically into global and local responsibility. The competence axis is a product-market development responsibility axis, where units are responsible either fortechnologydevelopment or market development, thus making product and market responsibilities two separate functions. This means that subsidiaries do not specifically develop products for their own particular market, but works on developments within the subsidiaries' competence area.

Ericsson products are placed in a large product pool - also known as the LME global technology product pool. Here, all the individual Ericsson companies prepare their offers to the respective clients. Thus, there is not a direct link between the local market responsibility departments and the local product development departments

This section will briefly present four different competence areas where LMD is responsible for the global product development area.

The first case displays LMD's involvement in the development of the service telephony system. Initially, the local public owned Danish telephone company, KTAS, which held regional monopolies at that time addressed LMD with a request of this technically sophisticated system. KTAS would even guarantee orders for pre-specified quantities. LME saw an opportunity to use Denmark as a good test market, since this market was perceived to have a high degree of client sophistication. Even though LMD had not developed a competence in this particular area they were still given the internal status of global competence center for this system. This shows how external factors coupled with headquarters approval can determine where competencies are delegated.

The second case concerns LMD's involvement with their own subsidiary Diax, who now holds the status of both a high engineering design center and competence center in a small niche sector of public switching systems. LMD started their involvement in 1989 through the purchase of 50% of Diax and by 1996 this had increased to 75%. Even though Diax is now very much integrated within the LME organization they continue to be somewhat independent.

An example of this is the fact that the product competence within small switches and radio-based access net still is situated apart from the rest of the LME Corporation. This case is a good example of LMD, identifying a valuable competence in Diax, acquire it and then integrate it into the

composition of the LMD structure. Due to the relatively high degree of independency they have managed to develop their own competencies, and only then has this been officially acknowledged by LME as a competence responsibility area. Still, LME has allowed Diax to be independent to some extent from the LME organization.

The third case illustrates how a combination of high quality LMD resources on the one hand and strategic headquarter factors on the other hand gave LMD an official competence mandate in a specific area - the Network Service and Control. In essence, a programming personnel shortage in 1997 in Sweden forced LME to either slow down the development process or delegate the full competence responsibility to a subsidiary.

The allocation of the competence required extensive network traffic and since this was rather costly at this time, geographic proximity was a major consideration of LME. In addition, the parent company reasoned that it was easier to control the development if it was within Scandinavia. This case displays how strategic considerations by the parent company and location-specific advantages in LMD made central management decide where to delegate this particular competence responsibility. Moreover, it shows a situation where a competence was delegated before it was developed by LMD, meaning that LMD had the basic programming skills to take on such a competence but it was not yet developed.

The last case concerns the Access network management, and is an example of a strong commitment from LMD in attaining a certain competence responsibility in close competition with other units of the LME organization.

Although not officially recognized as a competence center by LME, the subsidiary here uses its own 'slack' resources to acquire knowledge and competencies in what they hope eventually will be officially delegated to their responsibility scope.

Here, the value of the internal rating system mentioned above is displayed. The different units compete internally in claiming the various competencies, which they believe should belong to their particular unit. LMD, in particular, feels somewhat downgraded by LME after the latest restructuring in 1997, and they are very keen on regaining some of the lost ground that the Access network management competence would provide. This case shows that there is not always a formal objective with regard to profitability. Conversely, the objective here is that of developing new products or competencies and thus, promoting LMD's position within the LME organization in an attempt to participate in new corporate projects.

These four examples show how very distinct factors and conditions contribute in organizing the competence responsibilities throughout the LME organization. It also displays the various means of interplay between headquarter and the subsidiary. Basically, two types of driving forces shape the process. The first one relates to the role and the strategic position of the parent company, whereas the other has more to do with the subsidiary's own capability position. Moreover, it shows the variety of factors deciding the delegation of competence responsibilities. In some cases the competence is developed before it is delegated, and in some cases it is developed after it is delegated.

The driving forces behind the development processes leading up to some subsidiaries becoming competence centers differ. Of the two drivers of evolution covered in this paper Ericsson uses both the parent- and subsidiary-drivers complimentarily. In some cases (the service telephony system and the network service and control) a strategic choice is made at the parent company assigning specific areas of responsibility before competencies are developed. These cases are pictured on the left hand side of figure 5. 1, and are typical examples of parent-based drivers influencing the position and evolution of the subsidiary.

On the other hand, LMD has the leverage to use some of its own 'slack' resources in areas that they are not yet directly responsible for (Access network management). The purpose here is to develop knowledge and competencies that will provide LMD with competitive advantages vis ï¿½ vis other subsidiaries. Consequently, the parent might then officially appoint that specific competence to LMD. This pull mechanism displays how the subsidiary-based drivers are also contributing significantly to LMD's evolution. The right hand side of figure 5. 1 shows the two cases where the subsidiary-based drivers are most influential.

Both parent and subsidiary can be more or less active in the process of development. The third case (Network Service and Control) is a good example of a parent-based driver where the active parent delegates a competence to the passive subsidiary, which has made no particular effort to gain that competence area. Conversely, the fourth case (Access network management) demonstrates how LMD is very active in acquiring knowledge

and competencies in order to persuade the passive parent company of their rightful claim to that competence.

The cases also illustrate the importance of specific external relationships in situations where the processes are competence driven. In the two cases, involving the service telephony company and Diax, the regional collaboration between the subsidiaries and localenvironmentmade the difference. In the service telephony company case the official competence was delegated by the parent company, only because there was a special local demand, which guaranteed sales of predetermined volume. In both cases the local business network turned out to be the decisive forces, which in collaboration with the subsidiary, secured the approval of the competence responsibility.