

# Case study sap establishing a research center over china

[Business](#)



New York Stock Exchange (NYSE) in SQ World's leading provider of e-business software solutions Third-largest Independent software vendor on the planet Company supports its customers with special programs designed to help them emerge from the 2009 economic crisis. Cutbacks, SAP is able to improve its operating margin despite the difficult circumstances. Double-digit growth shows that more and more customers are turning to SAP's software innovations. FUTURE INVESTMENTS SAP announces its plans for growth in emerging market economies such as Brazil, India, Russia, and especially China= ERR 2 Billion World leader in enterprise applications In terms of software and software-related service revenue World's third largest Independent software manufacturer A 40-year history of innovation and growth.

More than 55, 765 employees in 130+ countries.

Annual revenue (FIRS) of, ~ 14, 23 billion = \$18, 66 billion US dollars (2011)  
 1994 1998 2000 2003 Early History 1979 Goes public SAP GAG Fast Track  
 SAP Shanghai ninth opening of a development location 2005 2007 2010  
 2011 The SAP HANNA platform, enabling them to analyze data in seconds  
 SAP announces its ERR 2. Billion acquisition of Subcontractors, the leading provider of cloud applications. SAP's Financial The SAP R/3 system is released for Windows Workforce = 24, 000 employees in over 50 countries  
 Revenues, ~6. 3 billion 23% increase SAP decision to construct SAP Labs Shanghai Pudding Software Park.

2006 Along with SAP Germany, SAP Austria, SAP Chile, SAP Indiana y del Carrie, SAP Mexico, and SAP Region Sure win SAP Labs India receives the

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distinction “ Recruiting and Staffing Best in Class” Software revenue of ERR  
1. 5 billion best quarter in SAP’s history.

SAP branches out to linens in Austria and France Wave of the Future Opens  
subsidiaries China South Africa, Malaysia, Japan, the Czech Republic, Russia,  
and Mexico 1992 1996 Strategy, Structure, and Rivalry Related & Supporting  
Industries Factor Endowments SAP offered competitive salary, participation  
in local high-potential programs, foreign visits, the opportunity to work with  
global counterparts, and for long-term senior staff, a subsidized car policy.  
SAP set up programs to build relationships with China’s top 10 universities in  
computer science Staff traveled to local universities to develop and maintain  
contact with their referrers. SAP Human Resources set up a number of  
programs to help promote PhD internships at SAP Research.

Stanford University three-month summer internship positions an incentive  
for top Chinese interns Finding talent difficult = 1% of master and PHD  
graduates with same Difficult recruiting managers from abroad to China  
Compensation Wars for local talent Expatriates recruited also very expensive  
Difficult to retain staff due to high opportunities ” problem for project that  
require 3-7 years Annual raises were common up to 15% or more Top  
graduates expected a high level of personal engagement Recruiting  
Challenges Solutions Key decision making for SAP Labs in China  
Recommendations Support of long-term investment in technology and R&D  
Tax incentives Reduced 15% corporate income tax 150% deduction for R&D  
expenditures if R&D spending has increased by 10% from the prior year  
Access to cheap land Establishing facilities in China eases market access

premise to sell products Government allows easier access to clients

Relationship building is very important Political stability supports long-term investments Some Facts 1.

Million employees CARR: 29% over past three years 20, 719 firms in software industry High market potential only 45% of companies had adapted ERP systems Demanding customers due to specifications of Chinese market Rapidly changing and developing market Market of the future: trends can be identified here Strong development of general Chinese economy Limited competition, mostly smaller companies with focus on Seems SAP is market leader in large enterprise segment Focus of strategy is to deliver high quality software as a standardized solution with constant improvements and innovation SAP's structure: Geocentric firm sets the basis for successful operations in China Homogeneous company culture Collective decision making "pulling on one string": interdependent subsidiaries Partners are available, yet neutralized: Hawaii became SAP's first Chinese partner in July 2012 Supporting industry is not as important as in other industries business outcomes are knowledge based only little up- and downstream activities Infrastructure Capital Resources Knowledge skilled, hard-working, striving, aspiring workers: paper. 2. Million graduates Workforce is comparatively cheap: 5000 - 9000 RMI per programmer 20, 000 - 30, 000 RMI per SAP consultant Competition for skilled university graduates is rough Access to information available, forever on a limited basis due to restrictions imposed by the government (such as controlling the internet), Internal knowledge can be built up through exchange with other SAP sites High availability, large inflow of FED, especially in high technology sector Capital is relatively cheap

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Different sources of financing available Cheap availability of land and office spaces, especially in software parks Other physical resources do not play a big role Software parks support the exchange of knowledge, lead to innovation, low communication costs Modern internet connections allow for highnesses communication with sites wrought the world Threats Wage levels rise in China companies already start moving to SEAN countries Loss of IP due to violations and copyright infringements Intercultural problems might become an issue Hefted: cultural distance between China and Western countries is very high Language barriers Time zone barriers General Threats Unfamiliarity Hazard Incorrect market assessment: Do Chinese firms really want to have standardized software Inadequate knowledge of country's norms, values, culture, business conduct Lack of embeddings in local networks (suppliers, customers, governments...

Relational Hazards Costs within the organization caused by geographic distance and limited flow of information Discrimination Hazards: Differential treatment of SAP by government, customers, employees Liability of Foreignness Transnational Index Why Shanghai? Why SAP Labs in China? Why locate in a Software Park? Recruiting Decisions SAP Labs China SAP chose the Integrated R&D Network Approach to manage its worldwide R&D sites successfully R&D networks should follow two principles: Subsidiaries: whatever can be managed by a decentralized unit should not be taken care of in the center

Moving centers of gravity: decentralized units take over projects if they are better in doing them than others Create a good working atmosphere Care for

employees' families Assign interesting & challenging projects Give responsibilities to researchers Conduct intercultural trainings Offer attractive compensation packages Allow researchers to focus on research 0 - administrative work should be minimized Offer trainings and exchange with other R&D institutions Attract top talented and universities Provide support for workers who move to R&D site Choose renowned local researcher with international experiences as a lab leader: technological gatekeeper" Include local managers with multicultural experiences to act as cultural mediators Facilitate integration through mentors One of the key success factors is managing humans - hiring and retaining talents accounts largely for the success Experienced managers and experts have to be transferred to new R site to share process knowledge, routines and culture which will improve the quality of the work and will make the R site an attractive place to work at.

Attracting talented employees sets the cornerstone for successful R outcomes - contacts to universities are extremely valuable Recruitment Retention By holding turnover rates low, knowledge will be kept in the company and has the potential to multiply Each R site is on the same level R sites are closely interconnected by means of flexible and varied coordination mechanisms Each R site specializes in a particular field of research 0 development of " competence centers" Multi-dimensional coordination & information is necessary + Coupling of specialization and synergy effects + Global before local efficiency + Organizational learning across many locations + Exploitation and refining of local strengths - High coordination costs Complex institutional rules & decision processes Key Characteristics 1 Long-term strategic vision for R site should be set Clear assignment of tasks <https://assignbuster.com/case-study-sap-establishing-a-research-center-over-china/>

and responsibilities for site Outlook for development 0 growth plan Quick first successes to strengthen respect and reputation for research work Determine appropriate size of R site for each development stage Closeness to business units Cooperation with universities and local research institutes to get fast access to new knowledge and developments Attracting new employees by close ties with universities Getting access to informal networks to gain insight information and knowledge

Searching contact to companies to be close to the market/customers Regular visits by top managers should underline importance of new R site Promote research outcomes New site should be considered to be equal among other R locations Positioning as high-end research organization, which increases motivation and attractiveness for new employees Top management support is crucial to success of R site Appropriate resource allocation in terms of money, time, and people needs to be guaranteed Senior management has to be an advocate of new R site Incentives for managers should include components based on success of R site Besides managing employees, several other key areas including attention for R site and sponsorship have to be tackled Top management team commitment, support Led by managers with technical expertise and in-depth organizational knowledge Guidance and monitoring of R sites Virtual teams are the key success factor for successful team work Establish processes & infrastructure for efficient communication Allow for visits by granting travel budgets Create a strong corporate culture Encourage taking responsibility, initiative and self-leadership 360-degree feedback Transfer of experts & managers who spread routines, culture and processes

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Cooperation & exchange between competence centers Know-how and technologies need to be transferred and easily accessible throughout the organization Cross-functional and cross-dimensional communication has to be ensured over different channels, such as Visits, personal meetings, conferences, employee exchanges & trainings 0 set budget for traveling & exchange Intranet 0 To prevent the “not-invented-here syndrome” Central staff department should support decentralized units Alignment of corporate strategy and R&D strategy Clear allocation of research focus to prevent duplication competence centers should have a clear focus, should set research agendas Processes & Organization Leadership & Collaboration Strategy To successfully manage the integrated R&D network, SAP has to set the right course Attention for R&D site Strategy Cooperation Sponsorship The measures serve to increase identification, internal transfer and absorptive potentials Location matters Firms need to seek resources (esp... Advanced) Firms should seek to be located in clusters First-mover advantage matters Heavy investments to scale up quickly and ride down the experience and scale curves can lead to global market leadership Particularly relevant since software industry relies on economies of scale Government matters Build efficient Guiana with local, regional and national government Getting and retaining qualified employees matters Invest in people since they are the key driver of business success Lessons Learned Huge market opportunities as mentioned before Limited competition Low barriers to entry Support from government Relatively low research costs High potential for innovation and new designs catered to specific Chinese market Chinese government potential customer



SAP Labs close to manufacturing centers = easier logistics Incentives by government for Software parks including Tax incentive, inexpensive land leases or sales Software Possible Joint research opportunities Campus living incentives for employees Announced in 2007 that SAP Labs would reside in Pudding Software Park In Shanghai Gains Perils Gains Competition from local Chinese competitors “ Transaction cost” of maintaining Global communication between SAP LABS Protecting IP for software industry 37% report recruiting talent their largest problem Limited sources of funding from headquarters expecting cheap expenses and high rewards Perils Shanghai Beijing China’s top universities Consanguine Technology Park houses Google, Intel, MAD, Oracle Corporation, Motorola, Sony, and Ericson and Microsoft= Joint research opportunities Great atmosphere for collaboration and networking “ Silicon Valley of China” Close to customers and government Higher competition for researches Pudding Software park not as big as Consanguine Less competitive for talent Shanghai Software Park offers better infrastructure Access to skilled employees International city attractive for foreign managers and their families Closeness to resisting SAP firm and development lab = consolidation Relationships had already been established with local customers, suppliers, and local employment market Software Park Comparison Consanguine Pudding Shanghai Beijing Why locate in a Software Park? Macro Comparison Why Shanghai ? Recruiting Decisions Thank you 70% to 80% of new hires for SAP Research China would be fresh graduates Attrition rate of only 8% despite more competitive packages from other companies. Results Guiana Long history in China First mover advantage R&D

less barrier to entry SAP Labs increases credibility Guiana more for  
customers China Gob potential customer