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An investigation of marketing capabilities and upgrading performance of manufacturers in mainland China and Hong Kong

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ABSTRACT

Although Chinese manufacturers are considered as latecomers or followers in global commodity chains, they have also been experiencing rapid progress in upgrading performance from own equipment manufacturing (OEM), original design manufacturing (ODM) to own brand manufacturing (OBM). Current literature on the global commodity chain has focused primarily on economic conditions that help explain manufacture upgrade while giving limited attention to what marketing capabilities support and sustain firm competitiveness through upgrading. This article examines eight different marketing capabilities to assess influence on manufacture upgrade performance. A survey of electronics manufacturers in mainland China and Hong Kong shows the significance of individual marketing capabilities and implications of their interdependency for manufacture upgrade performance. In particular, product development, marketing communication and channel management capabilities are crucial for manufacture upgrade. The results also highlight the importance of selective marketing capability development and the potential of secondary support for the relationship between substantive and dynamic capabilities.

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1. Introduction

The inexorable growth of China's economy after a series of economic reforms post 1978 has primarily been supported by its manufacturing industry. The gradual process of economic liberation in attracting foreign investment was initiated through the Pearl River Delta region in the Guangdong province north border of Hong Kong (Berger & Lester, 1997). This area has been the fastest growing economic region in mainland China and an economic gateway for Chinese manufacturers dealing with foreign multinationals. With intense regional and global competition, Chinese manufacturers are under growing pressure to upgrade from being low-cost to

value-added producers of proprietary technology underpinned by brand reputation in the global commodity chain. A focus on the China experience in manufacture upgrade is timely and noteworthy. China has sustained its economic growth for more than two decades with a gradual and uninterrupted economic transition (Boisot & Child, 1996; Tan, 2007), and Chinese enterprises account for 96% of the country's industrial markets (Li, 1998).

The process of manufacture upgrade can be described as progression along a value creation chain from own equipment manufacturing (OEM), original design manufacturing (ODM) to own brand manufacturing (OBM) (Humphrey, 2004). In manufacture upgrade, low cost producers of labour intensive OEM would be moving to operations that create competitive advantage based on product design in ODM, and proprietary technology and brand equity in OBM. To support such evolution, marketing capabilities are increasingly vital as successful upgrading of OEM and ODM business requires the manufacturers to transform and develop marketing attributes, such as

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product differentiation, brand reputation and distribution channels (Hui & Zhou, 2003). Marketing capabilities are important potential sources of competitive advantage that range from the ability to conduct strategic marketing planning, identify markets and position product offerings (Day, 1994; Srivastava, Fahey, & Christensen, 2001; Vorhies & Morgan, 2005).

While past studies have examined manufacture upgrade in terms of economic conditions, institutional characteristics and entrepreneurial growth strategy (e.g., Kumar & Kim, 1984; McDougall, Covin, Robinson, & Herron, 1994; Tan, 2007; Wells, 1978), no study has examined the influence of marketing capabilities on manufacture upgrade performance. Prior research has noted the importance of branding as a source of differentiation in value-added manufacturing (e.g., Cheng, Blankson, Wu, & Chen, 2005). Little is known however about the development of marketing capabilities and the role of individual marketing capabilities that may influence the path of manufacture upgrade and performance. Furthermore, the upgrade from basic OEM operations to value-added OBM processes points to the development of dynamic capabilities that would have significant performance implications. For example, manufacture upgrade would transform an OEM's business focus from lowering manufacturing and production costs to significant value adding marketing activities in OBM such as brand and product-market development.

The basic premise of this research is that performance differences in manufacture upgrade may include developing marketing capabilities and applying them selectively in the upgrade process. The development of marketing capabilities in manufacture upgrade corresponds with the evolution and change of manufacturers from basic operations to more skilled operations and value-added marketing activities. Consistent with the path dependent nature of dynamic capabilities (Wang & Ahmed, 2007), it is meaningful to examine the influence of marketing capabilities on manufacture upgrade through growth and expansion of a manufacturer's resources. As manufacturers extend the scope of activities, resources become the foundation of marketing capabilities which in turn shape manufacture upgrade by influencing the direction of upgrading trajectories that may affect organisational success or survival (e.g., Penrose, 1959).

This study has four main objectives. The first is to identify the types of marketing capabilities that influence successful upgrading performance. This addresses a gap in the literature about the source of performance differences in relation to specific marketing capabilities. The second examines the extent of the influence of salient marketing capabilities for manufacture upgrade. This contributes to knowledge by showing the critical marketing capability development required for manufacture upgrade. The third examines the presence of interaction and interdependence among different marketing capabilities. This can reveal why the development of certain resources and key relationships may enhance successful upgrading performance. Finally, the fourth objective attempts to understand how the development of resources may influence the direction and success of manufacture upgrade. This helps advance knowledge of the path of resource development

needed to support the specific marketing capabilities that underpin manufacture upgrade performance.

This study contributes to both practitioners and policy makers. Manufacturers are in a stronger position to improve their global competitiveness with a deeper understanding of the resources related to specific marketing capabilities for successful manufacture upgrade. In addition, policy makers are better able to guide potential new entrants and provide relevant government aids by directing support to develop suitable marketing capabilities with significant influence on upgrading performance. By identifying marketing capabilities that are especially important for manufacture upgrade, the industry best practice on Chinese manufacturers can be disseminated for the benefit of existing manufacturers and those operating in similar environmental contexts. With critical insight into relevant marketing capabilities, both government and industries are in a better position to plan and allocate resources to help support successful manufacture upgrade. Finally, the development of relevant marketing capabilities should help manufacturers increase their earnings in competitive markets by allowing companies to capture more of the value in the supply chain.

The remainder of this article is organised as follows. Section 2 reviews relevant theory and literature. Section 3 describes the methodology namely data collection process, measures validation and data analysis. Section 4 interprets the results of data analysis. This considers the relationship between marketing capabilities and manufacture upgrade performance. Section 5 examines the implications of the findings for theory. This is followed by the practical implications of the study. Section 7 outlines the limitations and future research. The article concludes by highlighting the main findings of the study.

2. Literature review

The global commodity chain arena can be divided into producer-driven and buyer-driven value chains that link different market participants, processes and activities contributing to a final product or commodity (Humphrey & Schmitz, 2001). Producer driven commodity chains refer to those industries in which transnational corporations (TNCs) or other large integrated industrial enterprises (e.g., G.E., Lockheed Martin, Toyota) play the central role in controlling the production system. This includes backward and forward linkages characterised by capital and technology intensive industries such as automobiles, aircraft and defence. In contrast, buyer driven commodity chains are characterised by multinational corporations (MNCs) with strong brand names that command decentralised production networks in a variety of exporting countries such as, consumer electronics and apparel industries (e.g., Sony, Nike, Gap). The present study focuses on buyer driven commodity chains where manufacturers would upgrade through value-added strategy via differentiation and branding, as opposed to dominance via capital and technology in producer driven commodity chains. Despite the importance of marketing capabilities in the process of manufacture upgrade, there is a dearth of studies that examine the ability of manufacturers to change and/or

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