Stepping into a new era

Localisation strategy for Dutch architecture firms to improve their competitiveness in China

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1.

Introduction & Problems

70%

Chinese urbanisation rate in 2030 (Textor, 2021)

5.2%

Chinese annual growth rate of the construction industry (ITA, 2021)

Foreign architecture firms in China

China has surpassed the Netherlands and has become Dezeen's third-largest recruitment advertising market (Fairs, 2017)

OMA

KPF

Zaha Hadid Architects

Gensler

gmp

Perkins&Will

MVRDV

AECOM

nbbj

SOM

HPP

70%

Chinese urbanisation rate in 2030 (Textor, 2021)

5.2%

Chinese annual growth rate of the construction industry (ITA, 2021)

-22.4%

Dutch construction industry productivity 2008-2014 (Hardiman, 2018)

-58%

Employment within architectural firms 2008-2012 (BNA, 2013)

Dutch architecture firms in China

Dutch architecture firms have also taken an active part in this cross-border construction trend since the 1980s.

Problems & Challenges

Market challenge

- "No more weird buildings"

- Competitors from local and international

- COVID-19 pandemic

Inherent shortcomings

- Shorter history of entering China and less experience in the East.

- Dutch architecture firms are generally smaller in scale.

What is localisation?

"

Localisation is a strategic adjustment based on the respect for local cultural, social and economic conditions after global architecture has penetrated certain location.

(The University of Hong Kong, 2014)

Main Goal

Understand the *localisation strategies and its current performance* of Dutch architecture firms operating in China, thus providing *localisation strategy references* for firms that intend to expand their business footprint.

Societal Significance

✓ To provide insight, point out the gap and lessons to learn and improve the business strategy of Dutch architecture firms in China

✓ Hopefully, this research can also become a reference for other international construction businesses interested and willing to participate in the Chinese business competition

Scientific Significance

✔ Contribute to the limited research focusing on the Dutch architecture firm and the Chinese construction market

✔ Apply the concept of 'localisation' in the built environment

2.

Research questions

What is the performance of Dutch architecture firms' localisation strategy in China?

Main research question

Secondary research questions

What is the current localisation status of Dutch architectural firms in the Chinese construction market? SQ1

How do Dutch architecture firms select their localisation strategies and what are the bottlenecks they face to improve their performance? SQ2

To what extent can the current localisation strategy of Dutch architecture firms be improved to contribute to the business success? SQ3

3.
Research methods

Overview of methods

Research Type

Qualitative research

Methods and Techniques

Literature review & Case studies

Data collection

Secondary data: Literature review & Market analysis

Primary data: Multiple case studies - semi-structured Interviews
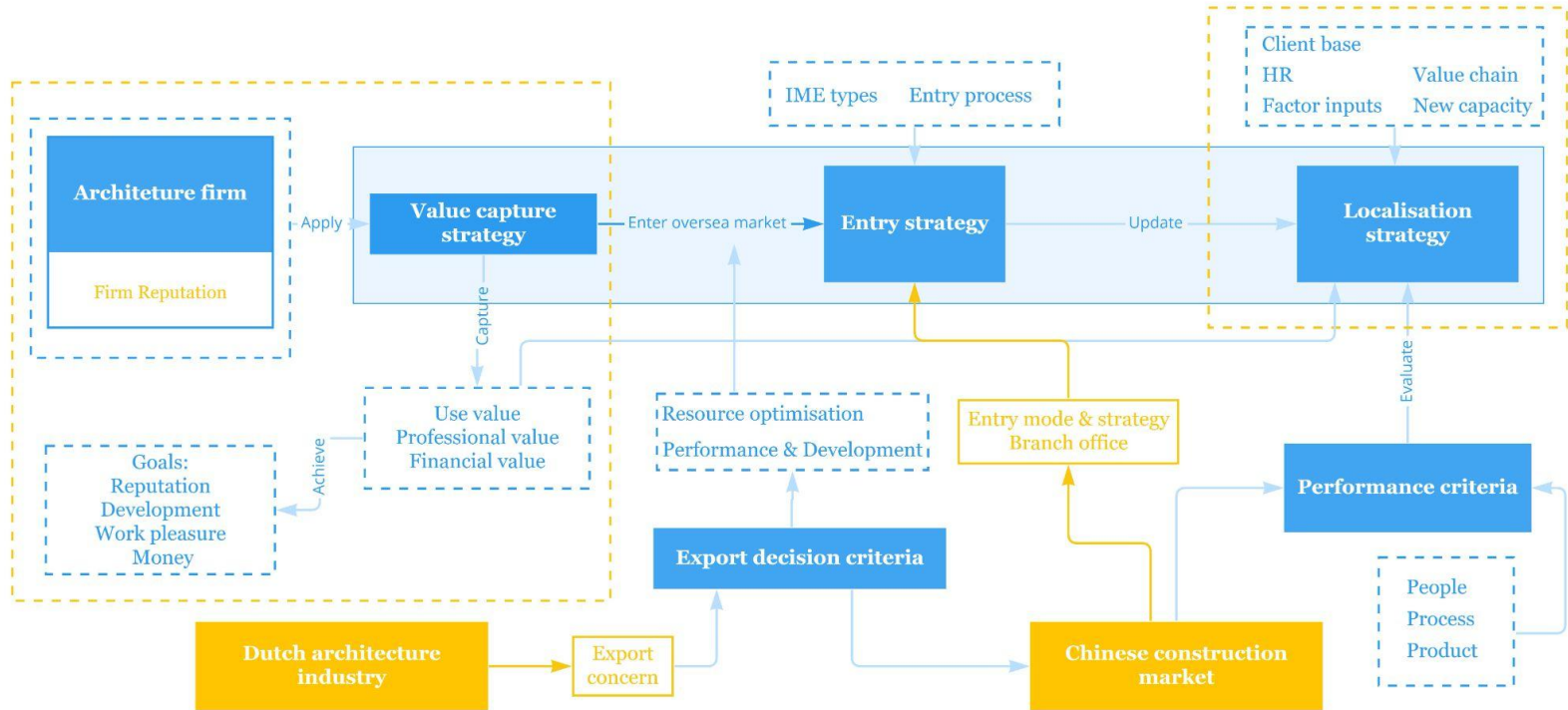
Data analysis

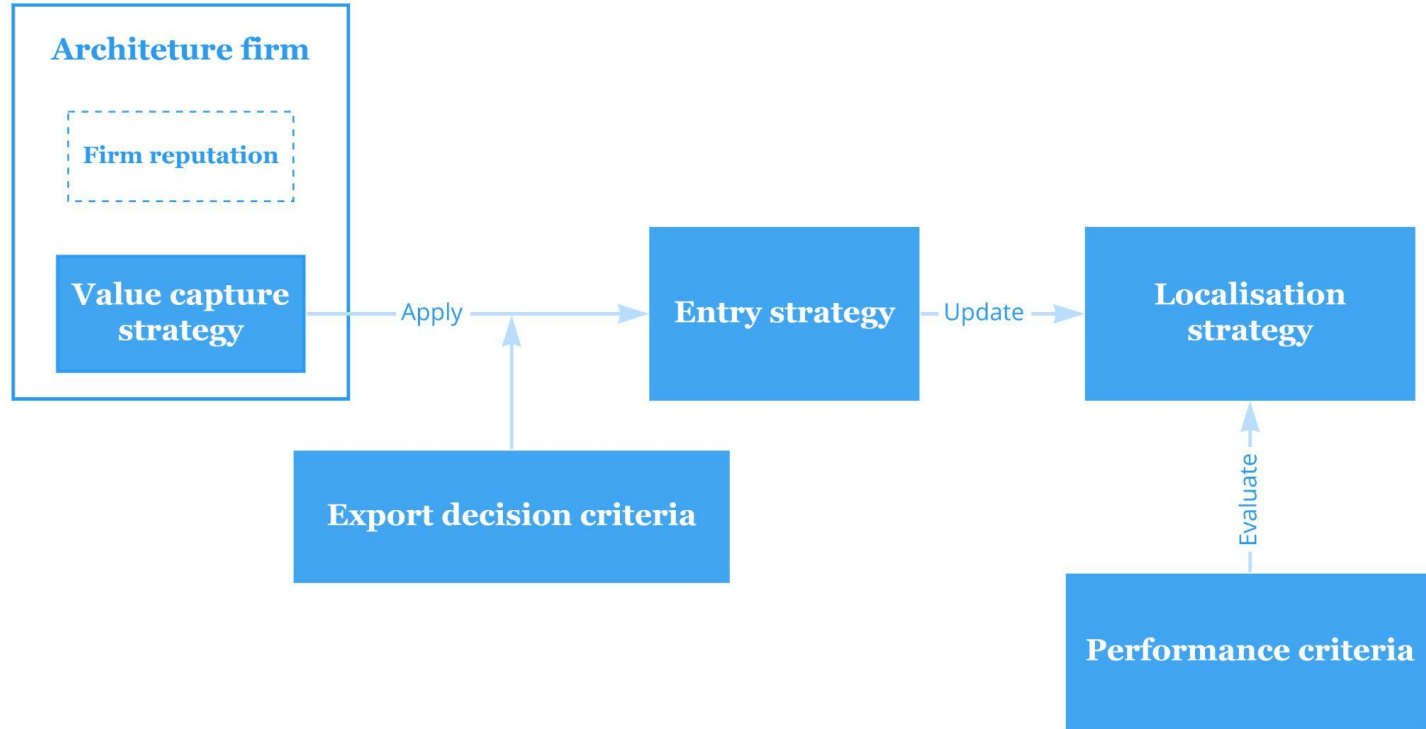Literature review

Thematic analysis

Cross-case analysis
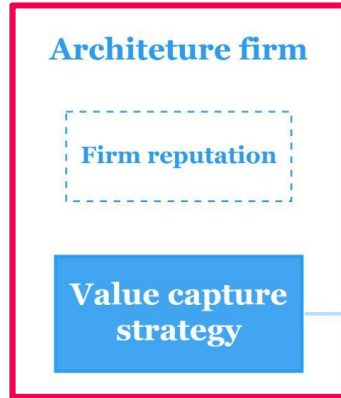
16

4.

Literature review & Market Analysis

Conceptual Model of firm localisation

Main concepts of firm localisation

Architeture firm

Firm reputation

Value capture strategy — Apply → **Entry strategy** — Update → **Localisation strategy**

Export decision criteria

Performance criteria — Evaluate →

Main concepts

Architeture firm

Firm reputation

Value capture strategy

01.1 Value of Architecture firm

Use value

the value generated and ultimately seized by the client and users

Professional value

Reputation, development, work pleasure
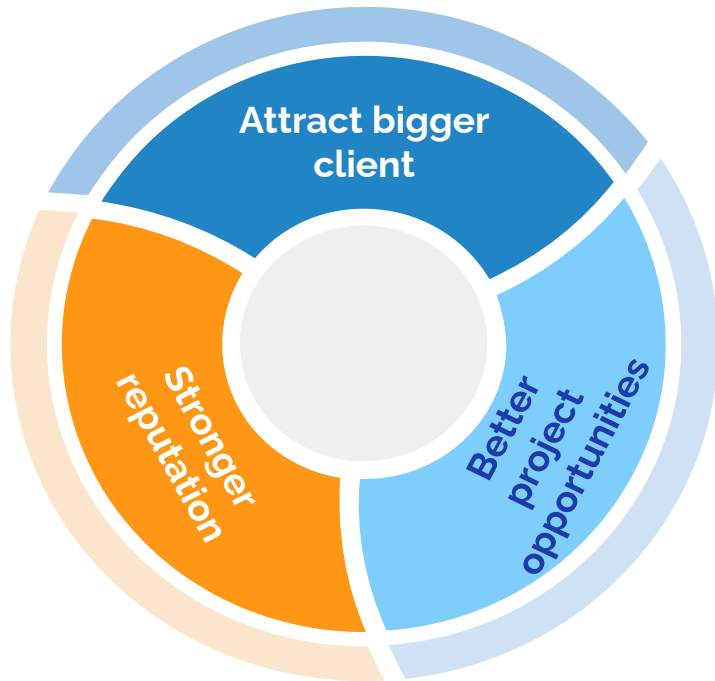
Financial value

Revenue, money

Value capture strategy

1) how businesses attempted to produce use value for their client, users and society, and possible professional value for their own company

2) how firms attempted to maximise financial value

01.2 Firm reputation

Attract bigger client

Stronger reputation

Better project opportunities

1 **OMA**   **MVRDV**

2 inbo mecanoo
   **MLA+** ■ **KUIPER COMPAGNONS**

3 IBA **NEXT**

01.2 Firm reputation

Consulate-General of the Kingdom of the Netherlands (2021):

Among all aspects that influence the performance of Dutch architecture firms in China, reputation and capability to adapt to local business culture are said to have the most significant impact.
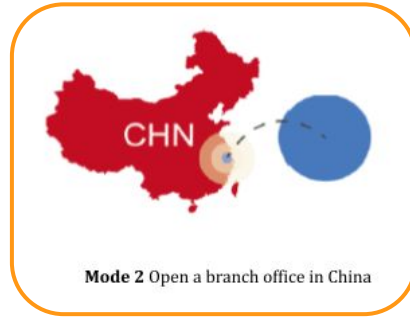
Main concepts

Architeture firm

Firm reputation

Value capture strategy — Apply → **Entry strategy**
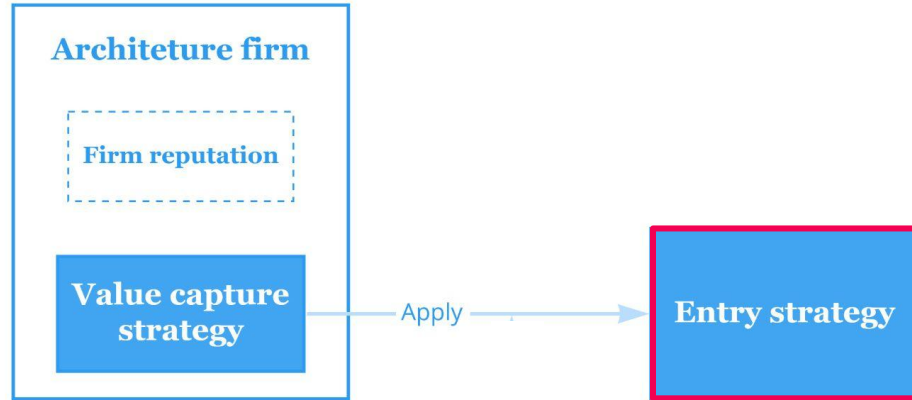
02 Entry strategy

Mode 1 Open a small office in LDI

Mode 2 Open a branch office in China

Mode 3 Associate with local partner

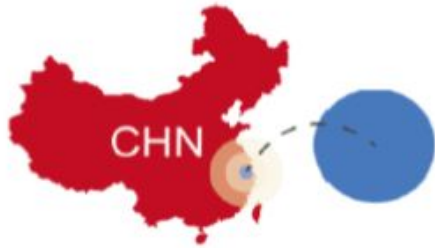Mode 4 Work closely or purchase a small local firm
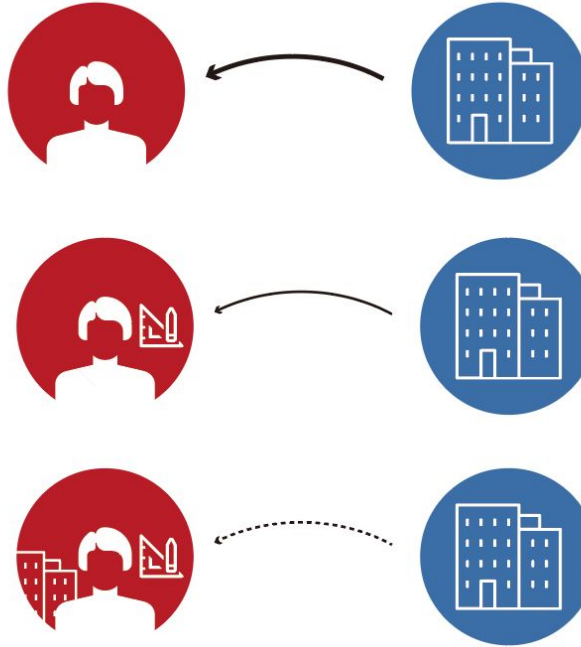
Mode 5 Associate with LDI

Mode 6 Acquire a Class-A design institute

Main entry types for international architecture firms (Atelier cnS & YCDA, 2014)

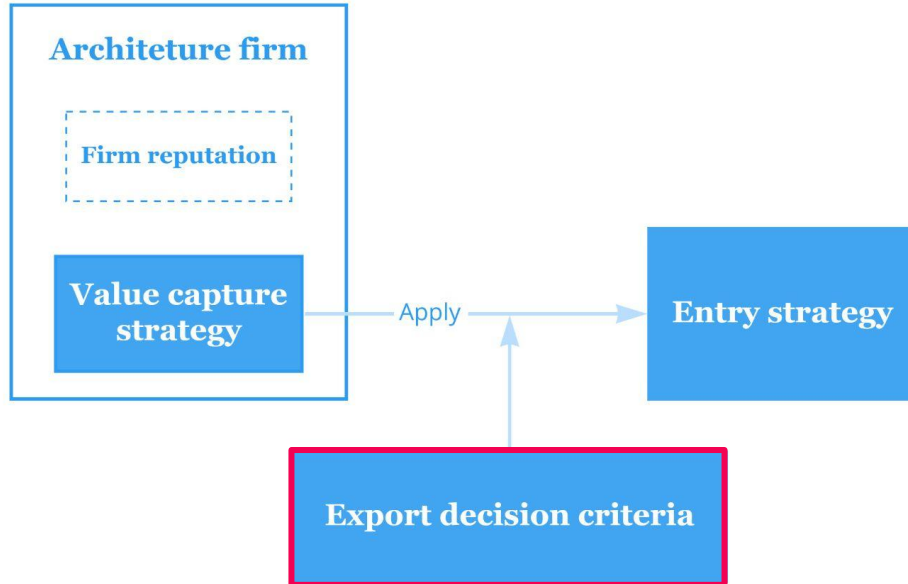**Mode 2** Open a branch office in China

Type 1. Representative office (without design function)

Type 2. Representative & limited design (The design need to be proved by the home office)

Type 3. Design entity (the branch office can carry out a complete design)

Main concepts

Architeture firm

Firm reputation

Value capture strategy — Apply → **Entry strategy**

Export decision criteria

03 Decision-making criteria

Resource optimisation

Information gathering process that determine the export preference of firms

Such as: obtain financial advantages, respond to international competitors, take advantage of incentives

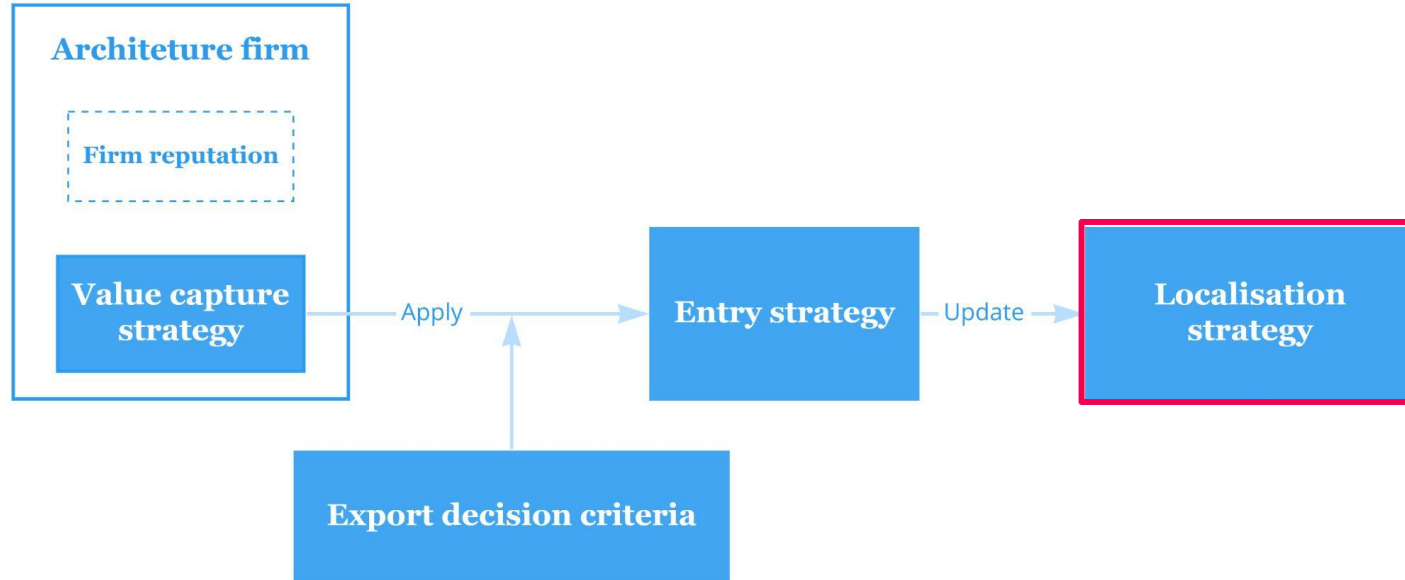Performance and Development

Further promote the export behaviour of firms

Such as: contribute to the growth of company, get more benefits

(Mataveli et al., 2020)

Main concepts

04 Localisation strategy

- Client base
- Human resources
- Factor inputs
- Value chain Integration
- New capability acquisition

five parameters to evaluate the localisation level (Martek and Chen, 2013)

Client base

New capability acquisition

Human resources

Value chain Integration

Factor inputs
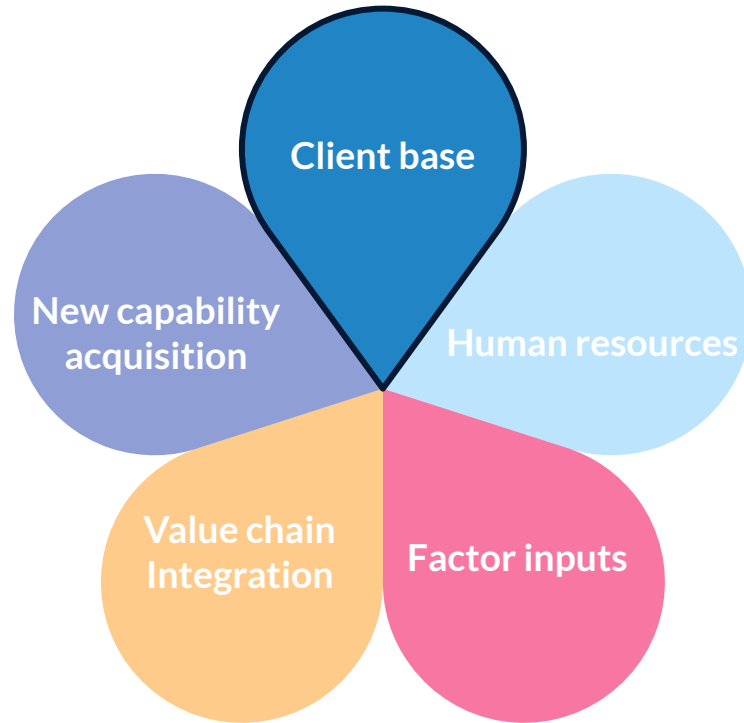
The extent to which international businesses serve an **entirely Chinese customer** rather than **foreign firms in China** with whom they may have done business in the past

five parameters to evaluate the localisation level (Martek and Chen, 2013)

Client base

New capability acquisition

Human resources

Value chain Integration

Factor inputs
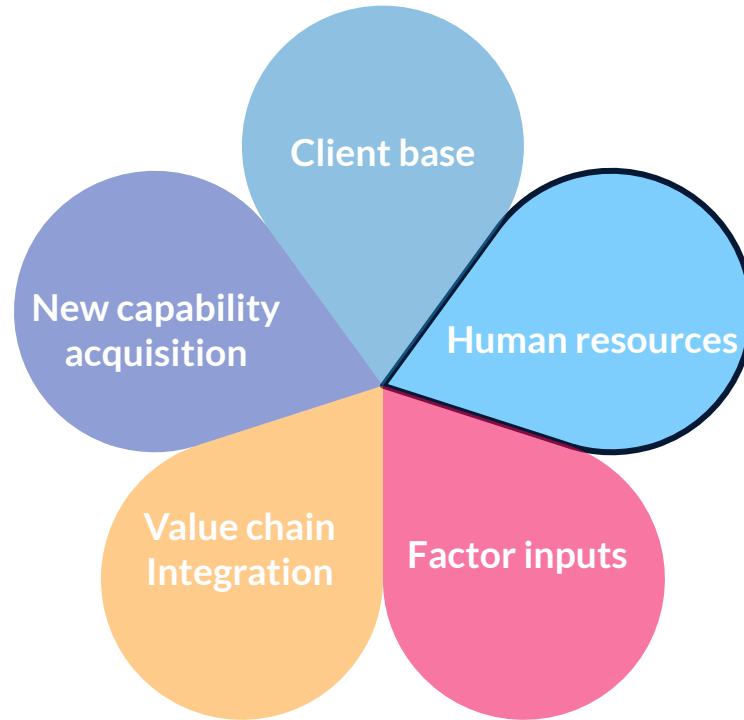
Inside the branch office, the ratio of **local Chinese recruits** to **international introduced staff** brought in to undertake specialised management or responsibilities

five parameters to evaluate the localisation level (Martek and Chen, 2013)

Client base

New capability acquisition

Human resources

Value chain Integration

Factor inputs
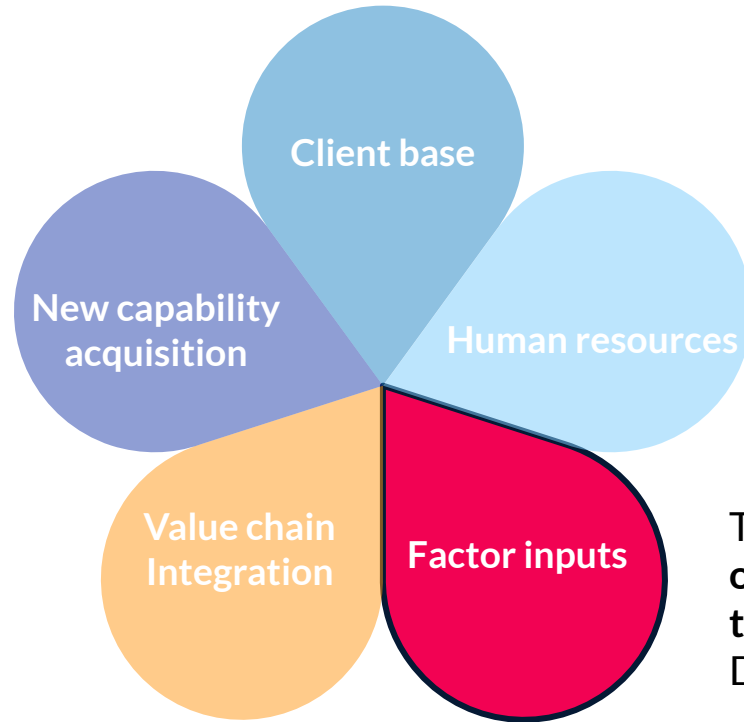
The proportion of **locally obtained intangible and tangible inputs** utilised by Dutch architecture firms

five parameters to evaluate the localisation level (Martek and Chen, 2013)

Client base

New capability acquisition

Human resources

Value chain Integration

Factor inputs
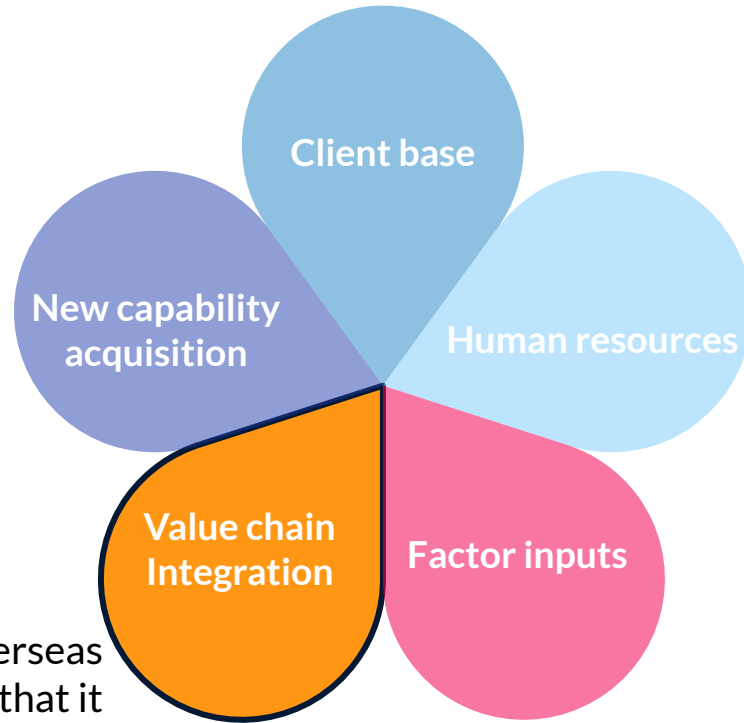
The extent to which an overseas firm's range of **activities** that it performs abroad is **mirrored in China**

five parameters to evaluate the localisation level (Martek and Chen, 2013)

The extent of **next-generation capacity or technology** that originates in China

Client base

Human resources

New capability acquisition

Value chain Integration

Factor inputs

five parameters to evaluate the localisation level (Martek and Chen, 2013)

Client base

Localization %

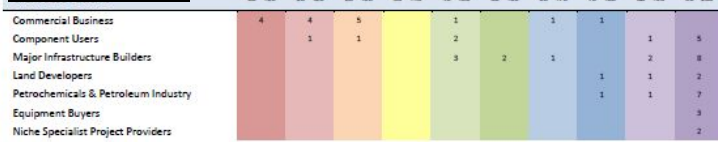|	00-<10	10-<20	20-<30	30-<40	40-<50	50-<60	60-<70	70-<80	80-<90	90-100
Commercial Business	4	4	5		1		1	1		
Component Users		1	1	2					1	5
Major Infrastructure Builders				3	2	1			2	8
Land Developers								1	1	2
Petrochemicals & Petroleum Industry								1	1	7
Equipment Buyers										3
Niche Specialist Project Providers										2

Human resources

Localization %

	00-<10	10-<20	20-<30	30-<40	40-<50	50-<60	60-<70	70-<80	80-<90	90-100
Off-shore Directed Chinese Operations	2									
Foreign Manager Infused Operations						1			8	12
Hong Kong Platform Run Operations						1				8
Foreign Expert Infused Operations								2		8
Operations where Foreigners are Localized									2	3
Localization Policy Driven Operations								1		5
Pragmatically Localized Operations										7

Factor input

Localization %

	00-<10	10-<20	20-<30	30-<40	40-<50	50-<60	60-<70	70-<80	80-<90	90-100
Factors Procured through a Global Network	3	2		1	1					
Factors Brought in as Technology	8		1					1		
Factors Procured through Local Outsourcing	6	2	3		2					
Factors Obtained through Local Knowledge		3	1	2		4				
Factors Brought in as Expertise	2				1	1				1
China as a Global Factor Procurement Base					3	1			1	5
Factors Manufactured Locally									4	1

Value chain

Localization %

	00-<20	20-<40	40-<60	60-<80	80-<100	100-<120	120-<140	140-<160	160-<180	180-200
Discontinuous Presence	5									
Fluctuating Presence	7									
Developing Presence	5		1							
Major Presence	3	1	5	1	2	4				
Consolidated Presence					1	12				
Extended Presence						3	2	1		1
Superlative Presence								3		3

New capability

Localization %

	00-<10	10-<20	20-<30	30-<40	40-<50	50-<60	60-<70	70-<80	80-<90	90-100
Home-based R&D Investment	15	3	2							
China Revenue Fuelled Funding	6	1	1							
Off-shore Alliance Formation	5		1		1					
China Market as a Proving Ground	2	1	2	1	1					
China-based R&D Investment	1	2	3	1						
On-shore Alliance Formation	1	3	1		2					
Knowledge Network Formation	1								2	1

Localization Profiles - Ranking Legend (%)

Very High	>97	
High	>80 to 97	HIGH
Higher Medium	>60 to 80	
Medium	>40 to 60	MEDIUM
Lower Medium	>20 to 40	
Low	>3 to 20	LOW
Very Low	0 to 3	

X% X% X%
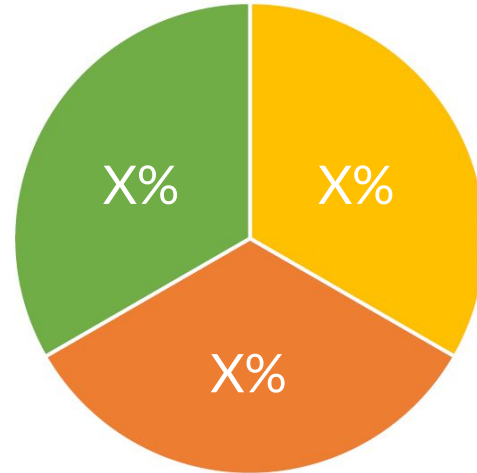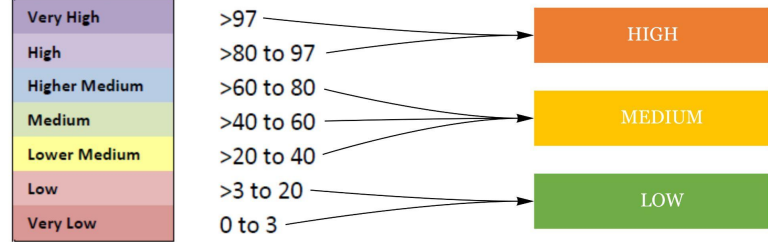
■ High Localisation Level   ■ Medium Localisation Level   ■ Low Localisation Level

Main concepts
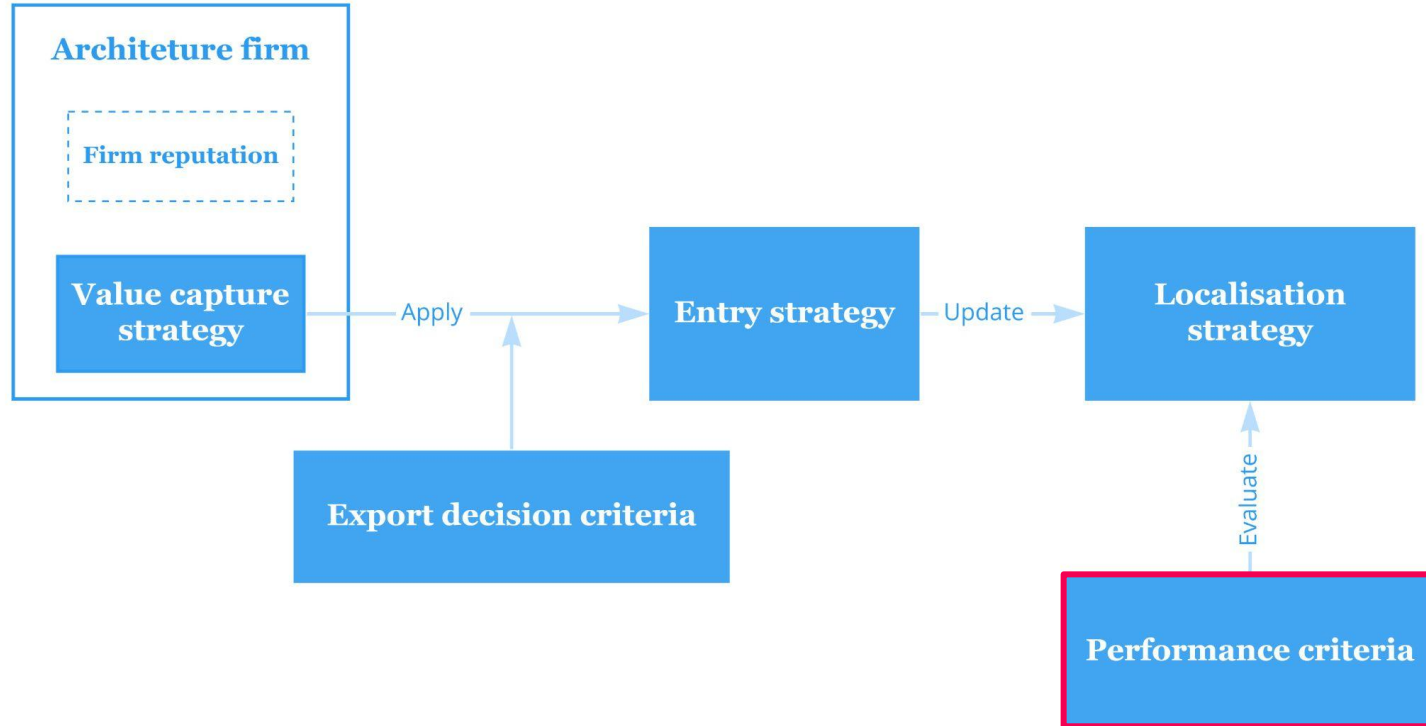
06 Performance criteria

8 Performance criteria by F. Y. Ling et al. (2006)

Cost
Schedule
Technical Quality
Functional Quality
Workmanship Quality
Architectural Quality
Owner satisfaction
Profit level

3 Performance aspects		
People	Owner satisfaction	
Process	Cost Schedule Profit level	
Product	Technical Quality Functional Quality Workmanship Quality Architectural Quality	

3 Performance aspects		
People	**Client, Employee, User Satisfaction**
Process	**Internal efficiency, External collaboration**
Product	**Tangible & Intangible quality**

5.

Case Study

Stories of three cases

Case introduction

CASE 1

International well-kown

CASE 2

Only well-kown in the Netherlands

CASE 3

Not well-known in both countries

Beyoncé

Anouk

Yichun Shan

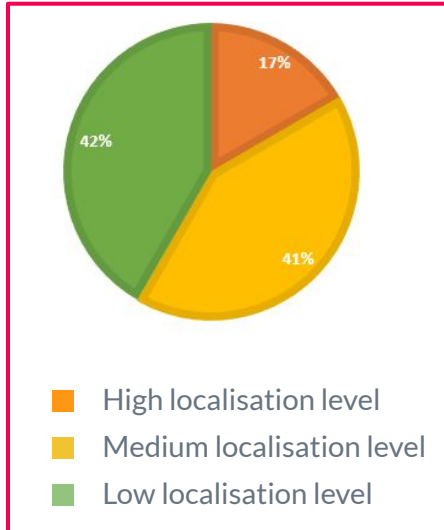|	Company A	Company B	Company C
Reputation	Top-tier architecture practice internationally	Well-known in NL, not in CN	Young architecture firm, newcomer
Establish Year	1993	1962	2015
Year of enter CN	2012	2015	2015
Size in total /branch office	340/15	330/8	30/12
Branch office location	Shanghai	Shanghai	Beijing, Hong Kong
Projects in CN	44	18	29

Company A

"I think, understanding the local culture is something embedded in the architects' natural thinking. And for sure, we always localised in the Chinese market, and also in other markets"

Localisation process & strategy

1. Open up a branch office in Shanghai
- Representative office -> + limited design function
2. Exploit reputation
3. Incorporate the local thinking in design

Bottlenecks

1. Pressure from local firms
2. Communication issue between home office and branch office

		Localisation Level
Client base	Land developers	HIGH
	Major infrastructure builders (Chinese governmental agencies or authorities)	MEDIUM
	Commercial business	LOW
Human resources	Foreign manager infused enterprises	MEDIUM
Factor inputs (Tangible/Inta ngible)	Factors manufactured locally	HIGH
	Factors brought in as expertise	MEDIUM
	Factors obtained through local knowledge	MEDIUM
	Factors procured through local outsourcing	LOW
	Factors brought in as technology	LOW
	Factors procured through a global network	LOW
Value chain Integration	Major presence- Enterprises that count China as a fully functional subsidiary	MEDIUM
New capability acquisition	Home-based R&D investment	LOW

Company A

- High localisation level
- Medium localisation level
- Low localisation level

"I think, understanding the local culture is something embedded in the architects' natural thinking. And for sure, we always localised in the Chinese market, and also in other markets"

Localisation process & strategy

1. Open up a branch office in Shanghai
- Representative office -> + limited design function
2. Exploit reputation
3. Incorporate the local thinking in design

Bottlenecks

1. Pressure from local firms
2. Communication issue between home office and branch office

44

Company B

- High localisation level
- Medium localisation level
- Low localisation level

"We do try to localise in our work, but that's not always easy because the the client, when they hire a foreigner. They want to have your foreign expertise and they don't want you to be too localised"

Localisation process & strategy

1. Open up a branch office in Shanghai
   - Sent experience director
2. Reactivate network
3. Start exploring opportunities in smaller cities
4. CN based R&D

Bottlenecks

1. Lack of reputation -> less attractive to bilingual designers
2. Challenge to meet client in person
3. Pressure from local firms
4. Concerns about declining preference for foreign design forces

Company C
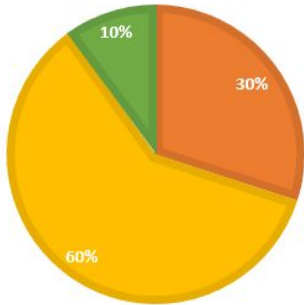
- High localisation level
- Medium localisation level
- Low localisation level

"I think all our projects are very localised but with a hint of global thinking. We bring in international thinking or Dutch thinking, but at the end we are building it for Chinese clients and Chinese cities. So we do see there's a massive localisation thinking"

Localisation process & strategy

1. Start the business in CN
   - With the help of Chinese partner
2. Find the market niche in a small city
3. Gradually expand to large cities
4. CN based R&D
5. Create own system of working
   - To reduce the risk of uncertainty in the market
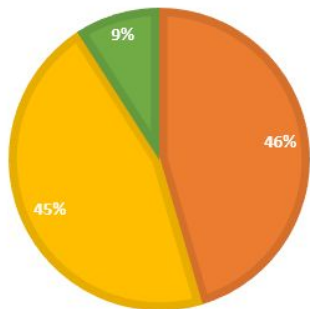
Bottlenecks

1. Risk of postponed projects & activities due to covid-19
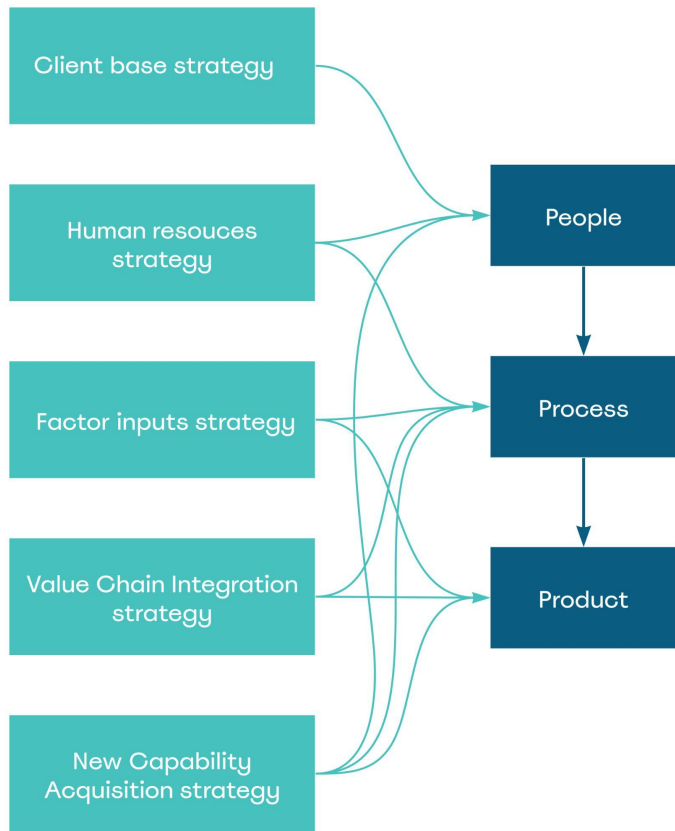
Score 3	Satisfied			
Score 2	Had doubts			
Score 1	Need improvement			
		Company A	Company B	Company C
People	Client	2	2	2
	Employee	3	1	3
	User satisfaction	3	3	3
Total Score 'People'		8	6	8
Process	Internal efficiency	2	2	3
	External collaboration	3	2	3
Total Score 'Process'		5	4	6
Product	Tangible quality	3	3	3
	Intangible quality	3	3	3
Total Score 'Product'		6	6	6
Total		19	16	20

Performance analysis

People

Process

Product

Company A   Company B   Company C

Performance analysis

People

Product

Process

Company A   Company B   Company C
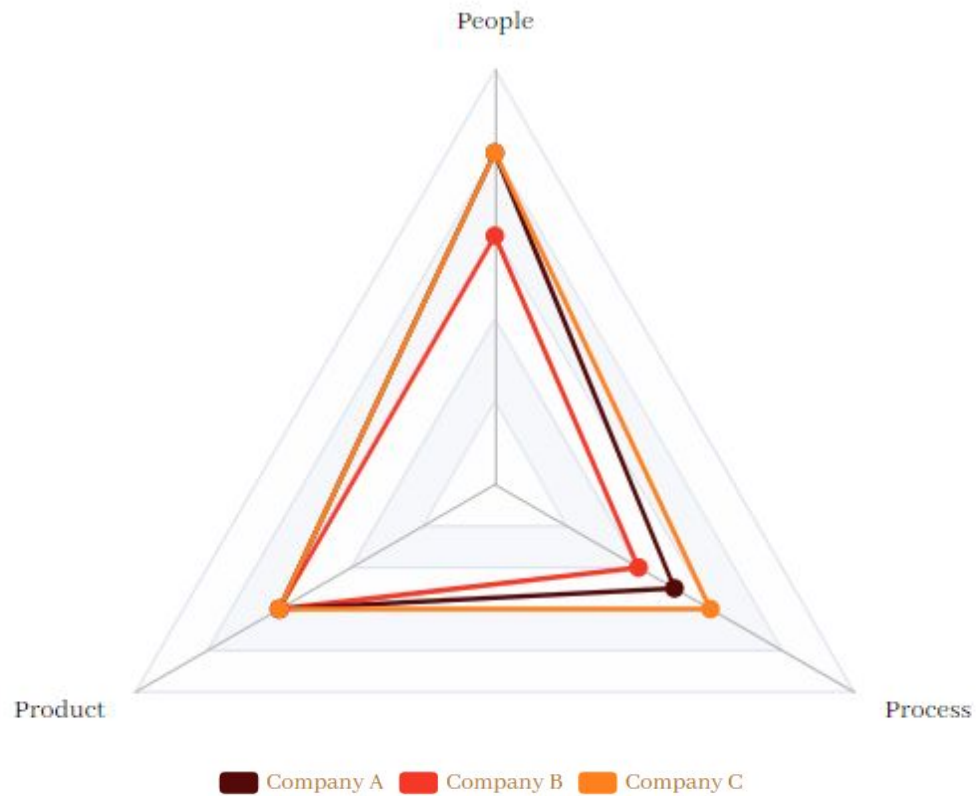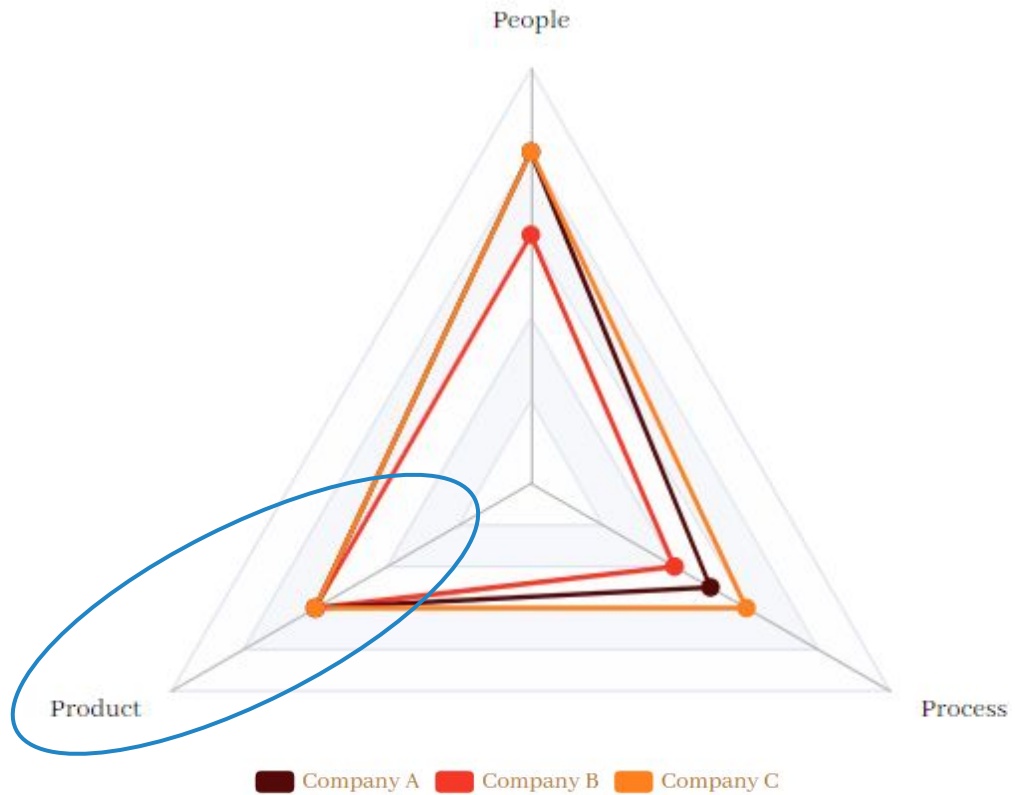
Performance analysis

Performance analysis

People

Product

Process

Company A Company B Company C
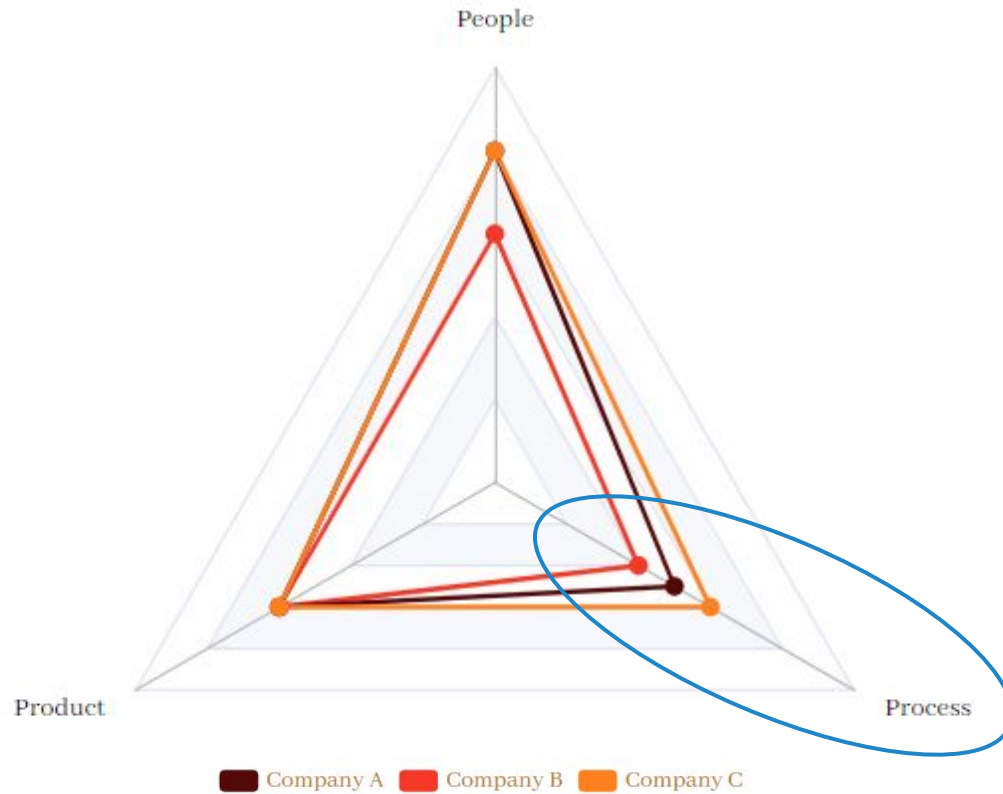
Performance analysis
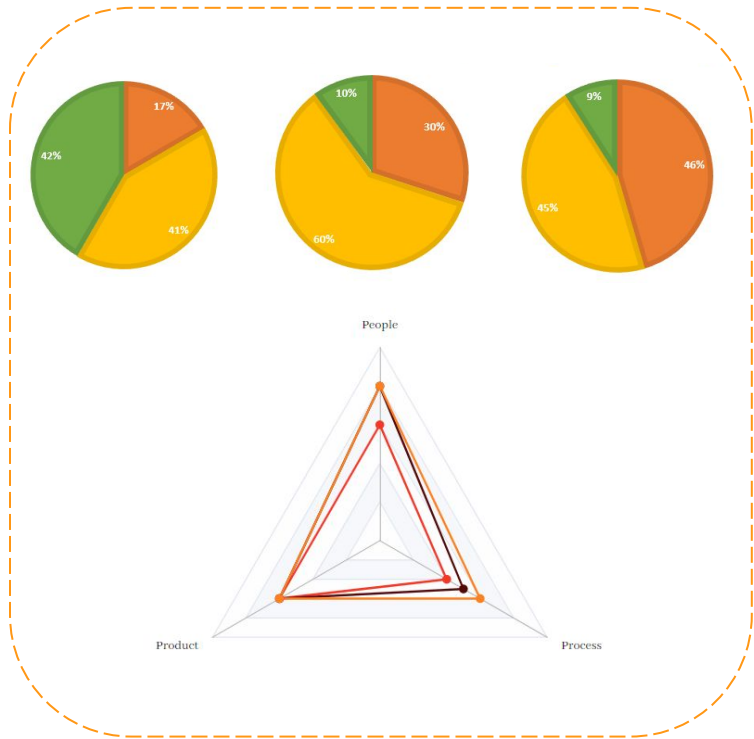
Performance

Localisation level

52
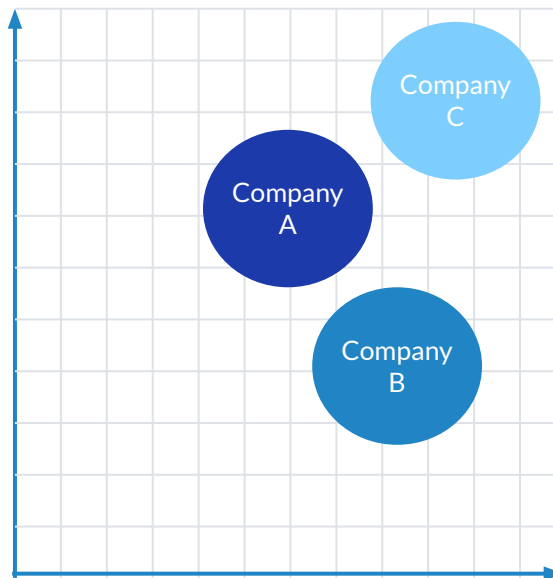
6.

Findings & Conclusion

Performance

Company C

Company A

Company B
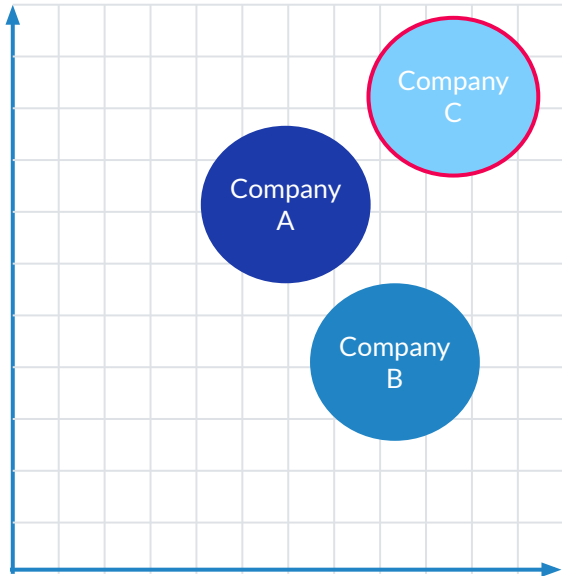
Localisation level

Firm with higher localisation level tends to have better performance

Performance

Company C

Company A

Company B
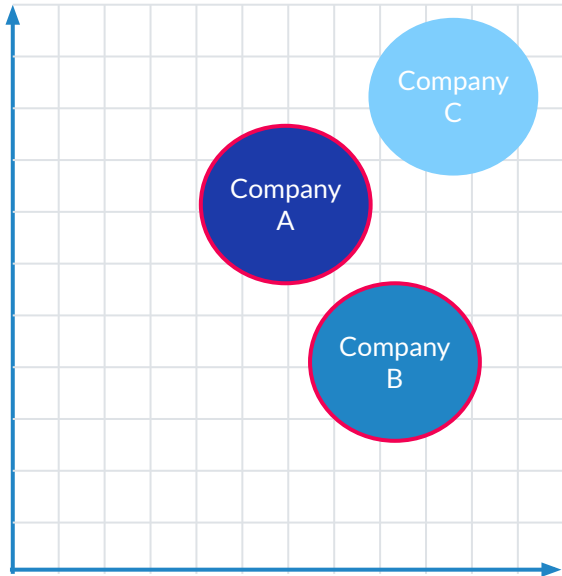
Localisation level

However, reputation can compensate the localisation level
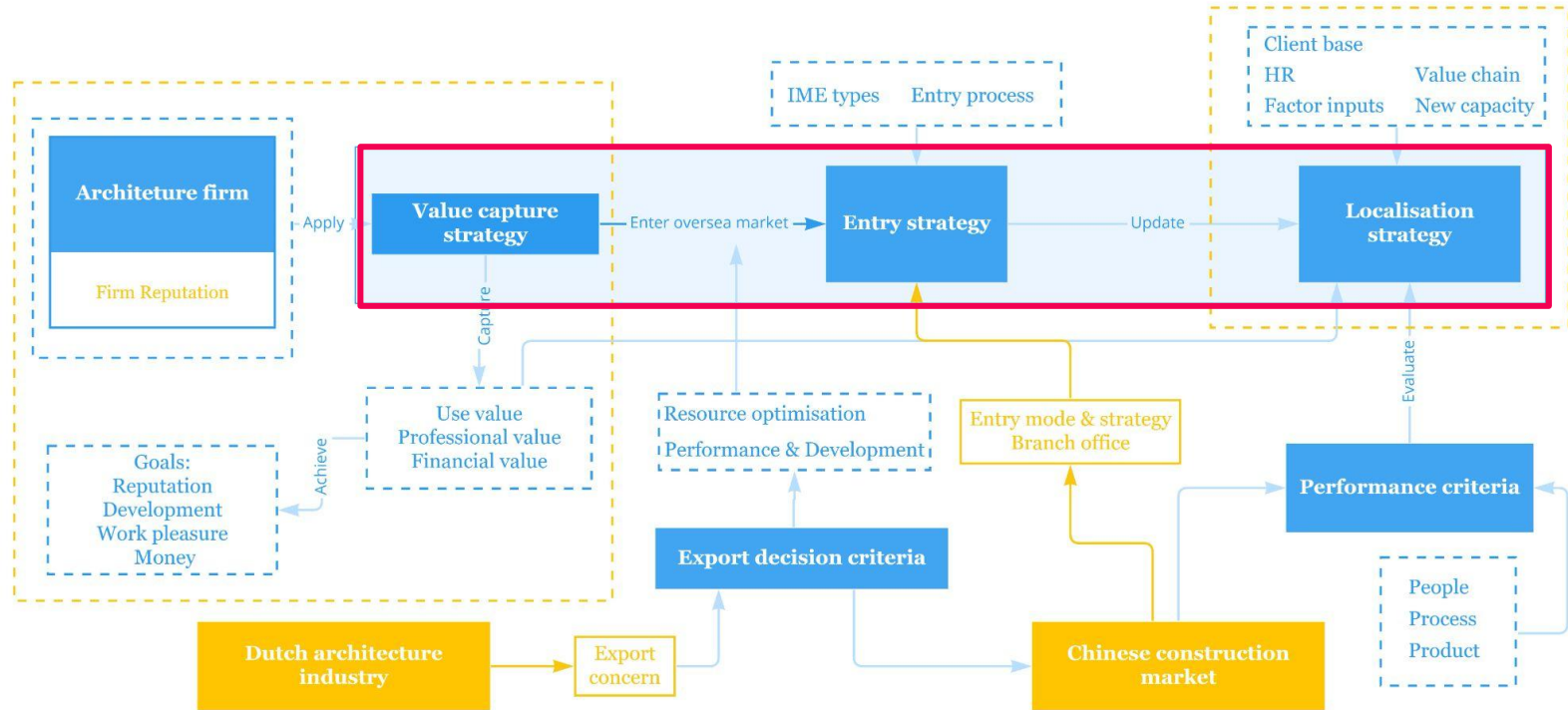
Performance

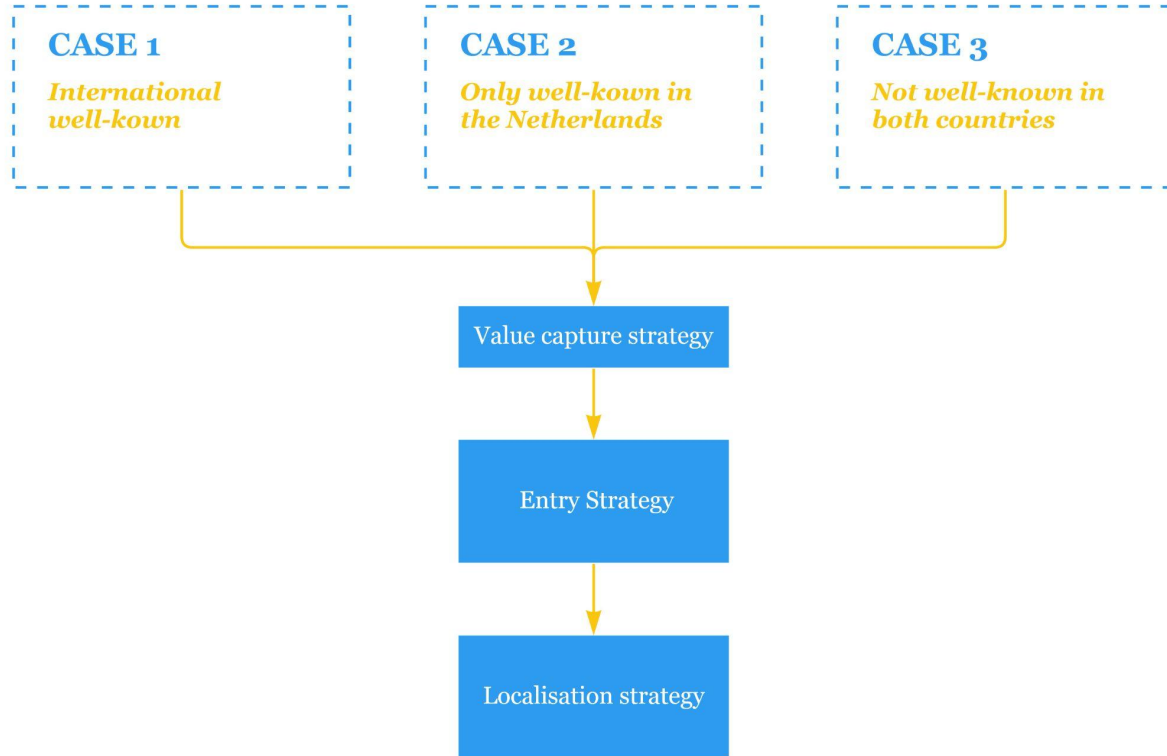Company C

Company A

Company B
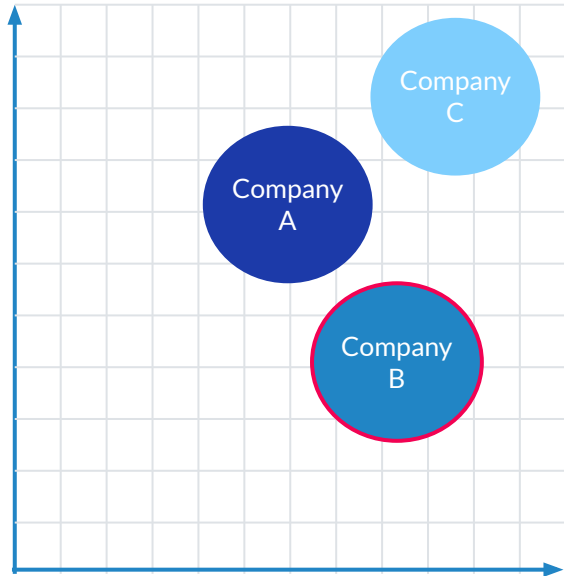
Localisation level

For firm that have medium reputation and localisation level, changing the business strategy to focus on smaller cities can be helpful

Recap - Conceptual Model

CASE 1
International well-kown

CASE 2
Only well-kown in the Netherlands

CASE 3
Not well-known in both countries

Value capture strategy

Entry Strategy

Localisation strategy

Value capture strategy

Professional Value
Reputation: Dutch architecture firm create high quality projects to increase firm reputation
Development: Successfully acquire large scale projects

Exchange Value
Became financial stable

Common bottlenecks
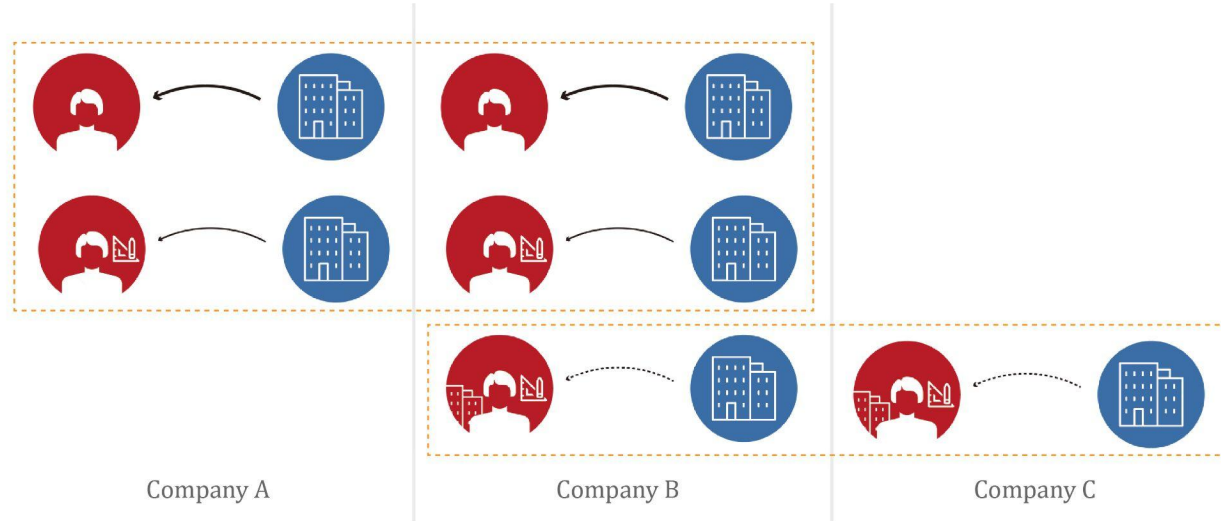Competitive pressure from local firm

Entry strategy

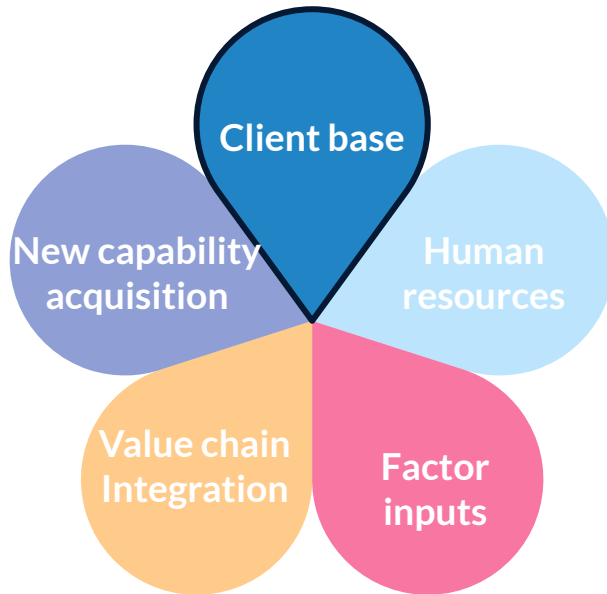Type 1. Representative

Type 2. Representative & limited design

Type 3. Design entity

Company A   Company B   Company C

Common bottlenecks
Lack of reputation when enter the market

Localisation strategy

1) Client type: developers and government authorities
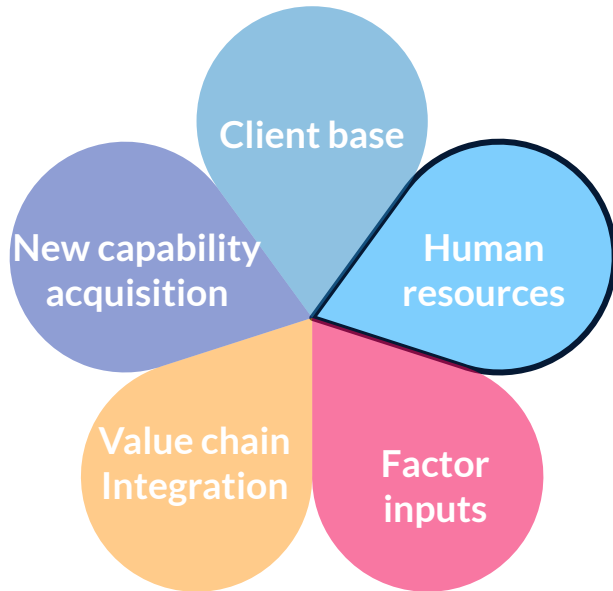
2) Client acquisition: direct commission and public tender

3) Client relationship: maintain and emphasise on client relationship

Common bottlenecks
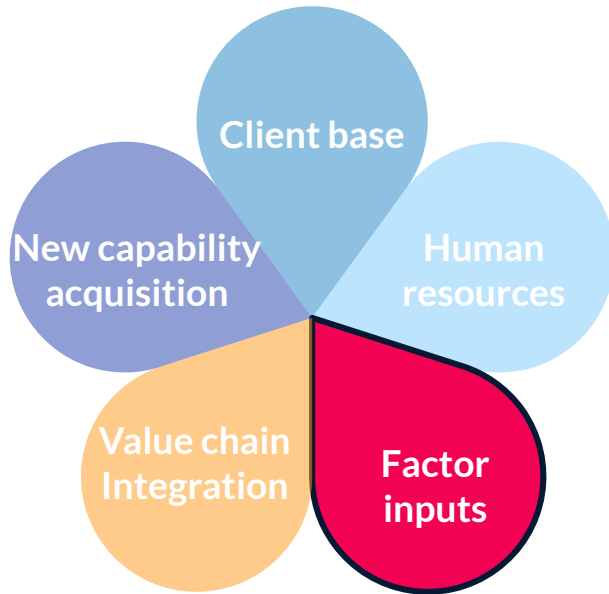Challenging to meet client in person

Localisation strategy

1) Employee number in China: <20
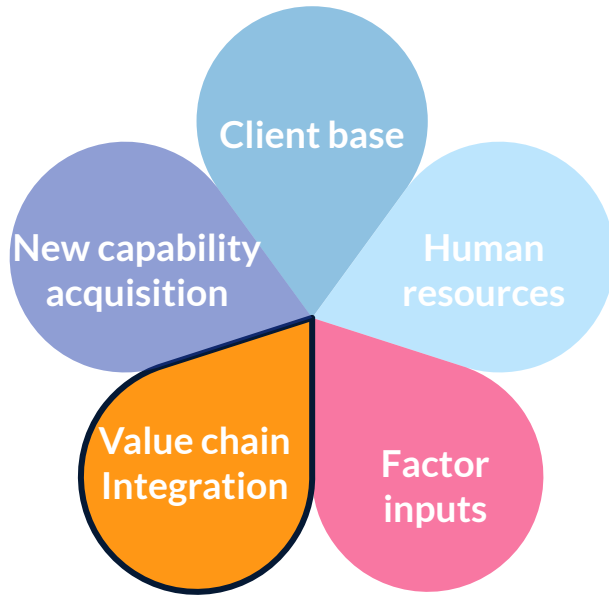
2) Employee background: international background

3) Employee Skill: project deepening, client relationship, on-site supervision

Localisation strategy

1) Procurement: predominantly localised
2) Supply Chain: predominantly localised

Client base

Human resources

New capability acquisition

Value chain Integration

Factor inputs

Localisation strategy

Client base

New capability acquisition

Human resources

Value chain Integration

Factor inputs

Cooperation with LDI: single project collaboration and supervise the construction process

Localisation strategy

New capability acquisition

Client base
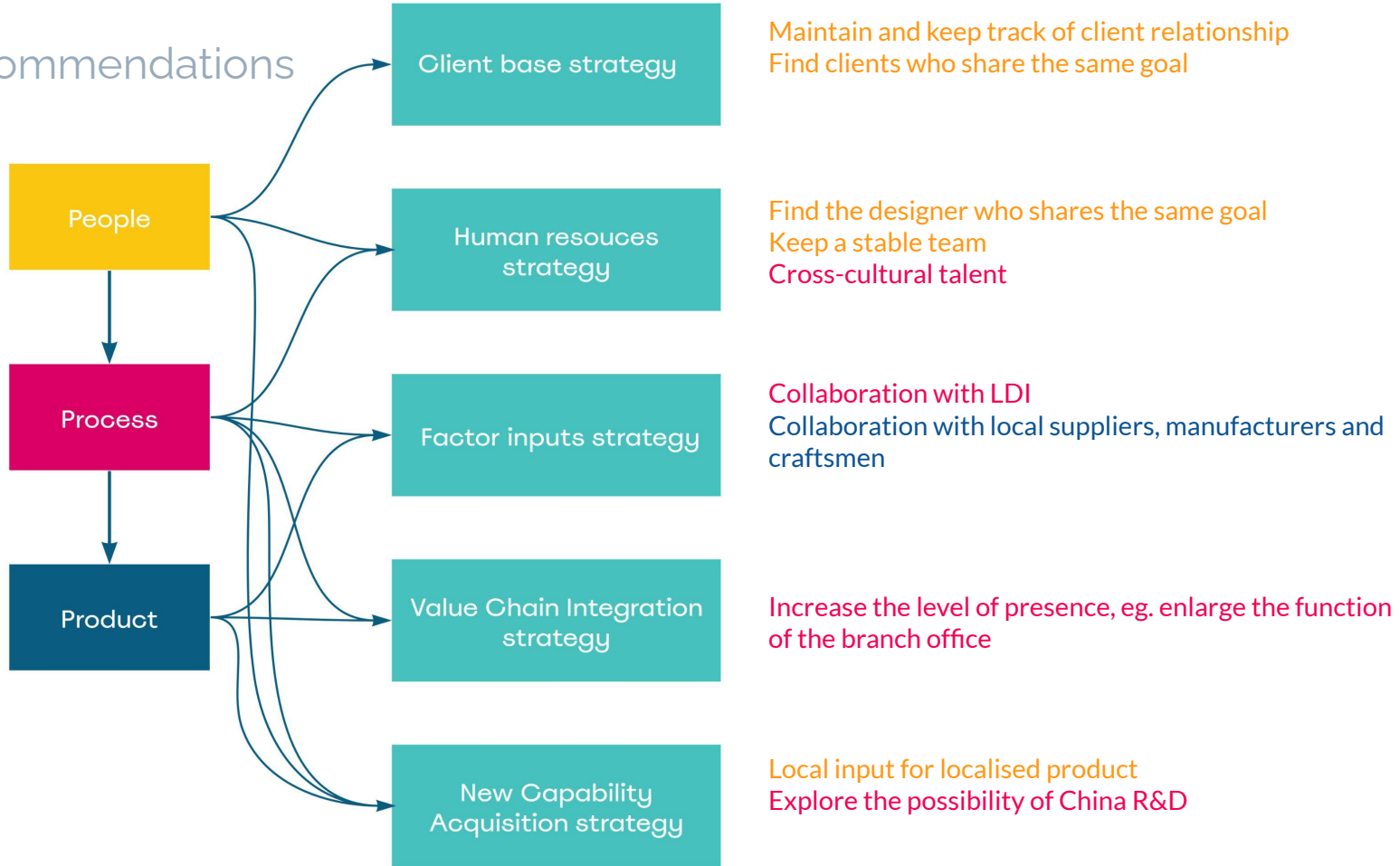
Human resources

Factor inputs

Value chain Integration
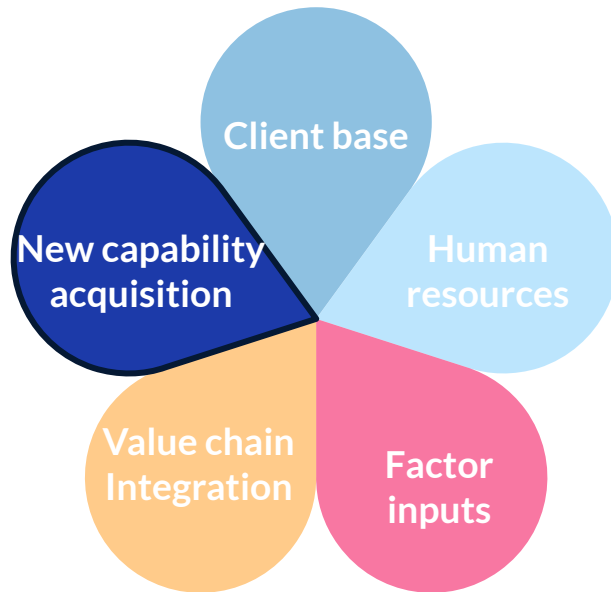
1) Tangible quality of the product:
Keep updating technology and project knowledge
2) Intangible quality of the product:
Adopt localisation thinking in projects

Common bottlenecks
Challenging in finding the balance between international firm and localisation

Recommendations

People → **Process** → **Product**

Client base strategy
Maintain and keep track of client relationship
Find clients who share the same goal

Human resouces strategy
Find the designer who shares the same goal
Keep a stable team
Cross-cultural talent

Factor inputs strategy
Collaboration with LDI
Collaboration with local suppliers, manufacturers and craftsmen

Value Chain Integration strategy
Increase the level of presence, eg. enlarge the function of the branch office

New Capability Acquisition strategy
Local input for localised product
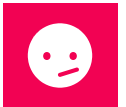Explore the possibility of China R&D

66

To wrap up

A research focusing on the localisation strategy of Dutch architecture firm in China

The theoretical framework on value capture strategy, to entry strategy, to localisation strategy guides the entire research

Three cases with different reputation were investigated and their performance were analysed

If more people respond to the interview request..

For future research, the adaptability to other Dutch architecture firms and other foreign architecture firms still needs further prove

Thanks!

Questions?