

# BSM 933 - International Business

## Lecture 8

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# Operating across borders

## Organisational structures

Organisational characteristic	Multinational (Localisation)	Global	International
Configuration of assets and capabilities	Decentralised and nationally self-sufficient	Centralised and globally scaled	Sources of core competencies centralised, others decentralised
Role of overseas operations	Sensing and exploiting local opportunities	Implementing parent company strategies	Adapting and leveraging parent company characteristics
Development and diffusion of knowledge	Knowledge developed and retained within each unit	Knowledge developed and retained at the centre	Knowledge developed at the centre and transferred to overseas units
Assumption about competitive advantage	Differentiation	Scale and cost leadership	Centrally created innovation

# Operating across borders

## Challenges and trade offs

- The challenge of worldwide companies lies in the reconciliation of the following:
  - Achieving global efficiency
  - National responsiveness
  - Ability to develop and exploit knowledge on a worldwide basis
- Specific challenges
  - Global companies: (a) Since assets are managed in a way that maximises global scale efficiencies, national subsidiaries do not generally have slack resources. (b) Centralisation of knowledge is efficient but the centre may not have enough knowledge about local markets.
  - Multinational company: They can respond to local needs but the fragmentation of activities reduce efficiency and adversely affects learning
  - International company: Better ability to leverage the knowledge and capabilities of parent company, but less efficient than the global company and less responsive than the multinational company.

# Operating across borders

## The transnational enterprise



- In the early stages of its drive overseas, Corning Glass hired an American ex-ambassador to head up its international division. He had excellent contacts in the governments of many nations and could converse in several languages, but was less familiar with Corning and its businesses. In contrast, ITT decided to set up a massive educational program to “globalize” all managers responsible for its worldwide telecom business – in essence, to replace the company’s national specialists with global generalists. .... Corning and ITT eventually realized they had taken wrong turns.
- Success in today’s international climate .... Demand highly specialized yet closely linked groups of global business managers, country or regional managers, and worldwide functional managers. .... Transnationals integrate assets, resources, and diverse people in operating units around the world. Through a flexible management process, in which business, country and functional managers form a triad of different perspectives that balance one another, transnational companies can build three strategic capabilities: global-scale efficiency and competitiveness; national-level responsiveness and flexibility; and cross-market capacity to leverage learning on a worldwide basis.

# Operating across borders

## Transnational enterprises – role of national subsidiaries

- Strategic decisions of transnational enterprises
  - It adopts a modular structure of products whereby some core designs (and perhaps R&D) are standardised, while local subsidiaries have flexibility about some of the decisions
  - It recognises that differentiation is not needed in all markets and varies the role of national subsidiaries accordingly
- Determining roles of national subsidiaries
  - Subsidiaries in highly regulated countries largely autonomous
  - Subsidiaries in open economies more integrated with the centre
  - Subsidiaries in home countries of global competitors assigned roles to disrupt the competitors' cash flow
  - Subsidiaries in centres of technological excellence assigned roles and resources to exploit the technology

# Operating across borders

## Transnational enterprises – innovation



- Often, key physical and organizational assets of the company are located overseas, developed there in response to local demands (or simply by chance). .... Transnational managers see no reason to prevent resource outside the home environment from benefiting the entire corporation. Instead, they foster the development of such organizational assets, and ensure that the whole firm has access to them.
- Centrally designed products and processes still play an important global role in the transnational. But innovations are created by the subsidiaries as well. .... Efficient local plants may be converted in international production centres; innovative national or regional development labs may be designated as “worldwide centres of excellence” for specific product or process development; and creating subsidiary marketing groups may be given lead roles in developing worldwide strategies for certain products or businesses.

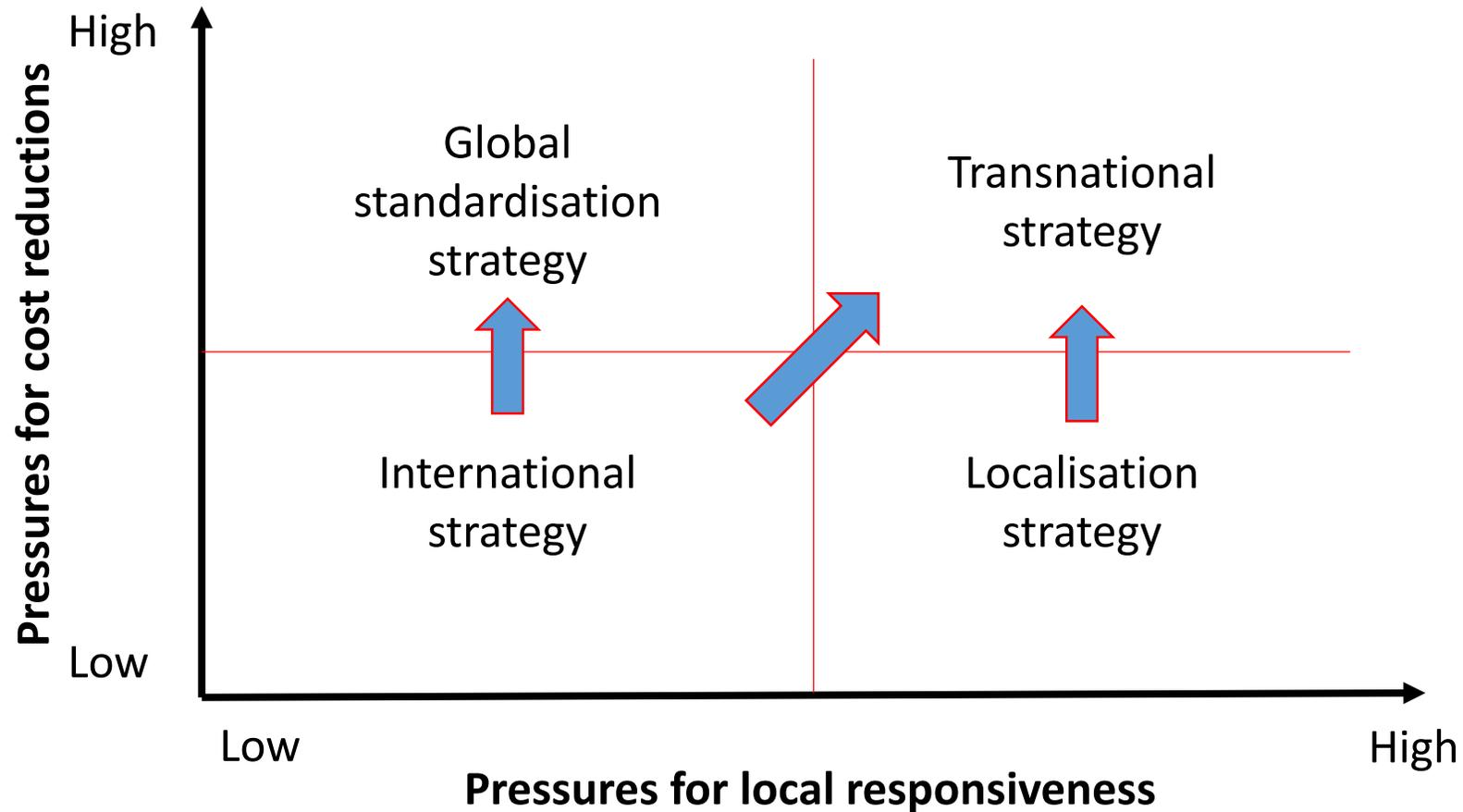
# Operating across borders

## Organisational structures revisited

Organisational characteristic	Multinational (Localisation)	Global	International	Transnational
Configuration of assets and capabilities	Decentralised and nationally self-sufficient	Centralised and globally scaled	Sources of core competencies centralised, others decentralised	Dispersed, interdependent and specialised
Role of overseas operations	Sensing and exploiting local opportunities	Implementing parent company strategies	Adapting and leveraging parent company characteristics	Differentiated contributions to integrated worldwide operations
Development and diffusion of knowledge	Knowledge developed and retained within each unit	Knowledge developed and retained at the centre	Knowledge developed at the centre and transferred to overseas units	Knowledge developed jointly and shared worldwide

# Operating across borders

## Developing strategies



# Operating across borders

## Building and managing the transnational enterprise

Strategic capability	Organisational Characteristics	Management Tasks
Global competitiveness	Dispersed and interdependent assets and resources	Legitimising diverse perspectives and capabilities
Multinational flexibility	Differentiated and specialised subsidiary roles	Developing multiple and flexible coordination processes
Worldwide learning	Joint development and worldwide sharing of knowledge	Building shared vision and individual commitment

- A transnational has to
  - Manage the flow of parts, components and finished goods
  - Coordinate the flow of funds, skills and scarce resources among units
  - Link the flow of intelligence, ideas and knowledge
- The coordinating processes of transnationals involve
  - Centralisation: substantive decision making by senior management
  - Formalisation: institutionalisation of systems and procedures
  - Socialisation: building a context of common purpose, values etc among managers

# Operating across borders

## Challenges in knowledge governance

Elements of knowledge governance	Challenges	Common obstacles
Knowledge retention	Can the firm keep the knowledge it has accumulated?	Employee turnover and knowledge leakage
Knowledge sharing	Are people willing to share knowledge with others inside the firm?	“How does it help me?” syndrome and “knowledge is power” mentality
Knowledge transmission	Is knowledge communicated effectively between people and business units?	Inappropriate channels, language barriers
Knowledge utilisation	Do potential recipients appreciate and utilise knowledge available elsewhere in the organisation?	“Not invented here” syndrome, lack of absorptive capacity

# Transnational enterprise

## Example – Electrolux – I

- Background

- Leif Johansson becomes head of company's household appliance division in 1983
- Business built up through acquisition of over 100 acquisitions in the previous 8 years
- By late 1980s, the company's portfolio included more than 20 brands spanning 40 countries, including Zanussi (Italy; reputation for innovation), Arthur Martin (France; strong local brand but low innovation capability) and Zoppas (Norway; same as Arthur Martin)

- Strategy

- The strategic view was that consumers defined “localness” in terms of modes of distribution, use of local brand names etc, rather than in terms of how the products are designed and what features they have
- The company decided to consolidate under two regional brands (Electrolux for high prestige or conservative consumers and Zanussi for trendsetting consumers who preferred innovative products) and the local brands were clustered under “yuppy” and “warm and friendly” (environmentalist) market segments
- Significant efficiencies were generated by standardising the basis chassis and components of the local brand products

# Transnational enterprise

## Example – Electrolux – II

- Strategy implementation
  - “One product, one facility” policy that led to specialised production units without concentration of production in any one country
  - Each production unit’s responsibility was matched with its capability, to maximise both efficiency and morale
  - The emphasis was on investment in plants to make them competitive rather than on closure of plants to make short term cost savings
  - The centre set ranges for transfer pricing but negotiations thereafter was undertaken by local suppliers and customers
  - Business strategy making process was not centralised; but while local managers monitored implementation and resolved problems through their teams, there were cross-country brand-coordination groups to protect the Electrolux and Zanussi brands

# Transnational enterprise

## Role of local and functional managers

- What should local managers be good at? (e.g., Gottlieb at NEC)
  - Gathering and sifting information
  - Interpreting the implications of this information – interpret local opportunities and threats
  - Predicting a range of feasible outcomes
- What should functional managers be good at? (e.g., Zaki at P&G)
  - Scan for specialised information worldwide
  - “Cross-pollinate” cutting edge knowledge and best practice
  - Champion innovations that may offer transnational opportunities

# Transnational enterprises

## Other examples of organisation structure – banking sector

