

BSM 933 - International Business

Lecture 8

Sumon Bhaumik

<http://www.sumonbhaumik.net>

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.

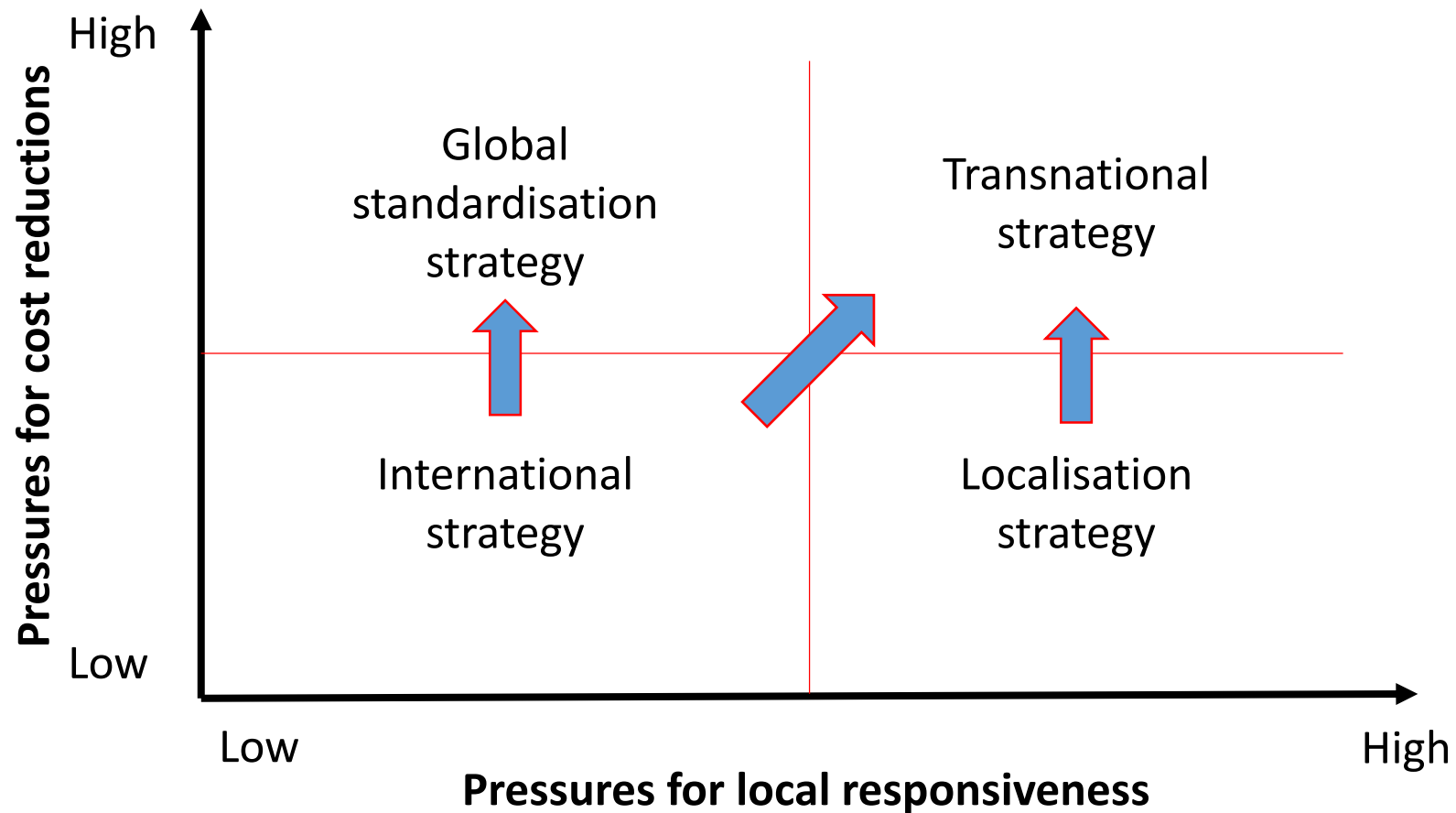
Operating across borders

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

