A new generation of multinational companies (MNCs)
Agenda

- Readings
- Managing across Borders: New Strategic Requirements
- Managing across Borders: New Organizational Responses
- Kao case study
Readings


Managing across Borders

- *Managing across Borders* is the title of a manuscript published by C.A. Bartlett and S. Ghoshal in 1989.
- The book illustrates the results of an extensive field research that involved more than 250 managers of 9 of the world’s largest multinational corporations (MNCs).
- *Managing across Borders* counts more than 6000 academic citations and still represents a milestone for scholars researching in International Business.
Managing across Borders

- The study conducted by the authors aimed to understand how 9 MNCs were coping with the increased environmental complexity that took place in the ‘80s

- Bartlett and Ghoshal analyzed 3 distinct industries:
  1. The branded packaged good industry (Kao, Unilever, P&G)
  2. The consumer electronics industry (Phillips, GE, Matsushita)
  3. The telecommunications switching (ITT, NEC, Ericsson)
The global industry

- In the ’70s, firms competing in the global consumer electronic markets ensured their success through the pursuit of efficiency (scale economies).

- This industry, defined as a global industry, was marked by:
  
  1. Falling transportation and communication costs
  2. Relatively low tariffs and protectionist barriers
  3. Increasing homogenization of national markets
The *multinational industry*

- In the same decade, the primary competitive driver for MNCs engaged in the global consumer packaged goods business was given by *national responsiveness*.
- This market, defined as a *multinational industry* was characterized by:
  1. National differentiations in terms of consumer preferences
  2. Low R&D investments $\rightarrow$ no need for scale economies

The need for local differentiation encouraged the establishment of multiple national industries.
The international industry

- Identified as an *international industry*, the telecommunication switching industry was marked by the importance of the international product cycle. This consisted of 3 steps:

1. New products were developed in the MNCs’ home country

2. New products were then adopted to other developed nations and exported to countries using earlier technologies

3. Once the new technology was understood by local subsidiaries, they were allowed to adapt it locally

The most critical task for MNCs was the ability to develop new technologies and exploit them globally
New strategic challenges (the ‘80s)

- In the ‘70s corporations competing in these industries could relatively succeed by implementing one of those unidimensional strategy previously enunciated

- However, starting from the ‘80s each of this industry began to be confronted by some major transformations:

  1. Host governments introduced antidumping suits and exerted political pressure ➔ MNCs to fragment their operations and set up local plants
  2. Consumers reacted to an overdose of standardized global products ➔ preference for differentiated goods
The emerging *transnational industry*

- The new global environment was defined as a *transnational industry*, a market driven by the simultaneous demand for global efficiency, national responsiveness and worldwide learning.

This forced MNCs to develop multidimensional capabilities
The key role of *administrative heritage*

- MNCs analyzed recognized the need for a multidimensional capabilities approach

- A firm’s set of organizational capabilities can also be interpreted as its *administrative heritage*. This is shaped by a number of factors:
  1. Home country and social systems
  2. The internationalization history of the firm
  3. Leaders’ direction
Geographic management

How can a MNC become a transnational corporation?

- According to Bartlett and Ghoshal, this type of organization is characterized by 3 key attributes

- The first, geographic managers, refers to a firm’s ability to establish dispersed subsidiaries through which analyzing and responding to different markets’ needs
Business management

- A second key feature is given by the set up of a business management with global product responsibilities

- In particular, managers are expected to:
  1. Rationalize manufacturing
  2. Standardize production
  3. Access to low-cost global sourcing
Finally, a worldwide *functional management* was found to be of critical importance for the development and transfer of a firm’s core competencies.

“*Functional management acts as the repository of organizational learning and as the prime mover for its consolidation and circulation within the company.*”
Transnational corporations

- To become a transnational corporation a firm must set up each of this management feature and maintain their own effectiveness.

The biggest challenge faced by the firms was the development of a multidimensional capability without eroding their distinct unidimensional capability.
Simplifying Assumptions

• “different businesses should be managed in the same way, as should different functions and national operations.”

• “relationships should be clear and unambiguous”

• “to institutionalize clearly understood mechanisms for decision making and to implement simple means of exercising control”
New guidelines: From Symmetry to Differentiation

- Unilever: “Global economic disruption caused by the oil crisis dramatically highlighted the very substantial differences in the company’s businesses and markets and forced management to recognize the need to differentiate its organizational structures and administrative processes.”
New guidelines: From Dependence or Independence to Interdependence

• “The reality of today’s worldwide competitive environment demands collaborative information sharing and problem solving, cooperative support and resource sharing, and collective action and implementation.”
New guidelines: From Control to Coordination and Cooption

- Philips: “found that the most effective way to manage complex flows of information and knowledge was through various socialization processes: the transfer of people, the encouragement of informal communication channels that fostered information exchange, or the creation of forums that facilitated interunit learning.”