The evolution of multinational companies (MNCs)
Agenda

- From Multinational to **Transnational** corporations
- **Managing across Borders**: New Strategic Requirements and Organizational Responses
Multinational corporation (MNC)

- **Multinational corporation (MNC):** any corporation that is registered and operates in more than one country at a time. Generally the corporation has its headquarters in one country and operates wholly or partially owned subsidiaries in other countries. Its subsidiaries report to the corporation’s central headquarters.

- **Source:** britannica.com
The growing relevance of MNCs

• Since the mid-1980s, a large rise of TNC-led foreign direct investment has occurred. Between 1988 and 1993, worldwide FDI stock -- a measure of the productive capacity of TNCs outside their home countries -- grew from US$1.1 to US$2.1 trillion in estimated book value.

• Much of this success depended on governments of emerging countries which have been "queuing up to attract multinationals" and liberalising investment restrictions as well as privatising public sector industries.

  • Source: Global Policy Forum
The geography of global business

THE WORLD’S BIGGEST PUBLIC COMPANIES
FORBES GLOBAL 2000 COMPANIES PER COUNTRY (2016)
A controversial evaluation

The following characteristics are often associated with a MNCs:
1. MNCs may not be loyal to all of the countries they operate in.
2. They use foreign labor at a cheaper price than they would in their home country.
4. They block competition by acquiring businesses.
5. They may have political influence over some governments.
6. Can create a loss of jobs in their home country.
7. They can minimize taxes taking advantage of most favourable legislations.
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 at understanding how 9 MNCs were coping with the increased environmental complexity that took place in the ‘80s.
Readings


Three distinct industries

- The consumer electronics industry (Phillips, GE, Matsushita)
- The branded packaged good industry (Kao, Unilever, P&G)
- 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 → 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
Starting from the ‘80s, each of this industry began to be confronted by some major transformations:

- Host governments introduced antidumping policies and raised political pressure → MNCs to fragment their operations and set up local plants
- 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 worldwide learning*
  
  This forced MNCs to developed *multidimensional capabilities*
How can a MNC become a transnational corporation?

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

- The first, *geographic management*, 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
- To do so:
  - overcome some **oversimplifying assumptions**
  - define new **strategic guidelines**
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”
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.”
From Dependence 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.”
From Control to Coordination and Cooperation

• 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.”
Meta-national companies: a new perspective

“the challenge is to innovate by learning from the world”. 
Metanational companies

A new global knowledge cycle:
• being the first to identify and capture new knowledge emerging all over the world;
• mobilizing this globally scattered knowledge to out-innovate competitors;
• turning this innovation into value by producing, marketing, and delivering efficiently on a global scale.
ST: an Italian example
A new generation of giants

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Source: Bloomberg

\*At August 24th 2016
New keys for success

Key attributes

The alphabet of success

Superstars need a dazzling range of qualities

Sep 17th 2016 | From the print edition
New keys for success

- “The first is an obsession with talent. The only way to remain on top for any length of time is to hire the right people and turn them into loyal corporate warriors.”
- The second obsession superstar firms share is with investing in their core skills.
- At the same time they all pay endless attention to detail. When Steve Jobs was in charge of Apple, he agonised over every tiny detail, down to the exact shade of grey to be used for the signs in its stores’ lavatories.
A new scenario

Multinationals

The retreat of the global company

*The biggest business idea of the past three decades is in deep trouble*