

# *“Kent Chemical: Organizing for International Growth”*

**PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)**

International Business & Trade  
Università degli Studi di Bergamo  
Dipartimento di Scienze Aziendali  
Bergamo, ITALY

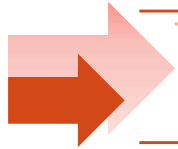


## ■ Discussion Points

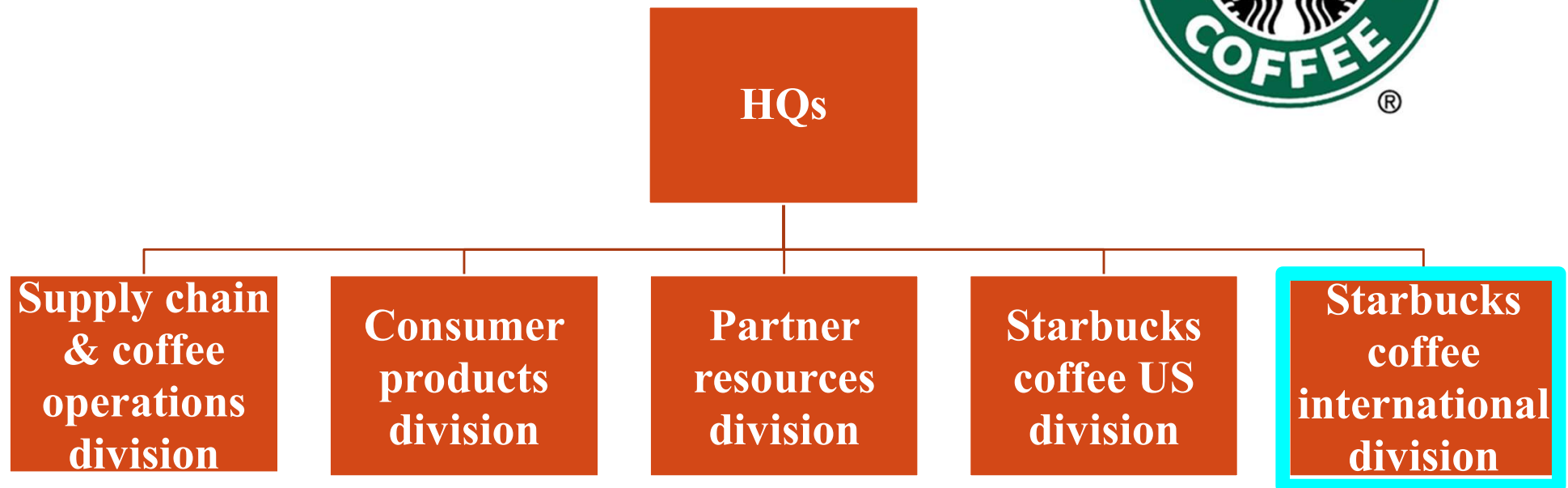
- ❖ What is the **main argument**?
- ❖ **Characterize Kent Chemical** in terms of **business lines**.  
**Interpret the balance sheet (Exhibit 1)** with care.
- ❖ **Assess Kent Chemical’s internationalization strategy**.
- ❖ **Clarify the root cause of the problem** relating to Kent Chemical’s **reorganization** process. Discuss **effective ways** to **integrate KCI with KCP** in greater detail.
- ❖ What **practical suggestions** can be drawn from this case?



## ■ International Division Structure



... is a structure that is typically set up when firms initially expand abroad, often engaging in **a home replication strategy**.

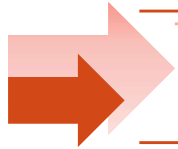


### 2 Major Problems

- (1) Foreign subsidiary managers are **not given sufficient voice** relative to the heads of domestic divisions.
- (2) The ID structure serves as a ‘**silo**’ whose activities are **not coordinated with the rest of the firm**.

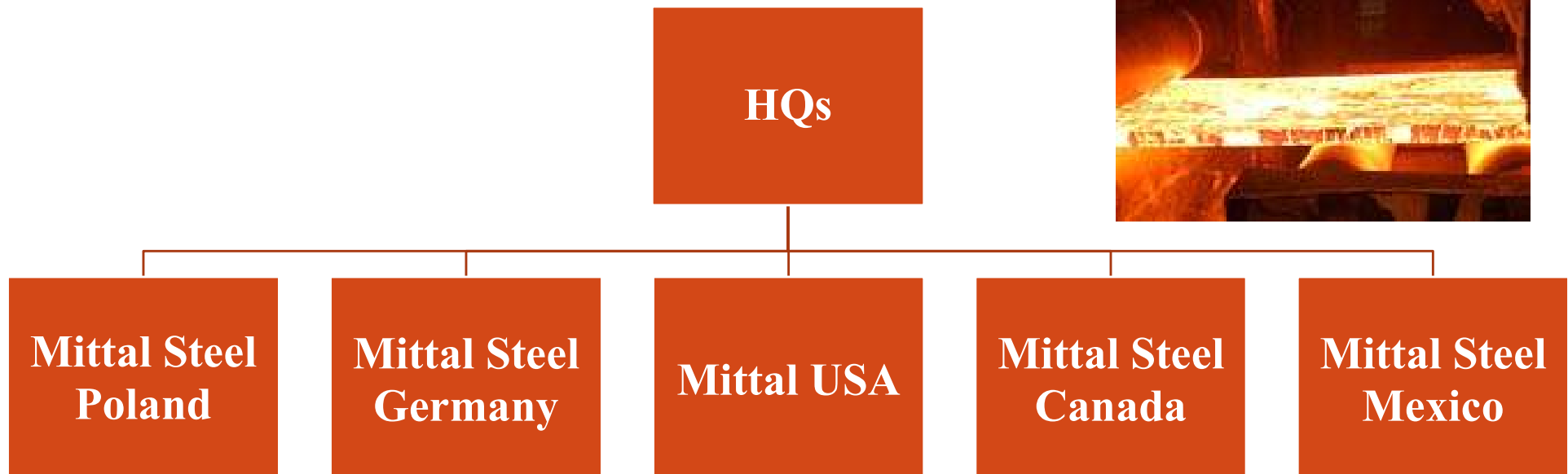


## ■ Geographic (Area) Division Structure



... is a structure that organizes the MNE according to different geographic areas & fits the most for **a localization strategy**

# MITTAL

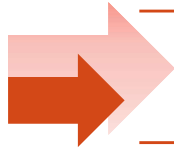


### Key Points

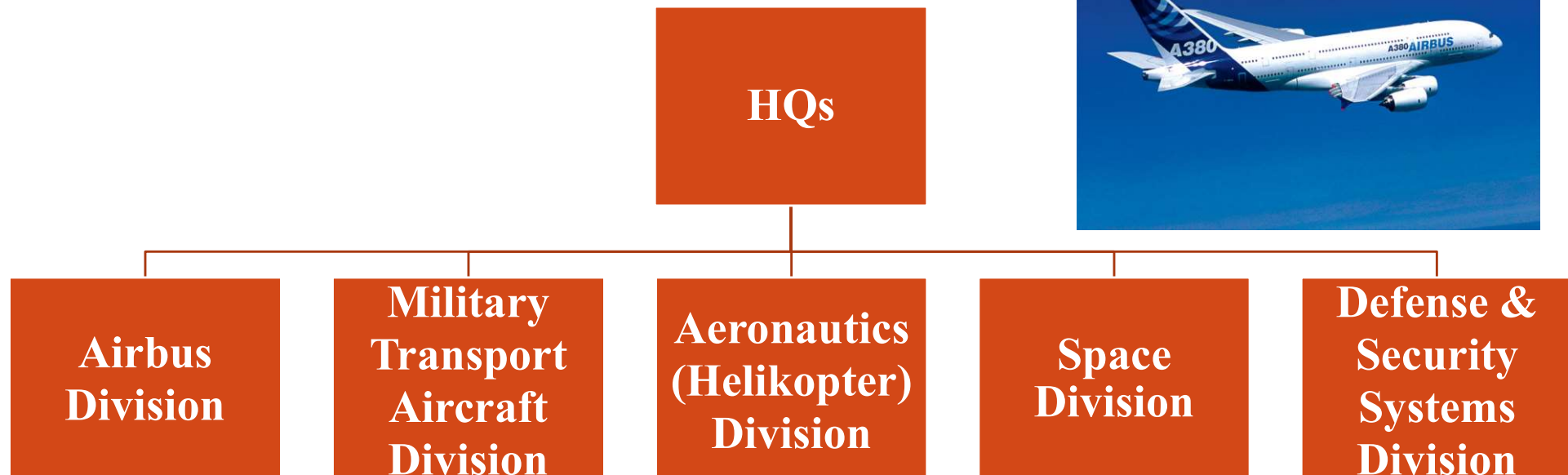
- (1) In contrast to the limited voice of subsidiary managers in the international division structure, **country & regional managers carry a great deal of weight** in a geographic area structure.



## ■ Global Product Division Structure



... is a structure that is the opposite of the geographic area structure & supports the **global standardization strategy**.



### Key Points

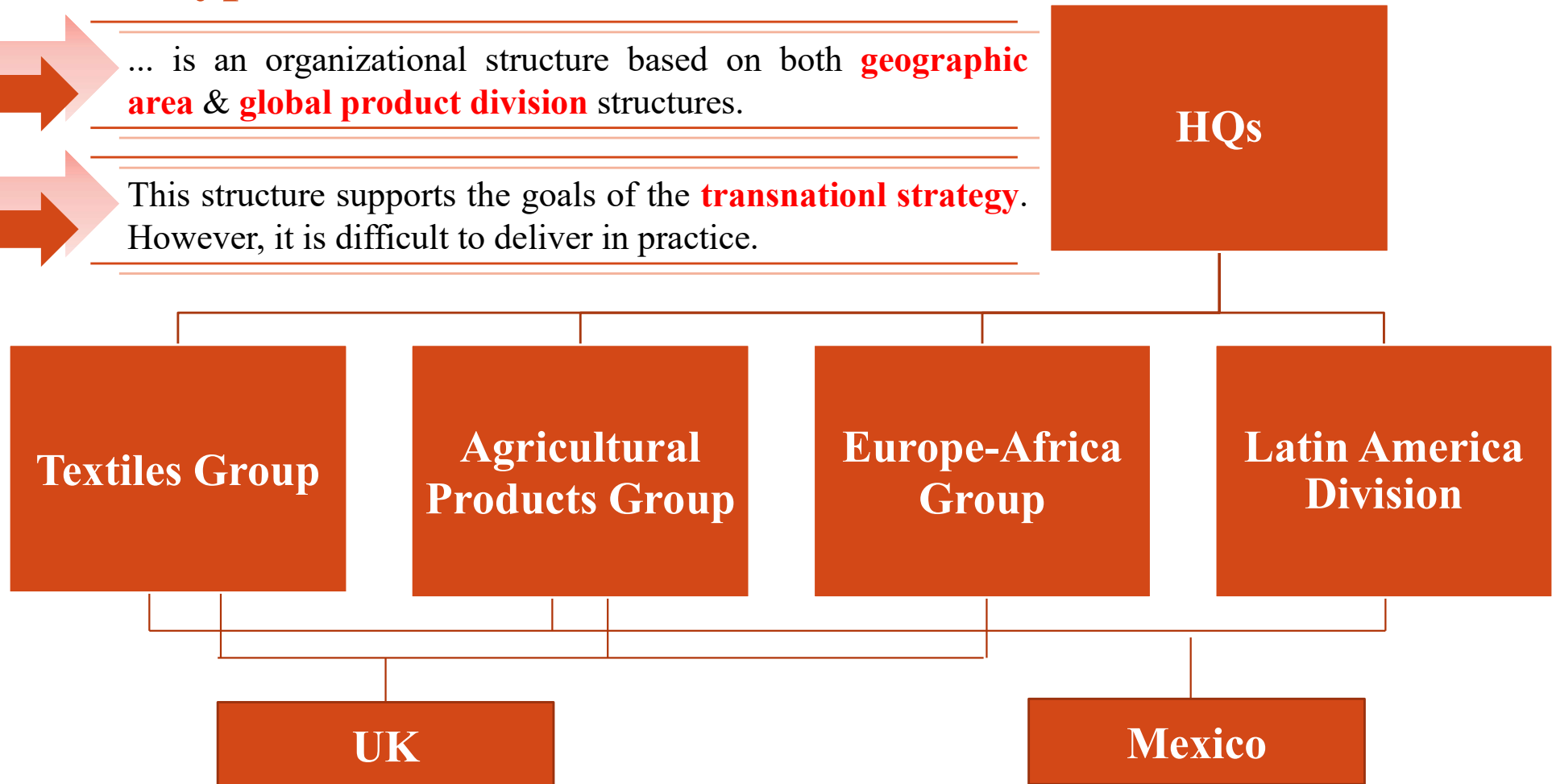
- (1) This structure greatly facilitates attention to pressures for **cost efficiencies** because it allows for consolidation on a worldwide basis & **reduces inefficient duplication** in multiple countries.



## ■ A Hypothetical Global Matrix Structure

➡ ... is an organizational structure based on both **geographic area** & **global product division** structures.

➡ This structure supports the goals of the **transnational strategy**. However, it is difficult to deliver in practice.

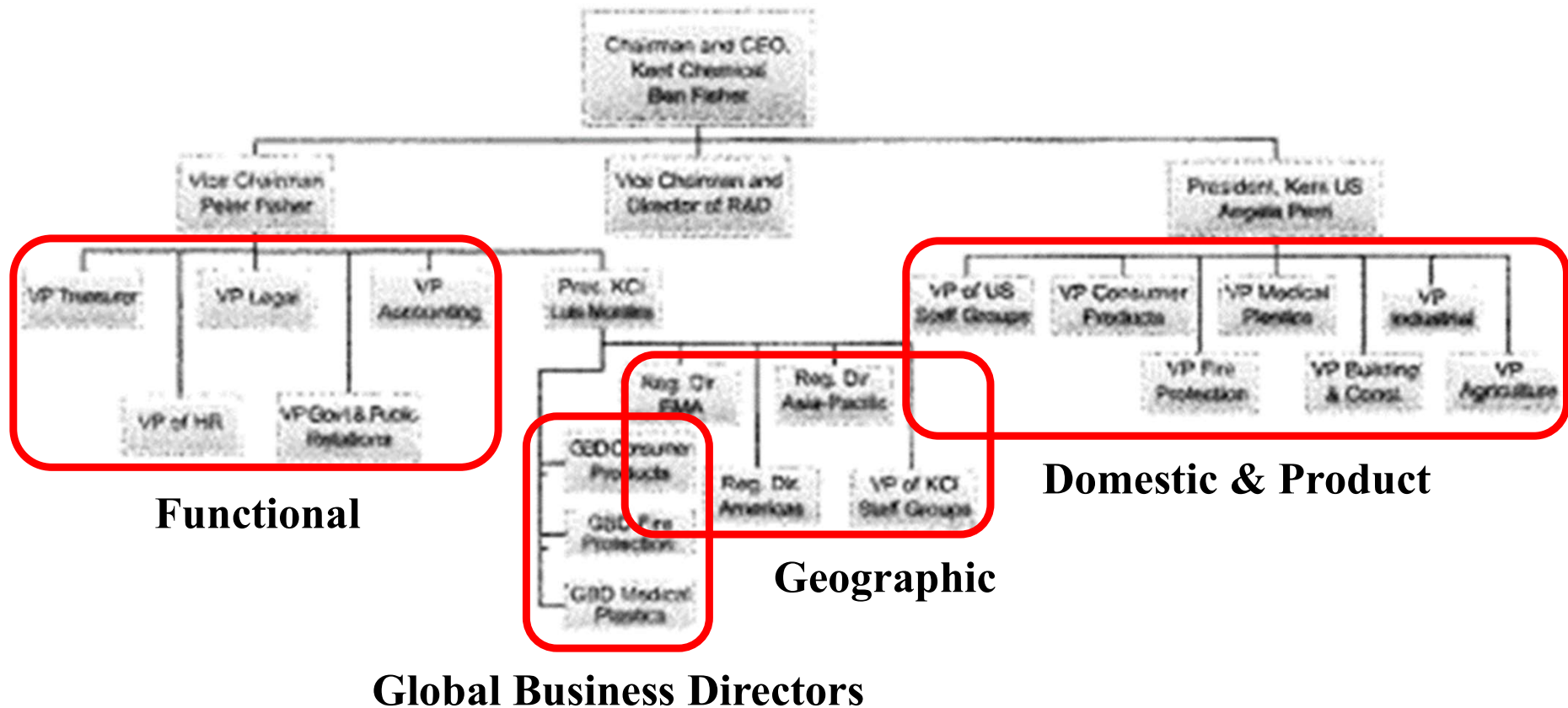


# “Kent Chemical”



## ■ Much More Complexities in Reality !

Exhibit 3 Kent Chemical Products Organizational Chart, 2006



# *“Lundbeck Korea: Managing an International Growth Engine”*

**PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)**

International Business & Trade  
Università degli Studi di Bergamo  
Dipartimento di Scienze Aziendali  
Bergamo, ITALY





## ■ Questions

- ❖ (1) *How did cultural differences between Rajar & Jun impact the decision-making inside Lundbeck Korea & (2) Since the case study does not explicit the final decision, if you were Michael Andersen, would you give more autonomy to Lundbeck Korea, or would you pursue a standardized global strategy? Why? (Alessia Ciccarello).*
- ❖ *How could foreign pharmaceutical MNCs negotiate more efficiently with the Korean government in order to speed up the access to innovative drugs without compromising their pricing strategies? (Alberto Rampinelli)*

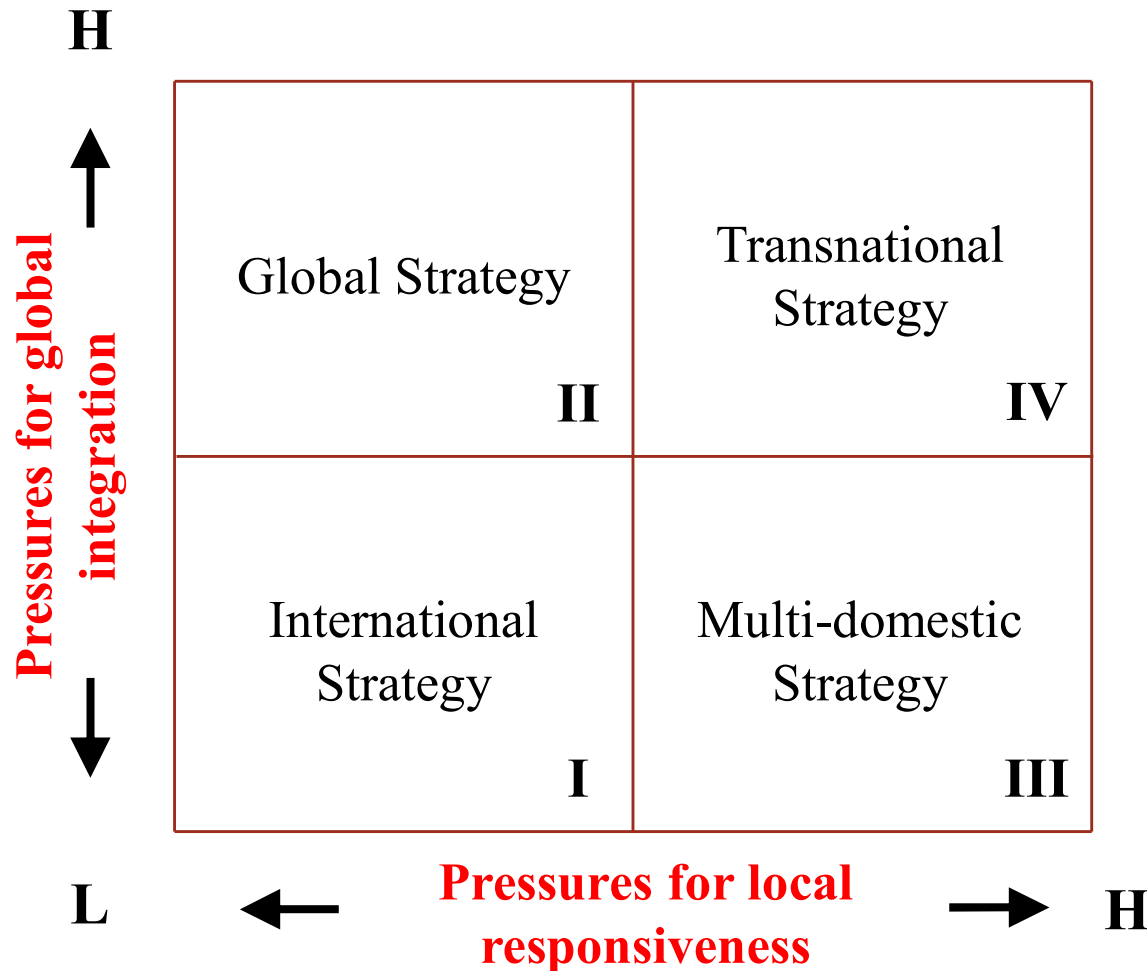


## ■ Discussion Points

- ❖ Discuss the *central point* of this case *clearly & concisely*.
- ❖ Explain (1) *Lundbeck*, (2) its *strategic importance*, & (3) the *characteristics* of the *global pharmaceutical market*.
- ❖ Clarify *key products* developed & sold in *the global CNS market* in general. How about *Lundbeck's products*?
- ❖ Describe the *details* of (1) the *Korean pharmaceutical market* & (2) the *Korean CNS industry*.
- ❖ *Michael Andersen + Asif Rajar + Jin-Ho Jun?*
- ❖ What is the *best solution* to the competing issue of *centralization & decentralization*?

# “Lundbeck Korea”

## ■ Bartlett & Ghoshal’s GI-LR Model)



### COMMENTS

**Quadrant I:** ... leverages home country-based **core competencies**.

**Quadrants II:** ... champions **worldwide consistency & standardization**.

**Quadrants III:** ... **adjusts products, services, & business practices** to meet the needs of local markets.

**Quadrant IV:** ... endeavors to be **cost efficient, locally responsive & learning driven** simultaneously around the world.

Source: Own illustration based on Bartlett & Ghoshal (1989).

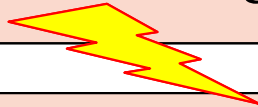


## ■ Centralization vs Decentralization

### Centralization (parental control)

#### Subsidiary strategies aligned with MNE Headquarters

- Enhance communication.
- Minimize coordination cost.
- Allows leverage of accumulated resources & expertise.
- Prevents opportunistic behaviour.
- Prevents loss of core technologies.



### Decentralization (Subsidiary autonomy)

#### Subsidiary strategies aligned with host market conditions

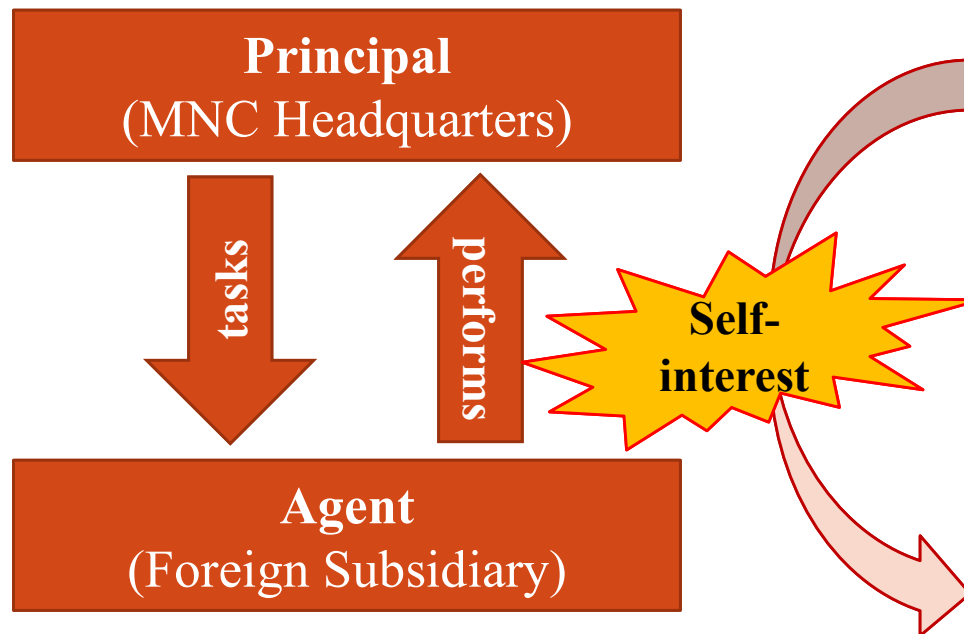
- Facilitates production differentiation & adaption.
- Rapid, flexible response to customers & competitors.
- Enhances access to local resources & human capital.
- Learning opportunities from local innovation systems.
- Advantages of embeddedness (network as valuable asset).

How to strike the optimal balance ?



## ■ Centralization vs Decentralization

### ❖ Agency Theory Framework



#### Problem

- Limited ability for knowledge collection & processing.
- Unable to run business operations in overseas markets.
- Relies on subsidiary for information & performance.
- Limited ability to accurately assess subsidiary performance.

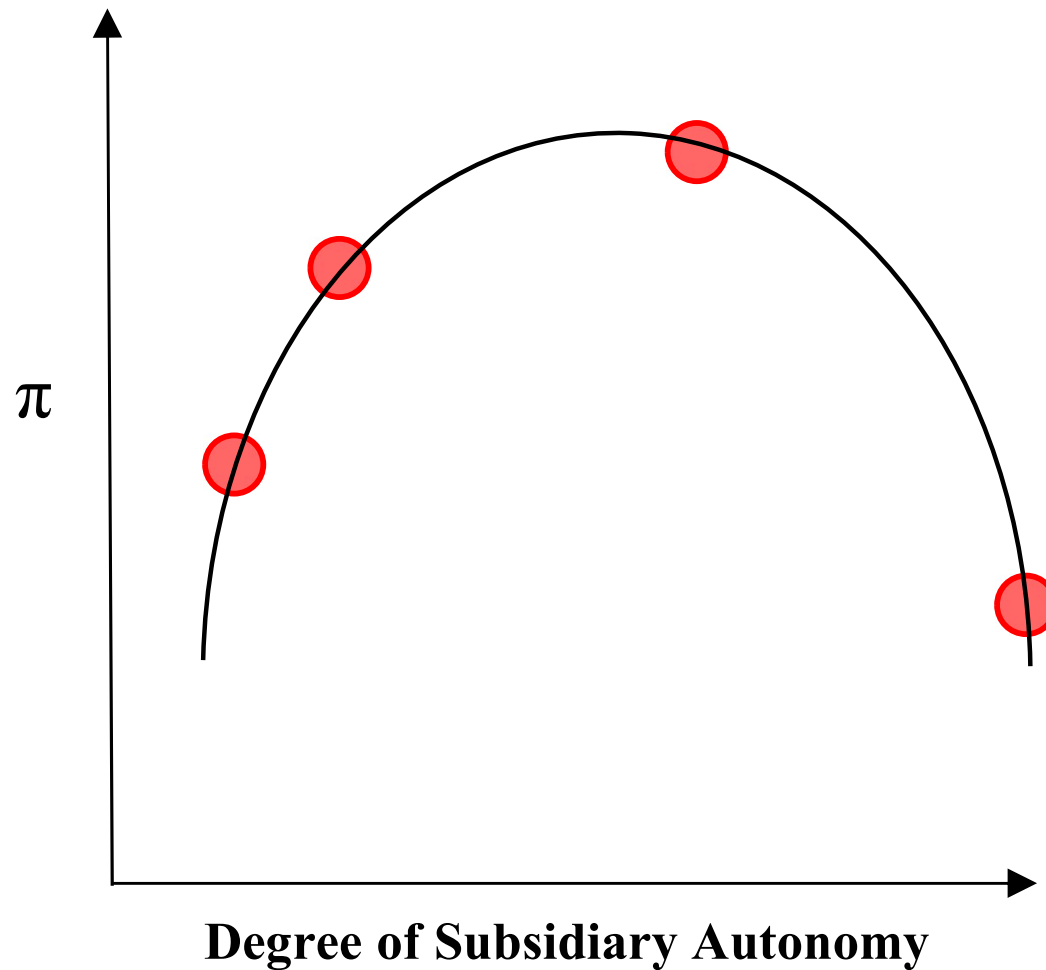
#### Solution

- Supervision over foreign subsidiary to prevent opportunistic behaviour.
- Placing headquarter staff in senior management positions at the subsidiary to:
  - ✓ Improve communications
  - ✓ Ensure compliance

# “Lundbeck Korea”



## ■ Reverse U-Shaped Curve?



- ❖ Subsidiary isolation.
- ❖ Opportunistic behaviours.
- ❖ Increase in transaction costs.
- ❖ Barriers to strengthening global value chain systems in the MNC network.

**Ambos, T. C., & Birkinshaw, J. (2010).**  
*“Headquarters’ Attention & its Effect on Subsidiary Performance”*

**PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)**

International Business & Trade  
Università degli Studi di Bergamo  
Dipartimento di Scienze Aziendali  
Bergamo, ITALY

# “HQs’ Attention & Subsidiary Performance”

---



## ■ Questions

- ❖ (1) *What are some potential ‘negative’ consequences of an excessive headquarters’ attention on subsidiaries, & (2) How might these affect the dynamics discussed in the paper? (Daniel Kellici)*
  
- ❖ **What are the main strengths & weaknesses of this article? (Eleonora Tantardini)**



# “HQs’ Attention & Subsidiary Performance”

---



## ■ Questions

- ❖ What is the *uniqueness* of this piece of work?
- ❖ What does it mean by “*headquarters’ attention*”?
- ❖ What is the *underlying rationale* for the positive effect of *headquarters’ attention* on *subsidiary performance*?
- ❖ Elaborate on the idea behind *the 2-by-2 matrix* shown in p.454.
- ❖ Provide *brief clarifications* on *each hypothesized relationship*.
- ❖ Draw *a managerial implication* from the empirical findings.

# “HQs’ Attention & Subsidiary Performance”



## ■ Research Questions

- ❖ Whether & how does HQs’ attention affect subsidiary performance?
- ❖ Under what conditions do MNC subsidiaries benefit from headquarters’ attention?

## ■ Theoretical Backgrounds

- ❖ The perspective of **organizational attention** in the context of HQs-subsidiary relationships.

## ■ Analytical Strategy

- ❖ A **quantitative** approach.
- ❖ **283 subsidiaries in 3 countries** (*i.e.*, Australia, Canada, & UK).
- ❖ **Moderated** multiple regressions.

# “HQs’ Attention & Subsidiary Performance”



## ■ Introduction

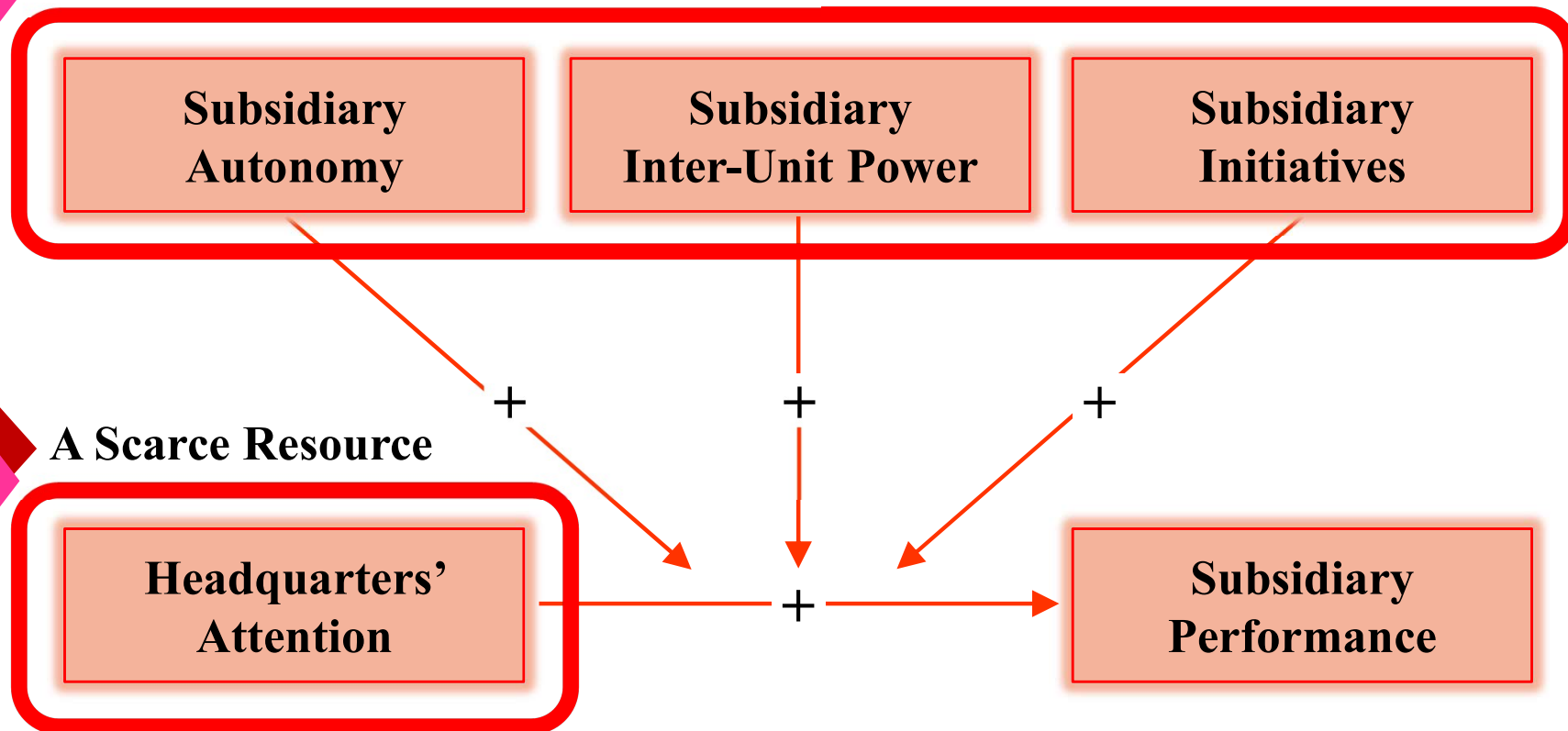
- ❖ **Attention** is the most crucial & scarce resource in organization (Haas & Hansen, 2001).
- ❖ HQs may desire to **(1) support** subsidiaries’ operations, **(2) transfer** knowledge, **(3) ensure** coordination or **(3) strengthen** their control & **limit** disruptive behaviors.
- ❖ **Subsidiaries** are **competing for HQs’ attention** to **(1) acquire** resources, **(2) augment** their market position (via increased market share, new product launches, greater autonomy & authority etc.), **(3) increase** their bargaining power, or **(4) try to avoid** intervention.
- ❖ Little is known **how “attention” affects strategic decisions, actions, & behaviors** (Smith et al., 1991; Thomas & McDaniel, 1990).

# “HQs’ Attention & Subsidiary Performance”



## ■ Conceptual Framework

### ➡ Strategic Configurations



# “HQs’ Attention & Subsidiary Performance”

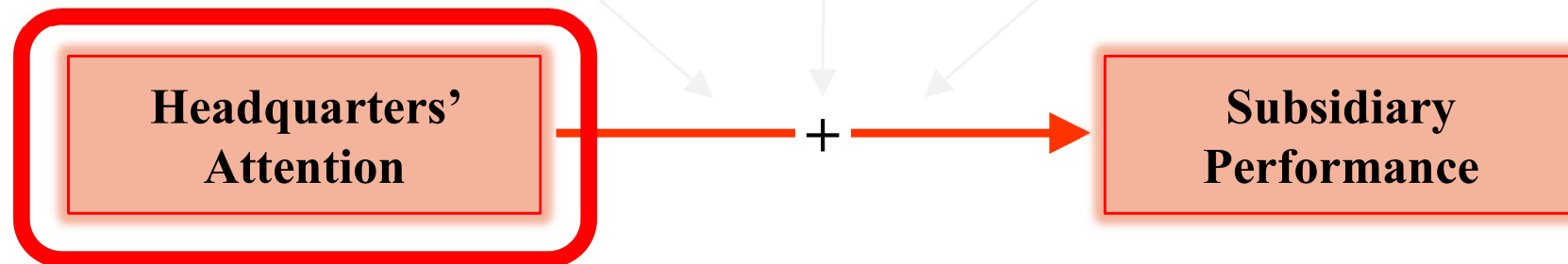


## ■ Hypotheses

### KEY POINTS

- ❖ **Attention** has been viewed as a **socially structured pattern in organizations** & constitutes a **scarce resource** (Ocasio, 1997).
- ❖ The shifting level of **attention/connectedness granted to a particular unit** may act as a mechanism of **subsidiary development** over time (Galunic & Eisenhardt, 2001).
- ❖ In addition to manifest consequences (*e.g.*, **resource allocation, flows & commitments**), **attention** has a **positive signaling effect** (Dutton & Ashford, 1993).
- ❖ The firm is a **political system** as driven by **political coalitions** (Forsgren et al., 2005).

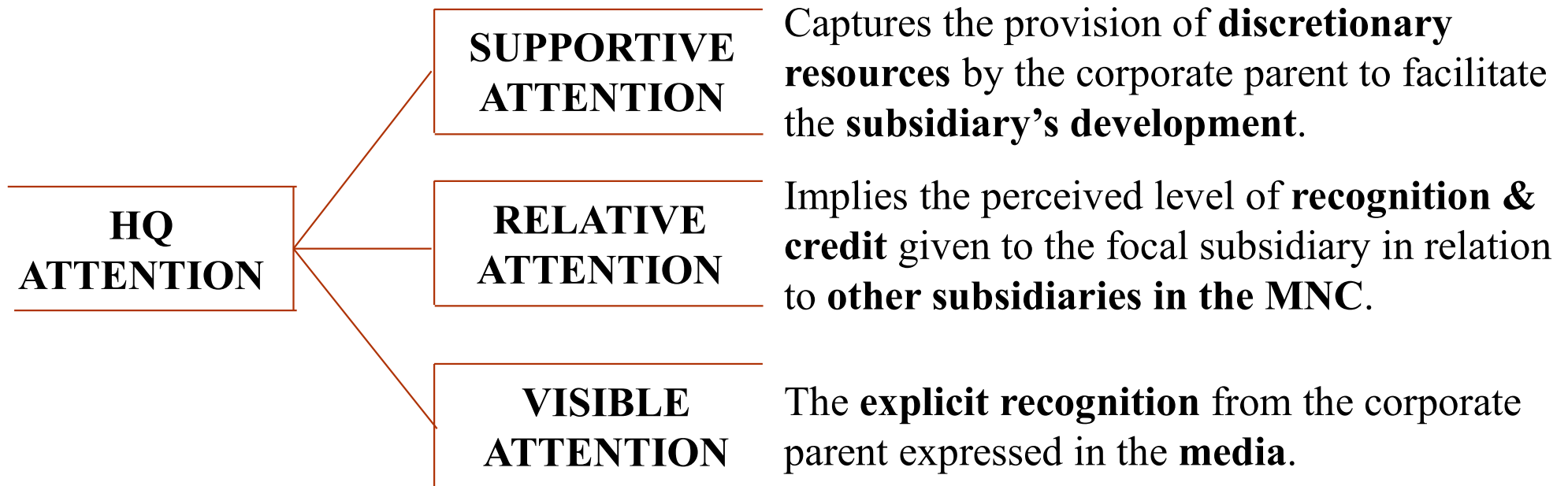
### A Scarce Resource



# “HQs’ Attention & Subsidiary Performance”



## ■ What is Headquarters’ Attention?

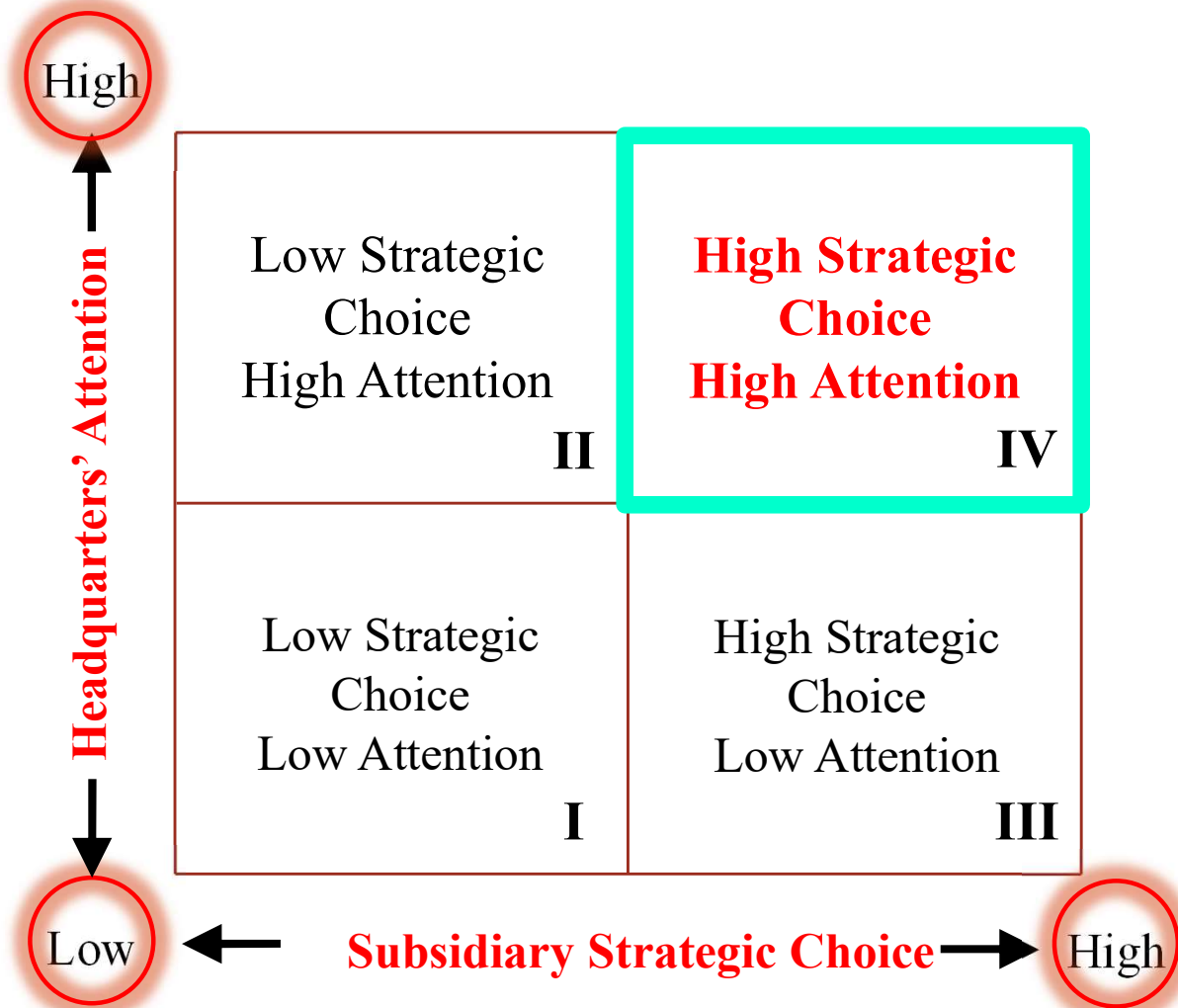


Source: Law et al. (1996), Ambos & Birkinshaw (2010), & Bouquet & Birkinshaw (2008).

# “HQs’ Attention & Subsidiary Performance”



## ■ Model of Internal Collaboration within MNCs

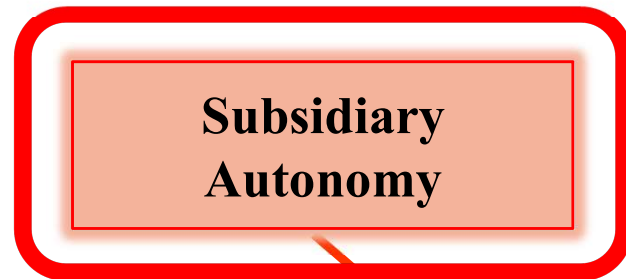


# “HQs’ Attention & Subsidiary Performance”



## ■ Hypothesis 1

### Strategic Configurations

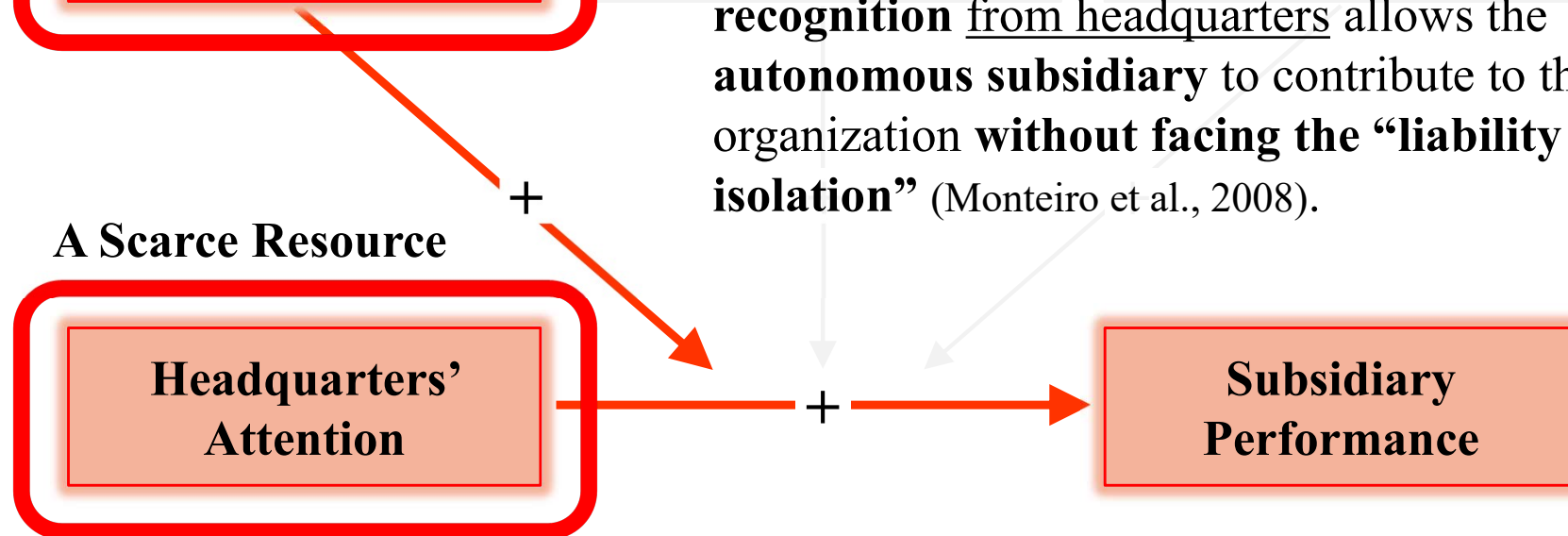


### A Scarce Resource



### KEY POINTS

- ❖ A high degree of **autonomy** contributes to expanding the **flexibility** needed to cope with the local environment (Harzing, 1999).
- ❖ **Receiving attention, relevant information, or recognition** from headquarters allows the **autonomous subsidiary** to contribute to the organization **without facing the “liability of isolation”** (Monteiro et al., 2008).





# “HQs’ Attention & Subsidiary Performance”

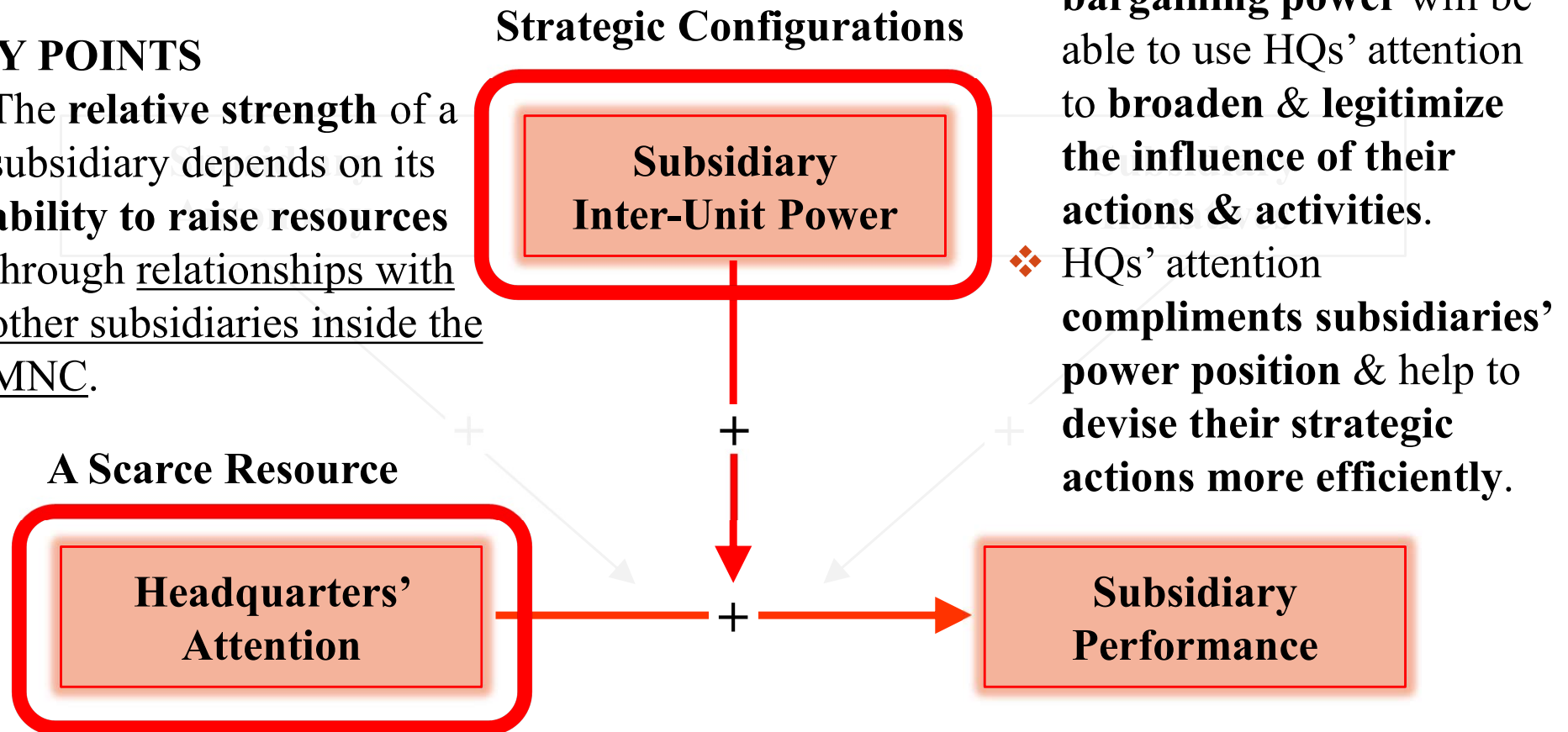


## ■ Hypothesis 2

### KEY POINTS

- ❖ The **relative strength** of a subsidiary depends on its **ability to raise resources** through relationships with other subsidiaries inside the MNC.

A Scarce Resource



- ❖ Subsidiaries exercising a **bargaining power** will be able to use HQs’ attention to **broaden & legitimize the influence of their actions & activities**.
- ❖ HQs’ attention **compliments subsidiaries’ power position & help to devise their strategic actions more efficiently**.

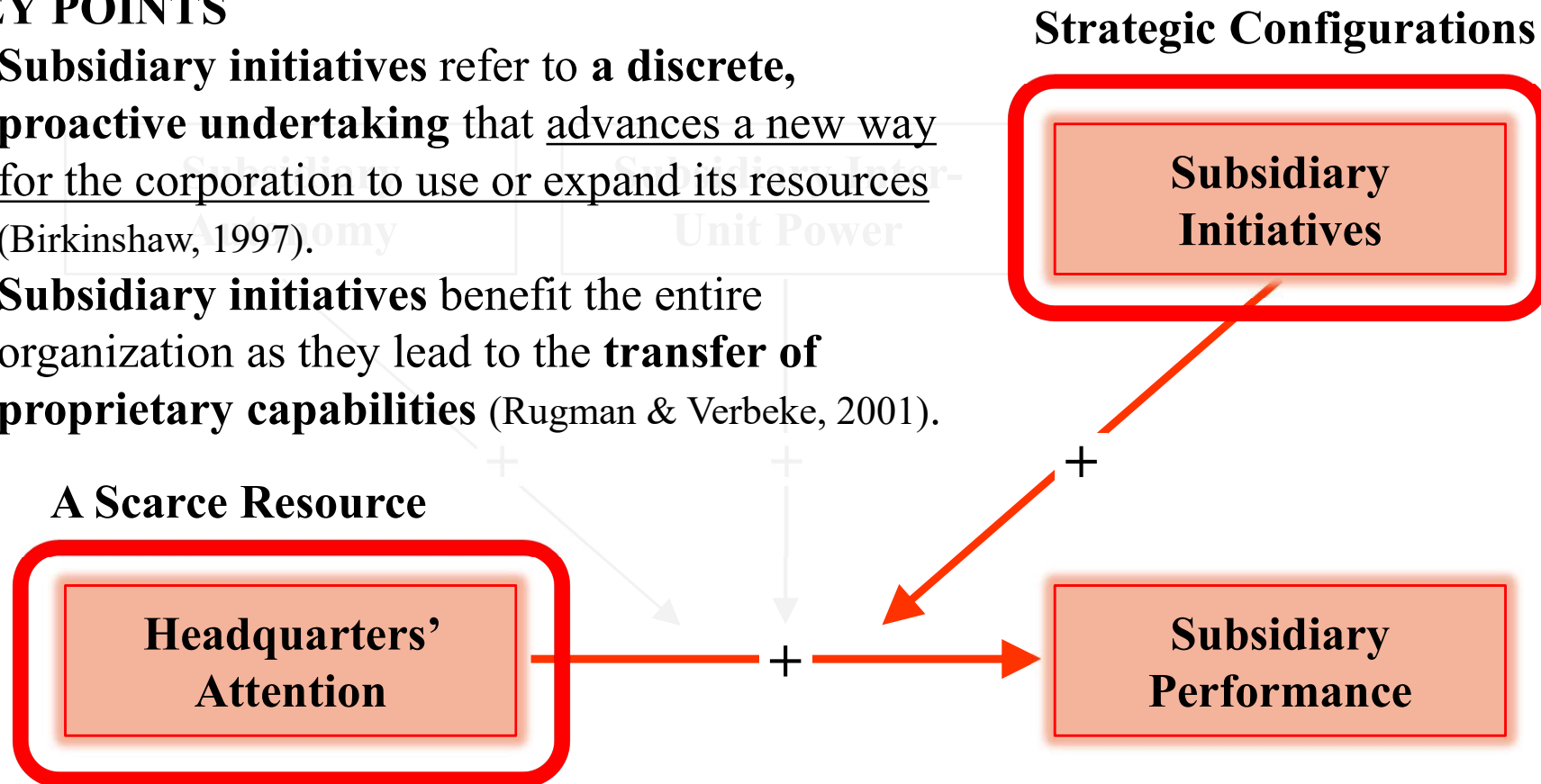
# “HQs’ Attention & Subsidiary Performance”



## ■ Hypothesis 3

### KEY POINTS

- ❖ **Subsidiary initiatives** refer to a **discrete, proactive undertaking** that advances a new way for the corporation to use or expand its resources (Birkinshaw, 1997).
- ❖ **Subsidiary initiatives** benefit the entire organization as they lead to the **transfer of proprietary capabilities** (Rugman & Verbeke, 2001).



- ❖ **Initiative-taking subsidiaries** are able to **leverage HQs’ attention** & use it to **realize the full potential of their initiatives** (Ambos & Birkinshaw, 2010).

# “HQs’ Attention & Subsidiary Performance”



## ■ Managerial Relevance

- ❖ Focusing on MNC subsidiaries with a high level of strategic choice may be **most effective** but will even create **in-group/out-group cycles** within the **MNC network** (Monteiro et al., 2008).
- ❖ Subsidiary managers should strive for **both HQs’ attention & strategic choice**, as gaining HQs’ attention alone is not sufficient to improve their subsidiary performance (Ambos & Birkinshaw, 2010).
- ❖ Competitive superiority can be fully realized when the importance of “ambidextrous” managerial mindsets (to focus on the **local market** & the **global linkage**) is valued among subsidiary managers (Ambos & Birkinshaw, 2010; Gibson & Birkinshaw, 2004).

**O'Brien et al. (2019).**

*“The Microfoundations of Subsidiary Initiatives: How Subsidiary Manager Activities Unlock Entrepreneurship”*

**PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)**

International Business & Trade  
Università degli Studi di Bergamo  
Dipartimento di Scienze Aziendali  
Bergamo, ITALY

# “Subsidiary Initiative at Schenck in China”



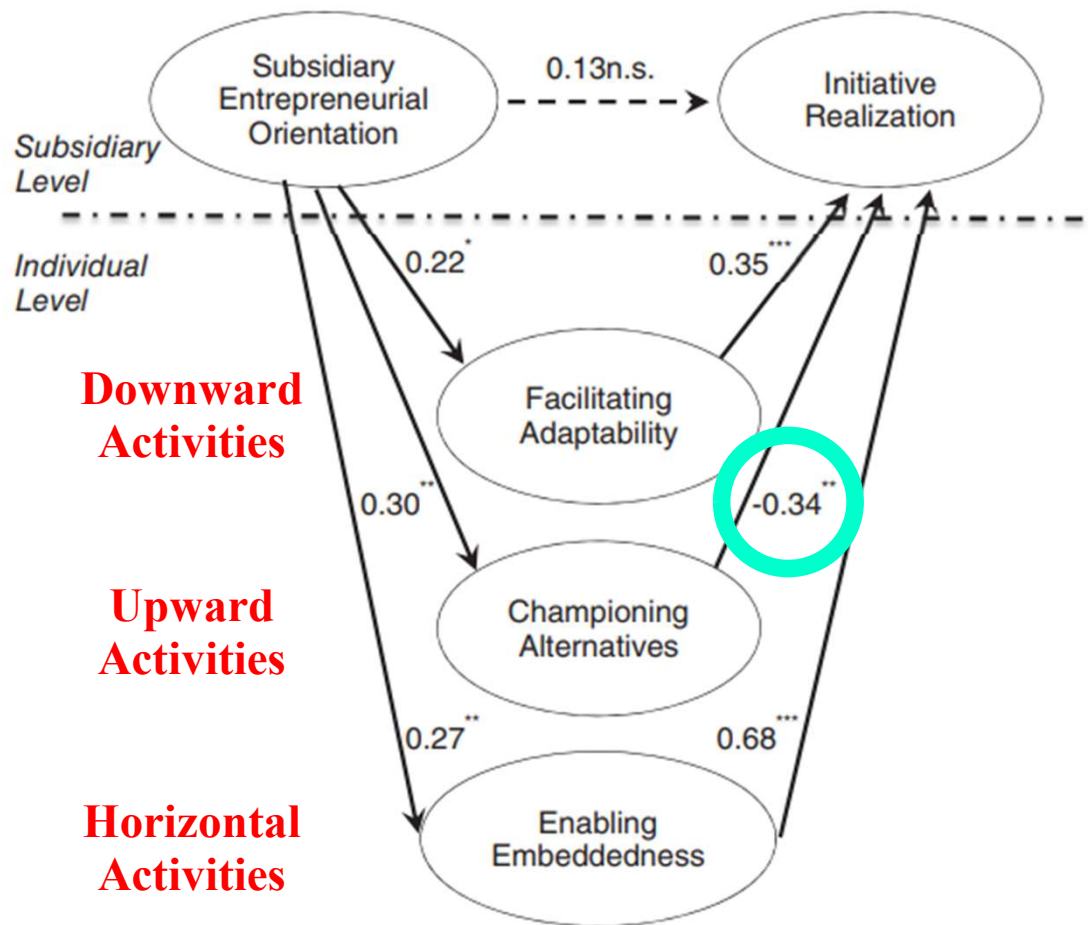
## ■ Questions

- ❖ (1) *What might explain the negative effect of “championing alternatives” on initiative realization (H2B) & (2) How can MNCs grant autonomy to subsidiaries while ensuring they don’t diverge from core corporate practices & values? (Enrico Ghisletti)*
- ❖ (1) *The study found a negative relationship between championing alternatives & initiative realization. What could be the possible explanations of this? & (2) How does “enabling embeddedness” as a key subsidiary manager activity extend our understanding of the role of middle managers in general, & why is it particularly critical in the context of MNCs? (Elisa Scaccabarozzi)*

# “Subsidiary Initiative at Schenck in China”



## ■ How Do Subsidiary CEOs Unlock Entrepreneurship?



### COMMENTS

#### Facilitating Adaptability

- Mobilize their employees & create an entrepreneurial space by preventing such activities from interference by corporate-level management.

#### Championing Alternatives

- Identify the value of an idea & bring it to HQs' attention.
- Engage in issue selling & winning top managers' support for particular issues to attract HQ' attention.

#### Enabling Embeddedness

- Access information on future market trends & novel ideas & monitor competitors via engagement with customers, suppliers & managers.

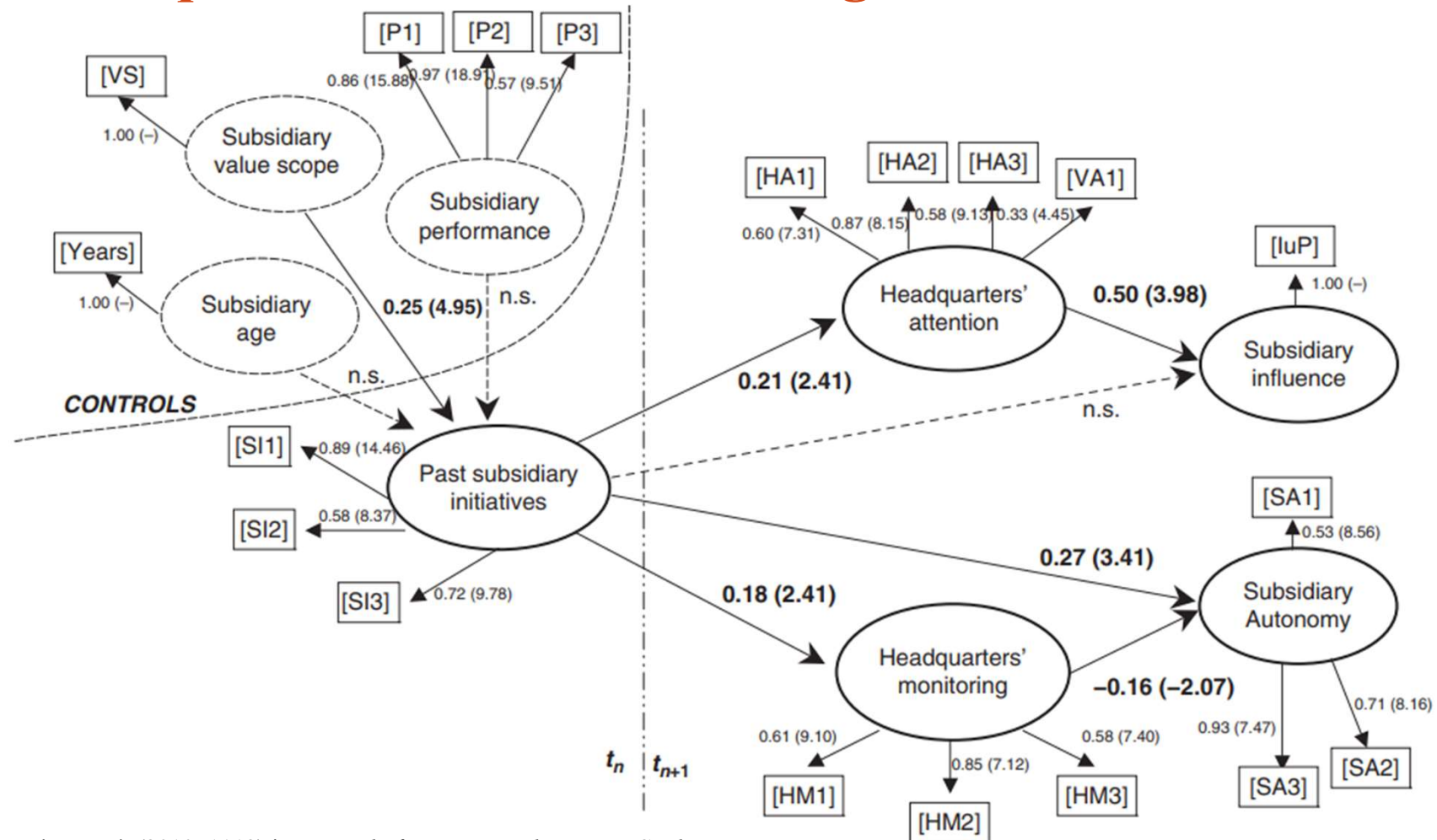
Source: O'Brien et al. (2018: 15) in *Global Strategy Journal*.



# “Subsidiary Initiative at Schenck in China”



## Consequences of Initiative-Taking in MNCs



Source: Ambos et al. (2010: 1113) in *Journal of International Business Studies*.

# The End of Today's Lecture

---



ご清聴有難う御座いました。

**Thank you so much!**

**Vielen Dank für Ihre Aufmerksamkeit!**

**Grazie mille !**

## **【Contact Address】**

**ADDRESS:** 208 in Via dei Caniana 2, 24127 Bergamo, ITALY

**E-mail:** [norifumi.kawai@unibg.it](mailto:norifumi.kawai@unibg.it)