

Structuring & Innovating in the MNC

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Special Topics in Internationalization

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■ Learning Objectives

- Articulate the relationship between **MULTINATIONAL STRATEGY & STRUCTURE**.
- Outline the **CHALLENGES** associated with **LEARNING, INNOVATION & KNOWLEDGE MANAGEMENT**.
- Draw **IMPLICATIONS** for action



1. Introduction (The Case of ‘Big Four’)

2. Organizational Structures in MNCs

3. Managing Knowledge in Global Firms

4. Implications for Practice

Introduction



■ The Global Organizational Design of the 'Big 4'

**Deloitte
Touche
Tohmatsu**



❖ What the 'Big 4' offer is ...

- Financial advice
- Audit
- Management consulting



❖ Who is the main customer?

- Fortune 500 corporations
- Smaller & local clients
- Government agencies



15
countries

KPMG



❖ Professional firms as key actors

- The 'Big 4' are regarded as the source of **managerial & organizational inspiration.**



34
countries

ERNST & YOUNG



151
countries



■ Major Challenges Facing the ‘Big 4’

❖ ‘3’ different axes

Service line

Seamless cross-national services

Geographic location

Industry & market

❖ *Deep specialization:*

Professional expertise, client expertise & geographical expertise

❖ *A sophisticated client management system:*

Connections of teams of professionals drawn from the different expertise axes.

❖ *A culture of reciprocity:*

Building relationships & organizational processes across the different specialization axes.



■ Key Questions Drawn from the Opening Case

- ❖ How can MNCs organize their operations to be successful both **LOCALLY & GLOBALLY**?
- ❖ How can MNCs make sure that people within the organization **WORK TOGETHER** constructively?
- ❖ To what degree should MNCs **CENTRALIZE** or **DECENTRALIZE** their decision-making structures & processes?
- ❖ How can MNCs foster the **EXCHANGE** of **KNOWLEDGE** & improve the odds for **BETTER INNOVATION**?



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Organizational Structures in MNCs



■ Global Integration

- ❖ ... is the process of **combining** differentiated parts **into a standardized whole**.
- ❖ The higher the pressure for global integration, the greater the need to **maximize efficiency**.

■ Local Responsiveness

- ❖ ... is the process of **disaggregating** a standardized whole **into differentiated parts**.
- ❖ The higher the pressure for local responsiveness, the greater the need to **adapt to local conditions**.

**Balancing the asymmetric forces affects how managers configure
& coordinate value activities !**



■ Pressures for Global Integration (GI)

❖ Globalization of markets (Converging consumer preferences)

- Apple iPods, Samsung plasma screens, Facebook connections, Starbucks espressos, Google searches, or Zara blouses
- Buying the **highest-quality** product for the **lowest-possible price**
- Improving communication & transportation logistics
- Zara's success: **Standardized fashion styles** at **reasonable prices**, global retail networks

❖ Efficiency gains of standardization (Improving efficiency)

- Doing the **same task** the **same way** → efficiency (↑), quality (↑), production cost (↓), price (↓)
- The WTO membership → international standards (↑)



■ Pressures for Local Responsiveness (LR)

❖ Consumer divergence

- Differences in local consumers' preferences due to culture, historical legacy & nationalism (*i.e.*, buy-local campaigns).
- **Forms of LR**
 - (1) **Designing & making** a product that local customers prefer (*e.g.*, large cars in the US, smaller cars in Europe).
 - (2) **Buyer preferences** (*e.g.*, Web-based & 3G-driven content in the US, print & media promotion in France).
 - (3) **Adapting marketing** practices to consumption patterns (*e.g.*, large package sizes in Australia, smaller sizes in Japan).

❖ Host-government policies

- **Pharmaceutical companies** (*i.e.*, product approval in each country).
- **Global Financial Crisis (GFC)**: Meeting growing demands for transparency, accountability, nationalism.

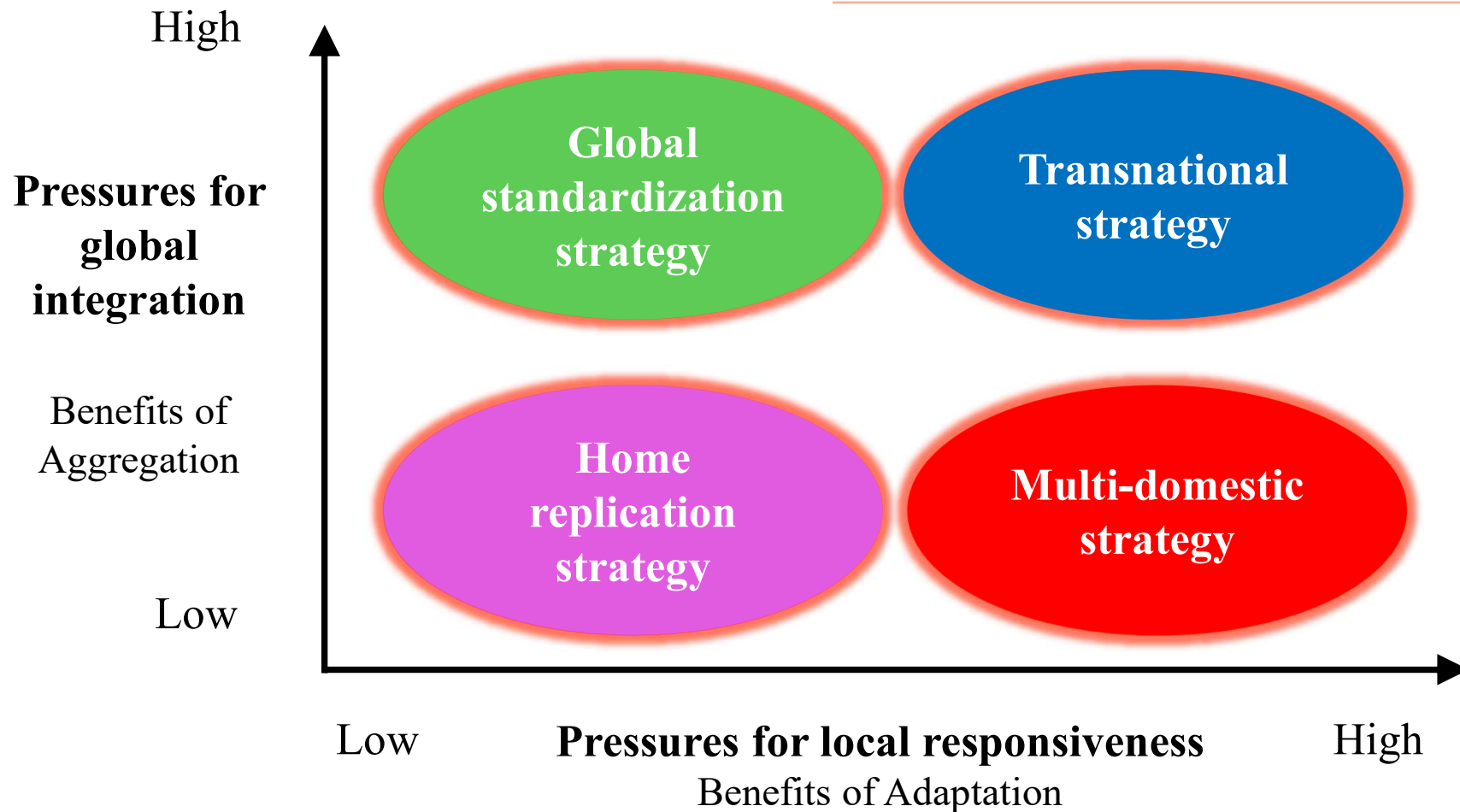
Organizational Structures in MNCs



■ The GI-LR Framework



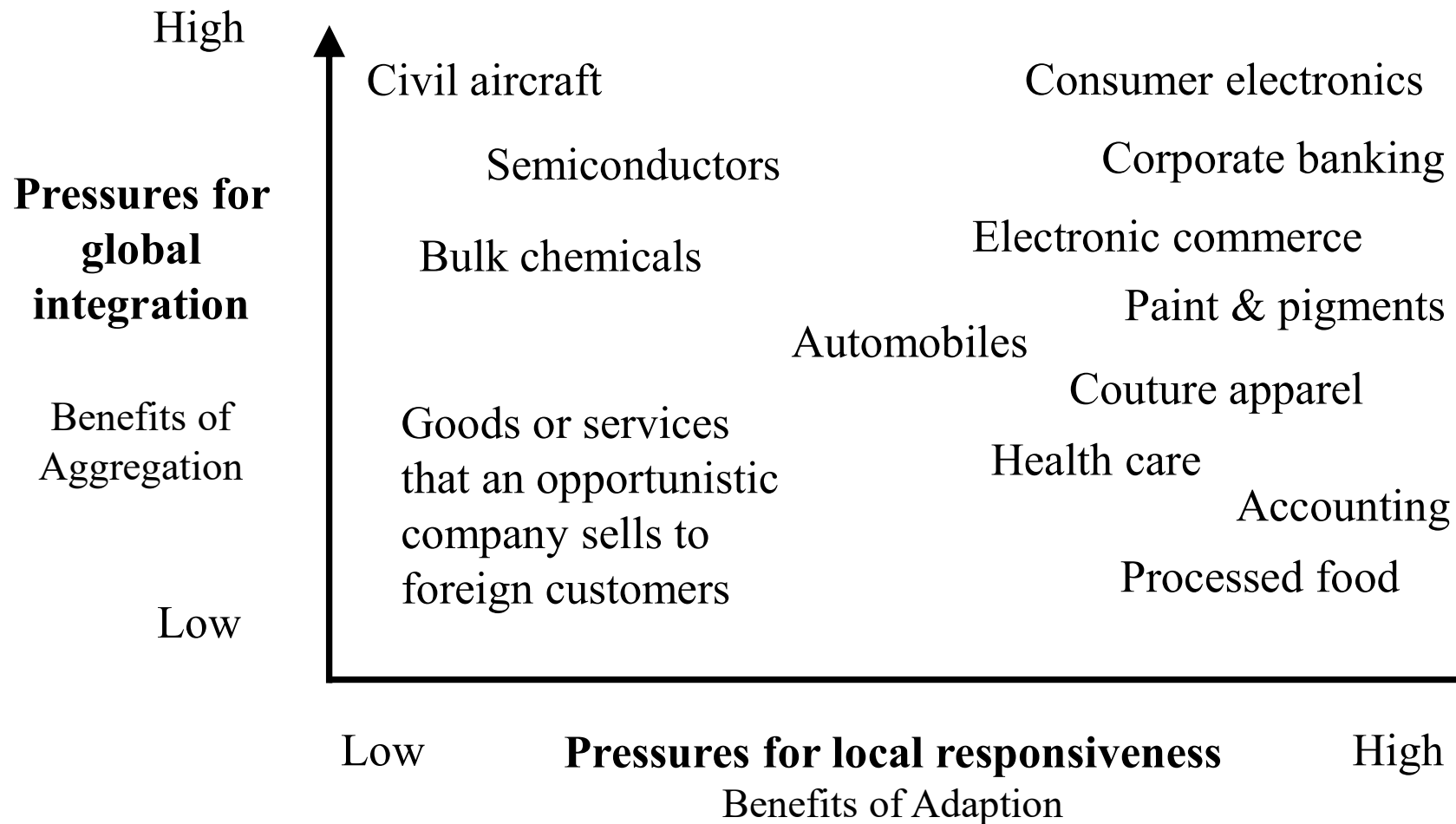
How to simultaneously deal with two sets of pressures for **global integration** & **local adaptation**



Organizational Structures in MNCs



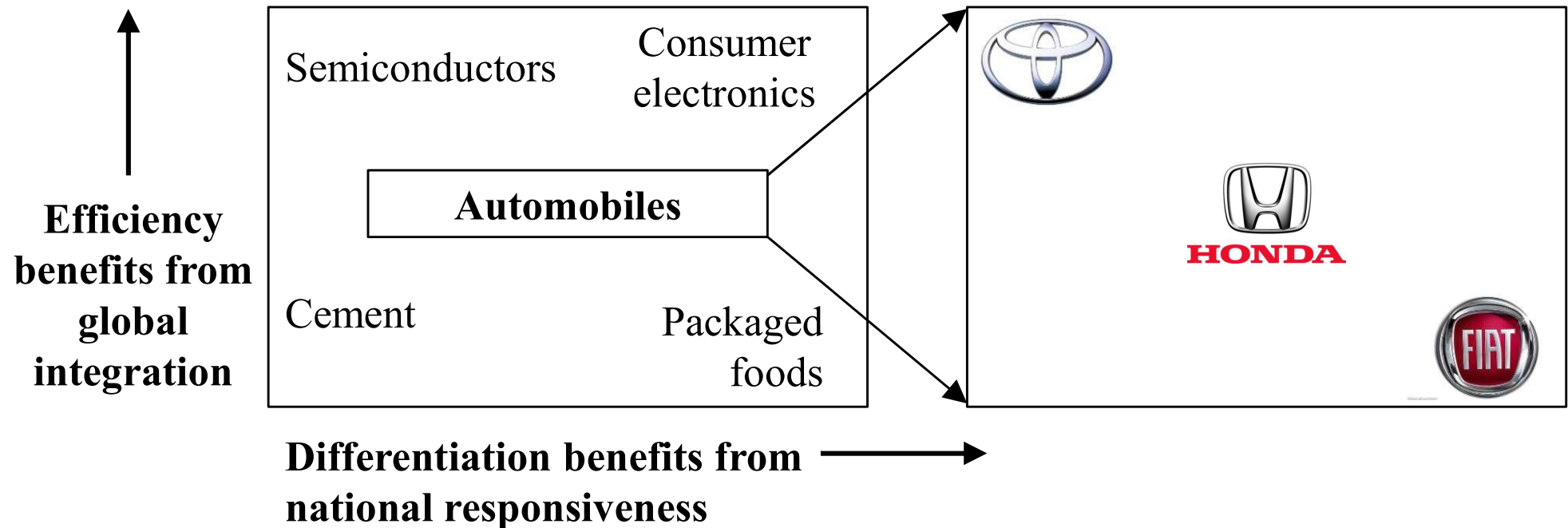
■ The GI-LR Framework



Organizational Structures in MNCs



■ The GI-LR Framework



Source: Bartlett & Ghoshal (1989).

Organizational Structures in MNCs: 4 Strategies



■ Home Replication Strategy



- ❖ ... leverages home country-based **core competencies** (*e.g.*, production scales, distribution efficiencies & brand positioning).
- ❖ ... allows **limited local customization**.

■ Multi-domestic Strategy



- ❖ ... adjusts products, services, & business practices to **meet the needs of local markets**.

■ Global Standardization Strategy ZARA

- ❖ ... champions **worldwide consistency & standardization**.

■ Transnational Strategy



- ❖ ... endeavors to be **cost efficient, locally responsive & learning** driven simultaneously **around the world**.

(1) Home Replication Strategy



■ Value Chain

❖ **R&D** or **branding** are **dictated by HQ** (*e.g.*, Google).

■ Benefits

❖ **Easy to transfer** (1) core competencies & unique products to foreign markets where rivals are unable to compete & (2) skills & ideas from HQ to subsidiaries.

■ Costs

❖ **HQ's ethnocentric orientation** → misleading foreign-market opportunities & threats.

❖ Lack of local responsiveness.

❖ Blindsided by an unexpectedly innovative **rival** (*e.g.*, Naver in South Korea & Baidu in China).

(2) Multi-Domestic Strategy



■ Value Chain

- ❖ VC design is the prerogative of the local subsidiary, **NOT** the **unilateral declaration by the parent company**.
- ❖ Local operations have the authority to **adapt value activities** to **local contexts** (e.g., economic, political, legal, & cultural factors).

■ Benefits

- ❖ Lower exchange-rate risk, higher potential for innovative products from local R&D, higher growth potential (due to entrepreneurial zeal).
- ❖ Maximize **local responsiveness**.

■ Costs

- ❖ **Duplication** of products & processes to local markets → **cost** (↑)
- ❖ **Too much** local **autonomy**.

(3) Global Standardization Strategy



■ Value Chain

- ❖ Facilities in **low-cost locations** that create the platforms for efficient operations.
- ❖ **HQ coordinates** dispersed activities by **standardizing products**.

■ Benefits

- ❖ A **high-quality** product for a **lower price**.
- ❖ Scale economies & shared product development.
- ❖ Leverage **low-cost advantages**.

■ Costs

- ❖ Lack of local responsiveness.
- ❖ **Slow response** to disruptive market changes & product breakthroughs (due to too much centralized control).



(4) Transnational Strategy



■ Value Chain

- ❖ A sophisticated framework of **integration, differentiation, & learning**.
- ❖ **Knowledge flows** from the idea generator to idea adopters.
- ❖ **Knowledge diffused** throughout an MNC's worldwide operations.
- ❖ **Subsidiary networks** as a source of competitive advantage.

■ Benefits

- ❖ Engages in **global learning & diffusion of innovations**
- ❖ Leveraging **low-cost** advantages.

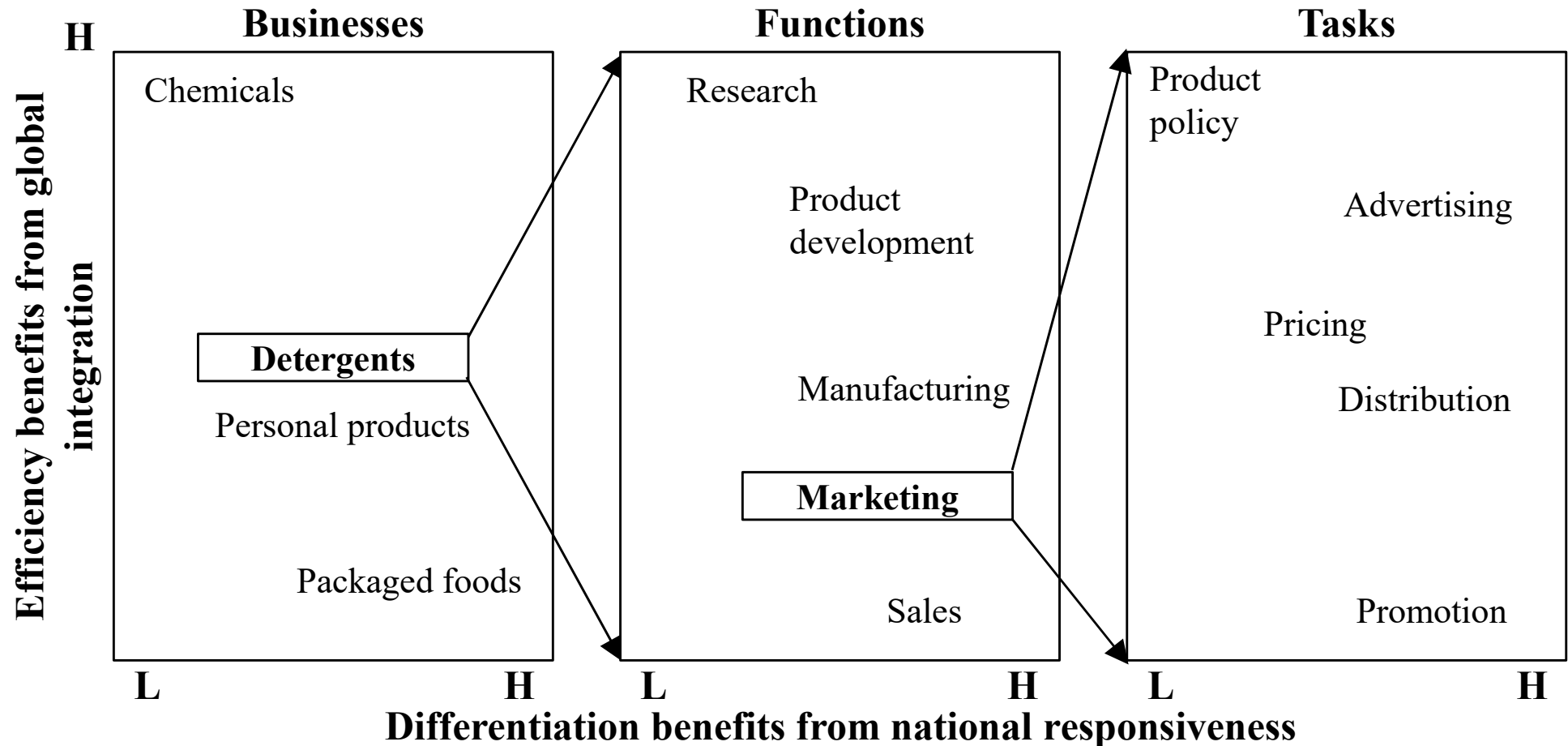
■ Costs

- ❖ **Difficult to configure & tough to coordinate**.
- ❖ Developing **a network mindset** among employees & installing the requisite information systems is **costly**.

Organizational Structures in MNCs



■ The GI-LR Framework: The Case of Unilever

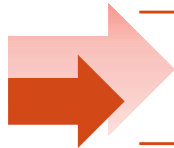


Source: Bartlett & Ghoshal (1989).

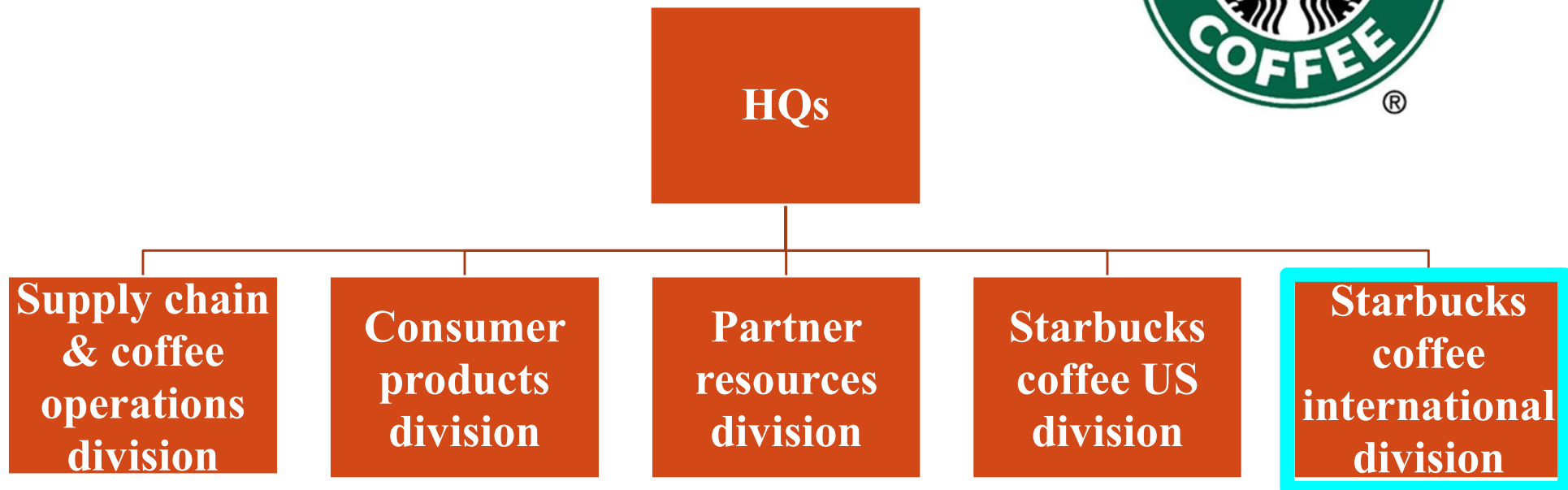
Organizational Structures in MNCs



■ International Division Structure



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



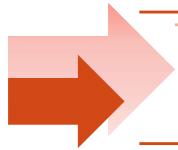
2 Major Problems

- (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**.

Organizational Structures in MNCs

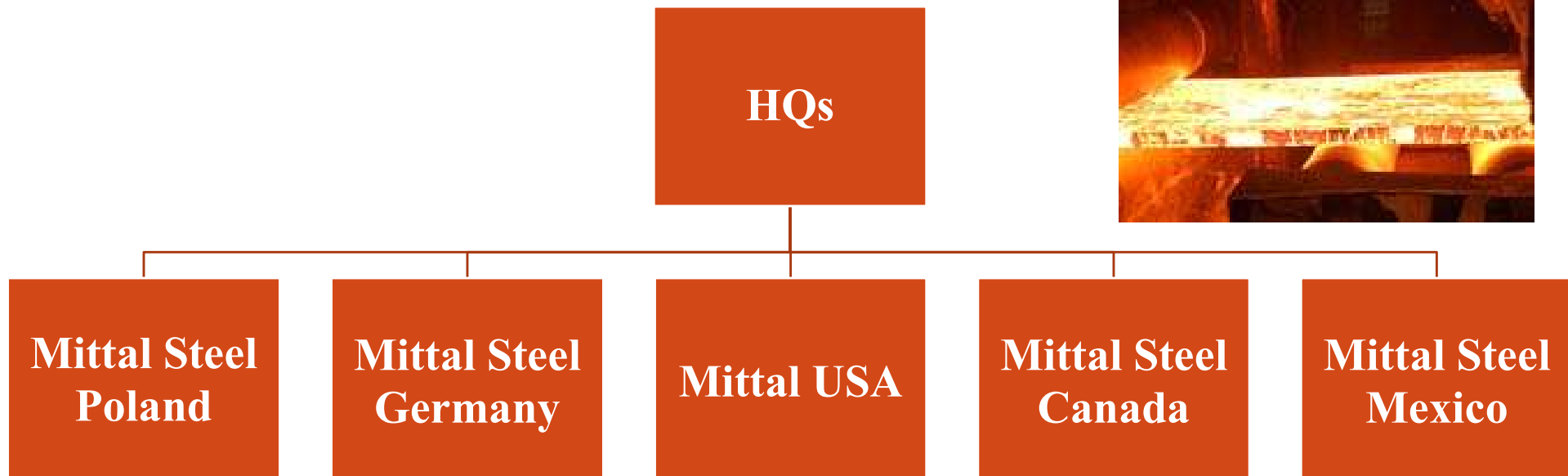


■ Geographic (Area) Division Structure



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

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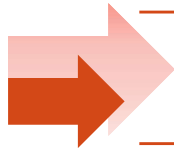
Key Points

- (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.

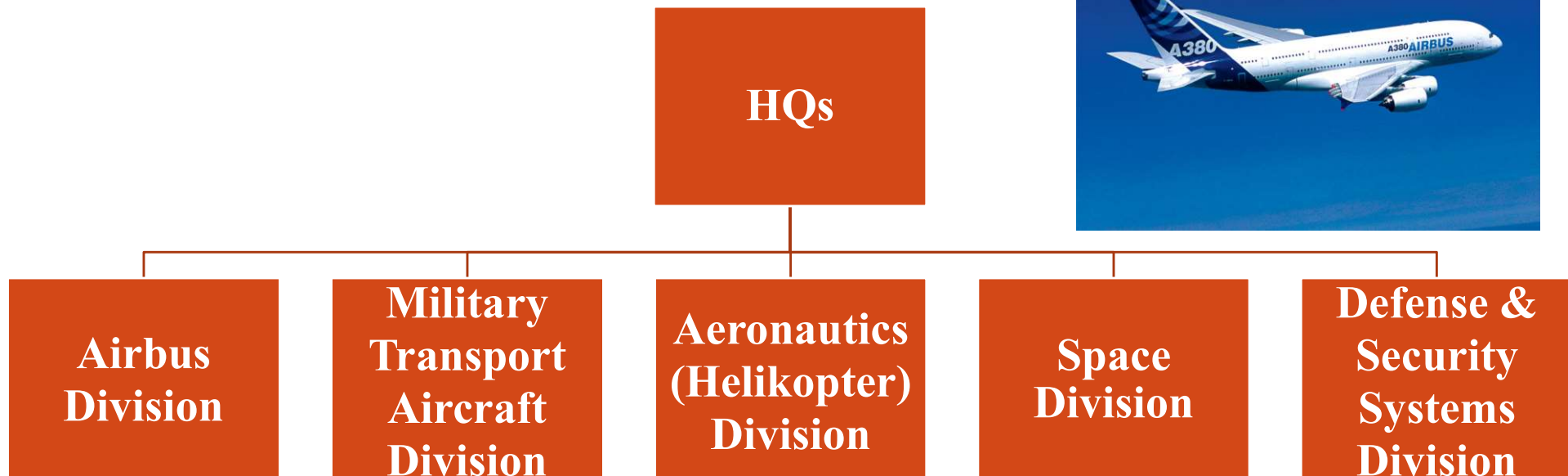
Organizational Structures in MNCs



■ 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.

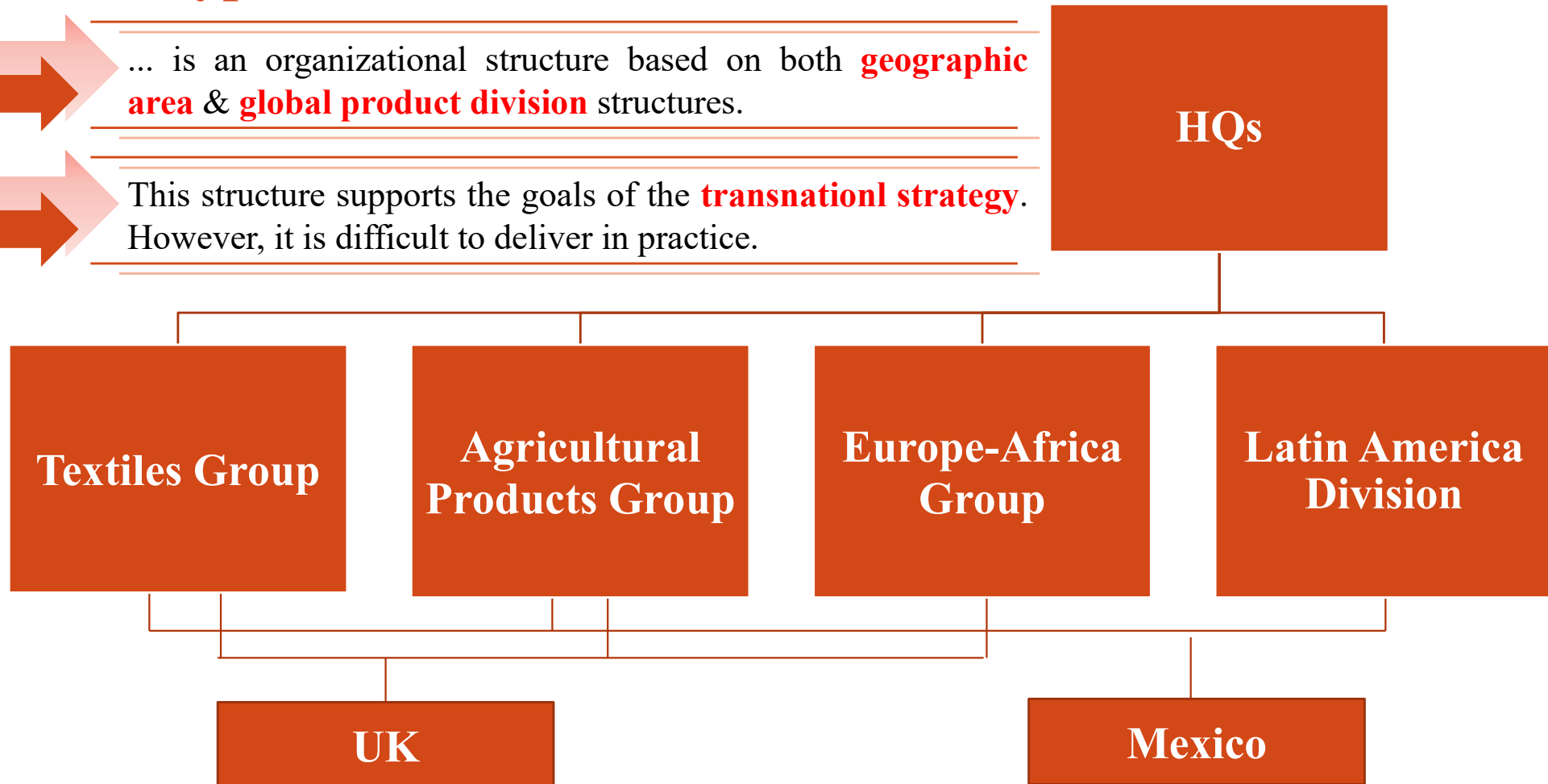
Organizational Structures in MNCs



■ A Hypothetical Global Matrix Structure

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

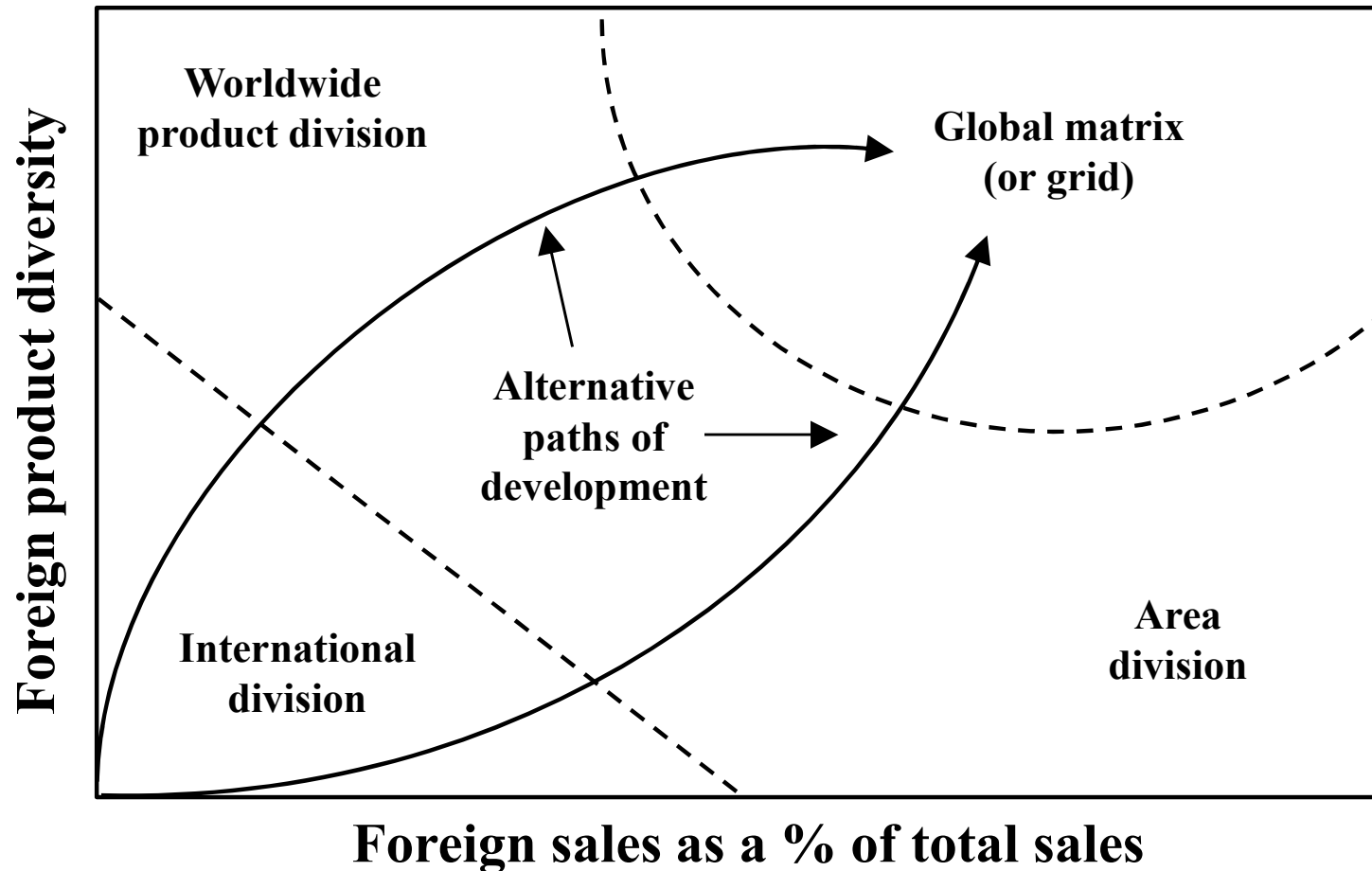
➡ This structure supports the goals of the **transnational strategy**. However, it is difficult to deliver in practice.



Organizational Structures in MNCs



■ Stopford & Wells' International Structural Stages Model



Source: Barlett & Beamish (2018); Original source: Stopford & Louis (1972).



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Managing Knowledge in Global Firms



■ Knowledge Management



To design & carry out the structures, processes & systems that **actively develop, leverage & transfer knowledge**.

(1) EXPLICIT KNOWLEDGE

- > ... is **codifiable** (that is, can be written down & transferred with little loss of its richness)
- > Virtually all the knowledge **captured, stored & transmitted by IT** is explicit.

(2) TACIT KNOWLEDGE

- > ... is **non-codifiable** & its acquisition & transfer require hands-on practice.
- > ... is evidently more important & **harder to transfer & learn**.
- > It can only be acquired **through learning by doing** (e.g., driving)



Managing Knowledge in Global Firms



■ Knowledge Management

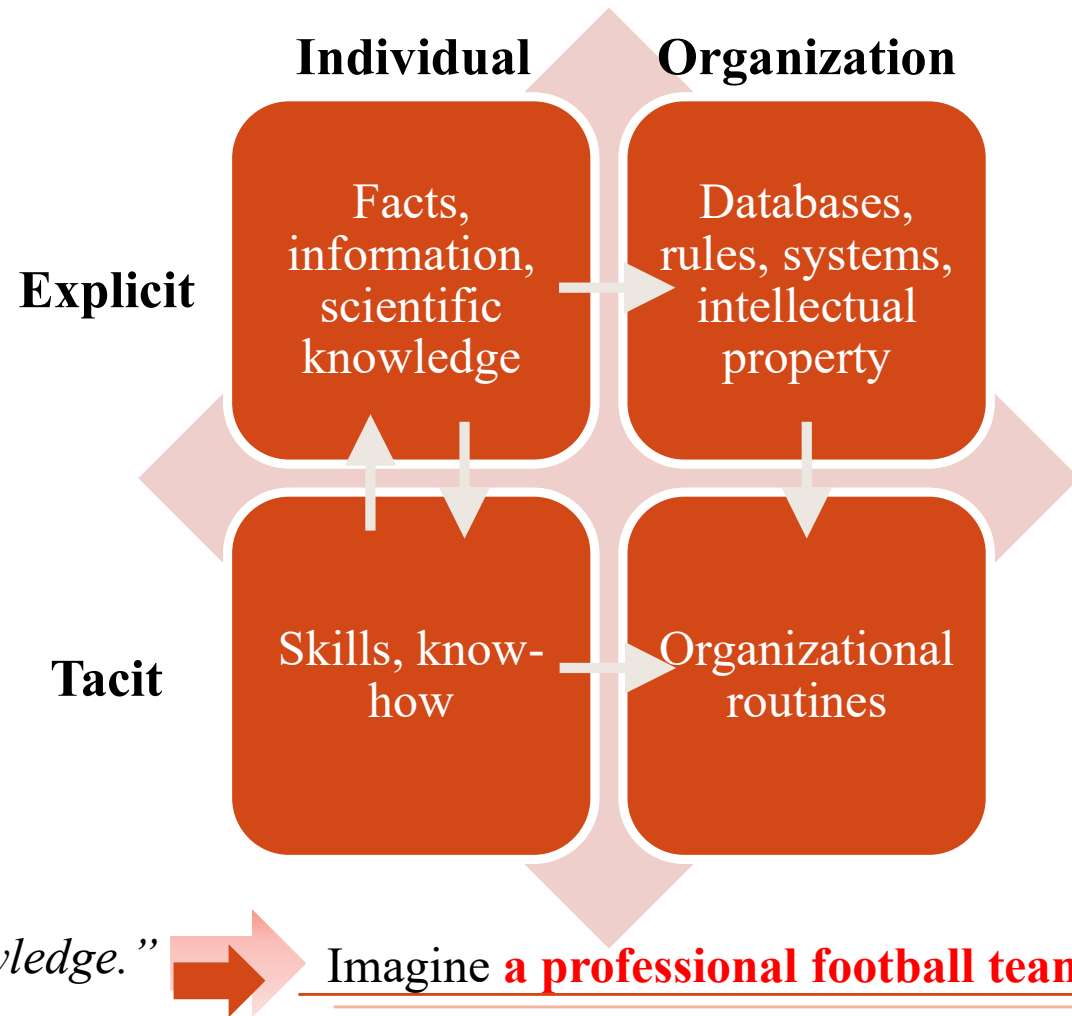


Professor Dr. Ikujiro Nonaka

“Knowledge management requires transmission of different forms of knowledge.”

TYPES OF KNOWLEDGE

LEVELS OF KNOWLEDGE



Managing Knowledge in Global Firms



■ Knowledge Management in '4' Types of MNCs

Strategy	Home replication	Localization	Global standardization	Transnational
Interdependence	Moderate	Low	Moderate	High
Role of foreign subsidiaries	Adapting & leveraging parent company competencies	Sensing & exploiting local opportunities	Implementing parent company initiatives	Differentiated roles by subsidiaries to integrate worldwide operations
Development & diffusion	<i>Knowledge</i> developed at the centre & transferred to subsidiaries	<i>Knowledge</i> developed & retained within each subsidiary	<i>Knowledge</i> mostly developed & retained at the centre & key sites	<i>Knowledge</i> developed jointly & shared worldwide
Flow of knowledge	Extensive flow of <i>knowledge</i> & people from HQs to subsidiaries	Limited flow of <i>knowledge</i> & people in both directions	Extensive flow of <i>knowledge</i> & people from centre & key sites to subsidiaries	Extensive flow of <i>knowledge</i> & people in multiple directions



■ Selected Challenges in Knowledge Governance

1 Knowledge Retention

Challenges

Can the firm keep the knowledge it has accumulated?

Common Obstacles

Employee turnover & knowledge leakage

Challenges

Is knowledge communicated effectively between people & business units?

Common Obstacles

Inappropriate channels, language barriers

3 Knowledge Transmission

2 Knowledge Sharing

Challenges

Are people willing to share knowledge with others inside the firm?

Common Obstacles

‘How does it help me?’ syndrome & *‘Knowledge is power’* mentality

Challenges

Do potential recipients appreciate & utilize knowledge available elsewhere in the organization?

Common Obstacles

Lack of absorptive capacity

4 Knowledge Utilization



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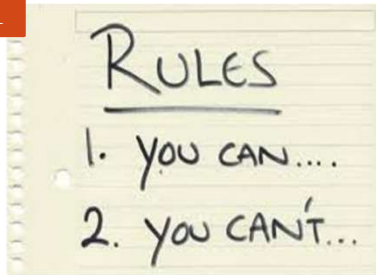
4. Implications for Practice

Implications for Practice



■ What Should Managers Care About?

1



- ❖ Understand & master the **external rules of the game** affecting the **organizational structures of MNCs in home/host countries !**
 - Local rules may require localization of product design or the establishment of separate entity with partially local ownership.

2



- ❖ Managers need to understand & be prepared to change the **internal rules of the game** governing MNC management !
 - Excessive centralization kills local initiative, innovation & undermine context-sensitive adaptation.
 - Decentralization undermines the MNC network to create synergies.

3



- ❖ Managers need to actively develop **learning & innovation capacities !**
 - “*Act local, think global*”.
 - Failing to do so may be very costly (e.g., Home Depot’s failure in China / Tesco’s failure in the U.S. / Walmart’s failure in Germany).

Peng, M. & Meyer, K. (2011).
“Subsidiary Initiative at Schenck Shanghai Machinery”

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Subsidiary Initiative at Schenck in China



■ Discussions

❖ *Questions*

- From a **resource-based perspective**, what **resources** are needed to develop a machine for a **distance market**, such as **China**, & where in the MNC are those to be found?
- **What kinds of adaptations** are needed to compete in the ‘**good enough**’ segment in **China**?
- **What internal processes** do MNCs (*e.g.*, Schenck) need to **develop & manufacture different product specifications** for different market segments across a wide range of countries?

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The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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