

Managing conflicting demands:

Global integration, local responsiveness and world wide learning

Part 5

Understanding the International Context: Responding to Conflicting Environmental Forces

Forces for Global Integration and Coordination

Forces for Local Differentiation and Responsiveness

Forces for Worldwide Innovation and Learning

Responding to the Diverse Forces Simultaneously

Concluding Comments: The Strategic and Organizational Challenge

In this chapter, we shift our focus from the internal forces that drive companies to expand to the larger, external, international environment in which they must operate. In particular, we focus on three sets of macro forces that drive, constrain, and shape the industries in which entities compete globally. First, we examine the pressures—mostly economic—that drive companies in many industries to integrate and coordinate their activities across national boundaries to capture scale economies or other sources of competitive advantage. Second, we explore the forces—often social and political—that shape other industries and examine how they can drive MNEs to disaggregate their operations and activities to respond to national, regional, and local needs and demands. And third, we examine how, in an information-based, knowledge-intensive economy, players in a growing number of industries must adapt to opportunities or threats wherever they occur in the world by developing innovative responses and initiatives that they diffuse rapidly and globally to capture a knowledge-based competitive advantage.

Three Conflicting Sets of External Demands

- Forces for cross-border integration and coordination
- Forces for national differentiation and responsiveness
- Forces for worldwide innovation and learning

Forces for Global Integration and Coordination

- Economies of Scale
- Economies of Scope
- Factor Costs
- Increasingly Liberalized Environment for Trade
- Expanding Spiral of Globalization

Global Competitors as Change Agents

- For industry globalization to take place:
 - Underlying drivers (economies of scale and scope, etc.) have to be in place
 - But always triggered by actions of one of two global “change agents”
- Examples:
 - British Airways (airlines)
 - Starbucks (premium coffee shops)
 - ISS (cleaning services)

Global Industries

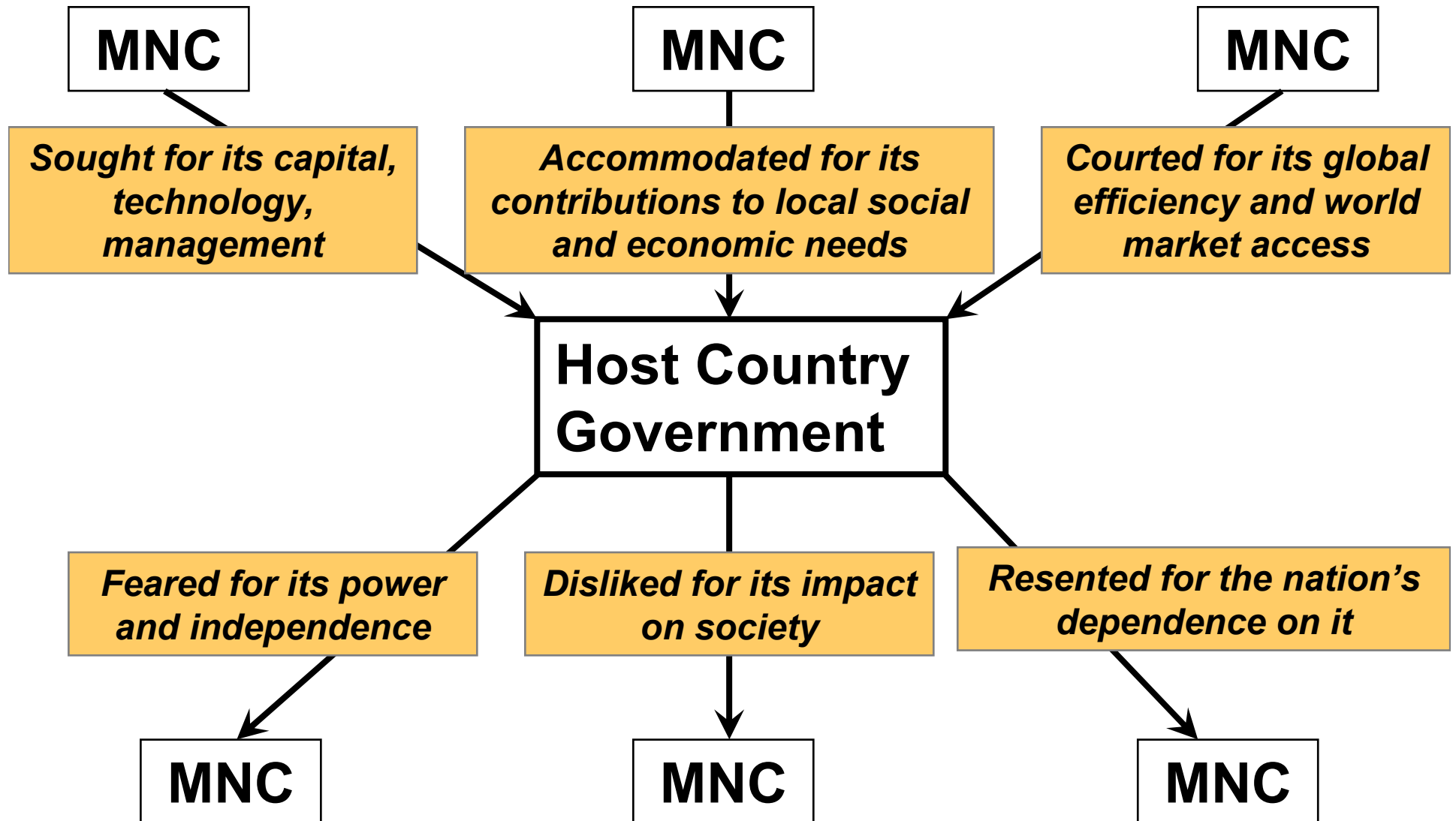
To borrow from Shakespeare:

- Some industries are born global
- Some are made global
- Others have global-ness thrust upon them

Forces for Local Responsiveness

- Cultural differences
 - Consumer tastes and preferences
 - Ways of doing business
- National infrastructure
 - Technical standards (e.g., voltage, TV broadcast, etc.)
 - Distribution channels (e.g., supermarkets vs. bazaars)
- Government demands
 - National laws and regulations
 - Host country pressures and demands
- Local competitors
 - Appeal to nationalism

MNC-Host Government Relationship: A Study in Love/Hate



Sources of Conflict

MNC

- Motivators
 - **Strategic viability: global competitiveness**
 - **Operational viability: profit**
- Objectives
 - **Freedom to integrate operations globally**
 - **Ability to market and ability to transfer resources freely across borders**
- Measures (primarily financial)
 - **Profit**
 - **ROI**
 - **Market share**

Host Government

- Motivators
 - **National independence: social, economic, political**
 - **International competitiveness**
- Objectives
 - **Protect national sovereignty from external influence**
 - **Capture global benefits of export markets, efficient industrial base, leading edge technology**
- Measures (social/economic/political)
 - **Social cost/benefit**
 - **Political return**
 - **Industrial policy “fit”**

Sources of Power

MNC

- No investment or exit option
- Access to needed resource (capital, technology, etc...)
- Willingness and ability to align with national priorities
- Development of local support (shareholders, suppliers)
- Position in global economy (market, scale, competitiveness)
- Home country support

Host Government

- Legislative power: regulate operating and strategic decisions
- Market power-government as a customer
- Incentives, supports
- Attractiveness to competitors
- Local operations linkage to global position (“hostage”)
- Shift in power after investment (“obsolescing bargain”)

Recent Backlash against Globalization

- Early 1990s: Global integration forces dominated
 - Most host governments actively sought investment
 - Free Trade movement gathered pace
- Late 1990s: Highly visible backlash
 - Anti-globalization movement (Seattle, Genoa, etc...)
 - Many developing countries are highly sceptical of benefits
- Many MNEs currently rethinking their approach toward globalization
 - Need to better articulate benefits they bring

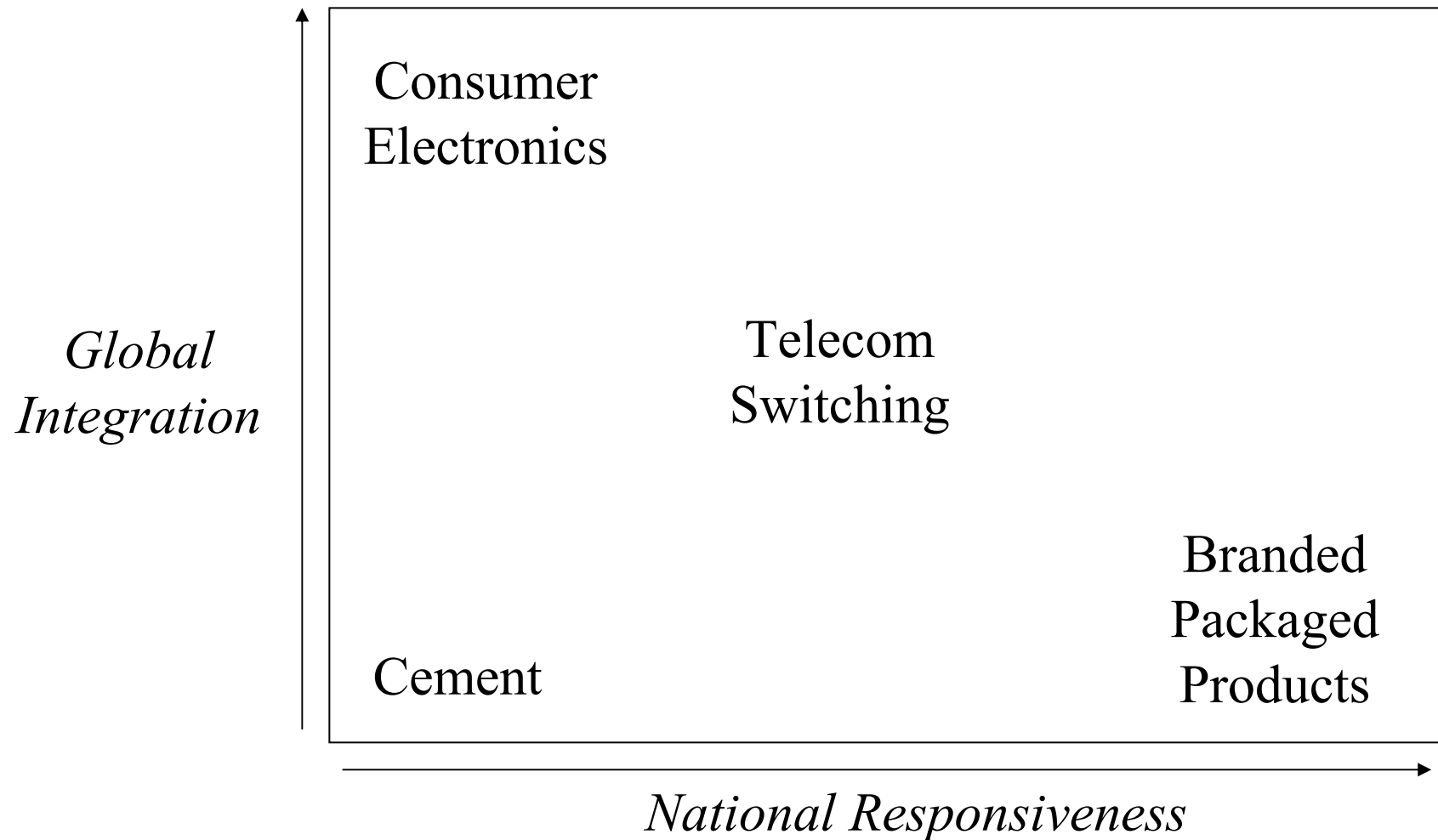
Forces for Worldwide Innovation and Learning

- Increased need for rapid and coordinated worldwide innovation driven by:
 - Shortening product life-cycles
 - Increased cost of R&D
 - Emergence of global technology standards
 - Competitors' ability to develop and diffuse innovation globally

Responding to Diverse Forces Simultaneously

- Strength of forces vary by industry; three typical models
 - Global industries (consumer electronics)
 - Multinational industries (branded packaged goods)
 - International industries (telecom)

Global & National Forces: Industry Effect



Transition to Transnationality

- By 1990s environmental forces undergoing change
 - New bases of competition emerging
 - New competitors rising on the basis of different competitive capabilities
- Increasingly industries were becoming *transnational*
 - Companies needing to respond to all three diverse and competing sets of forces: global integration, national responsiveness, and worldwide learning

A Final Word: Risk of “Globalization Glaucoma”

- Blindness to everything but global forces
- Short-sightedness to localizing forces

“As the 1990s were drawing to a close, the world had changed course, and Coca-Cola had not. We were operating as a big, slow, insulated, sometimes even insensitive “global” company; and we were doing it in an era when nimbleness, speed, transparency and local sensitivity had become absolutely essential.”

Douglas Daft, CEO, Coca-Cola, March 2000

Building Multinational Flexibility

- The ability to manage risks and exploit opportunities arising from the diversity and volatility of the global environment
 - Understand and manage different forms of risk
 - Scan and respond to discontinuities in global environment
 - Select most attractive markets

Building World-Wide Learning

- Capture external diversity
 - Worldwide stimuli as potential source of competitive information advantage
 - Need to convert “delivery pipelines” into “sensory feelers”
- Leverage internal variety
 - Worldwide human resources and capabilities as potential sources of competitive advantage
 - Opportunity to leverage central and local innovations
 - Create true global innovation by linking sensing, response, and implementation capabilities

Key issue: Need to develop a world-wide learning system; innovative capability as the emerging source of competitive advantage

Means for Delivering on Strategic Objectives

- National differences
 - Differences in factor costs / source markets
 - Differences in output market
- Scale economies
 - Static and dynamic forms
- Scope economies

Scope Economies in Product & Market Diversification

| | <i>Sources of Scope Economies</i> | |
|--------------------------------------|---|---|
| | Product Diversification | Market Diversification |
| Shared physical assets | Factory automation with flexibility to produce multiple products (Ford) | Global brand name (Coca-Cola) |
| Shared external relationships | Using common distribution channels for multiple products (Matsushita) | Servicing multinational customers worldwide (Citibank) |
| Shared learning | Shared R&D in computer and communications business (NEC) | Pooling knowledge developed in different markets (Procter & Gamble) |

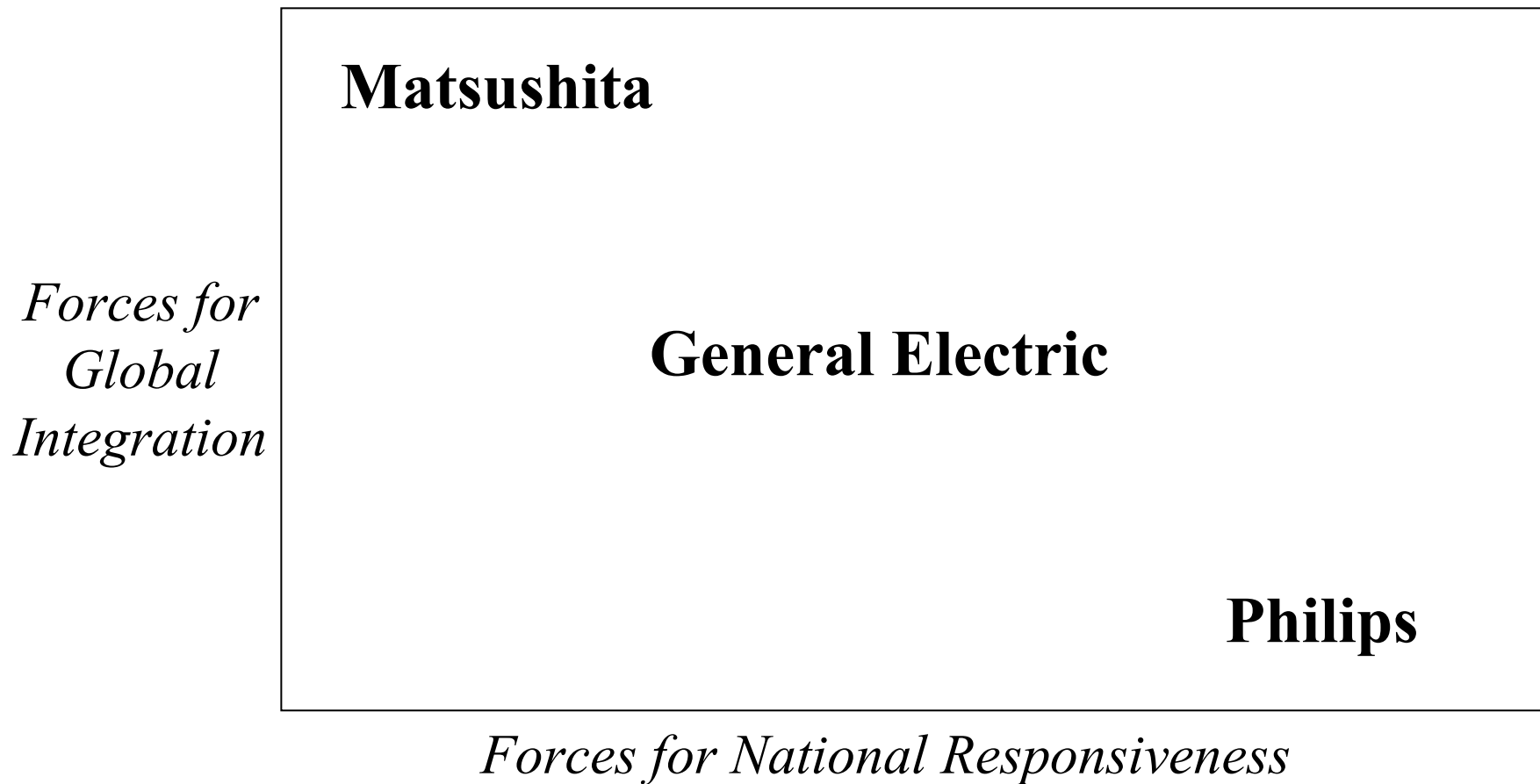
Worldwide Advantage: Goals & Means

| | <i>Sources of Competitive Advantage</i> | | |
|---|---|---|--|
| | National Differences | Scale Economies | Scope Economies |
| Achieving efficiency in current operations | Benefiting from differences in factor costs – wages and cost of capital | Expanding and exploiting potential scale economies in each activity | Sharing of investments and costs across markets and businesses |
| Managing risks through multinational flexibility | Managing different kinds of risks arising from market- or policy-induced changes in comparative advantages of different countries | Balancing scale with strategic and operational flexibility | Portfolio diversification of risks and creation of options and side bets |
| Innovation, learning & adaptation | Learning from societal differences in organizational and managerial processes and systems | Benefiting from experience – cost reduction and innovation | Shared learning across organizational components in different products, markets, or businesses |

Traditional Strategy Postures



Strategy Positions in the Consumer Electronics Industry



Four Strategic Orientations

| | Multinational | Global | International | Transnational |
|---|---|---|---|---|
| Configuration of assets and capabilities | Decentralized and nationally self-sufficient | Centralized and globally scaled | Core competencies centralized, others decentralized | Dispersed, interdependent and specialized |
| Strategic Orientation | Building flexibility to respond to national differences through strong, resourceful and entrepreneurial national operations | Exploiting parent-company knowledge and capabilities through worldwide diffusion and adaptation | Building cost advantages through centralized, global-scale operations | Developing global efficiency, flexibility, and worldwide learning capability simultaneously |

Worldwide Competitive Advantage: The Strategic Tasks

- Defend worldwide dominance
- Challenge the global leader
- Protect domestic niches

Defend Worldwide Dominance: Balancing Act Required

- Competitive environment forced firms to develop new capabilities
 - But this was problematic and eroded core competency
- New balancing act required:
 - Reinforce existing competencies and develop new assets and capabilities
 - Compensate for deficiency or approximate competitor's source of advantage

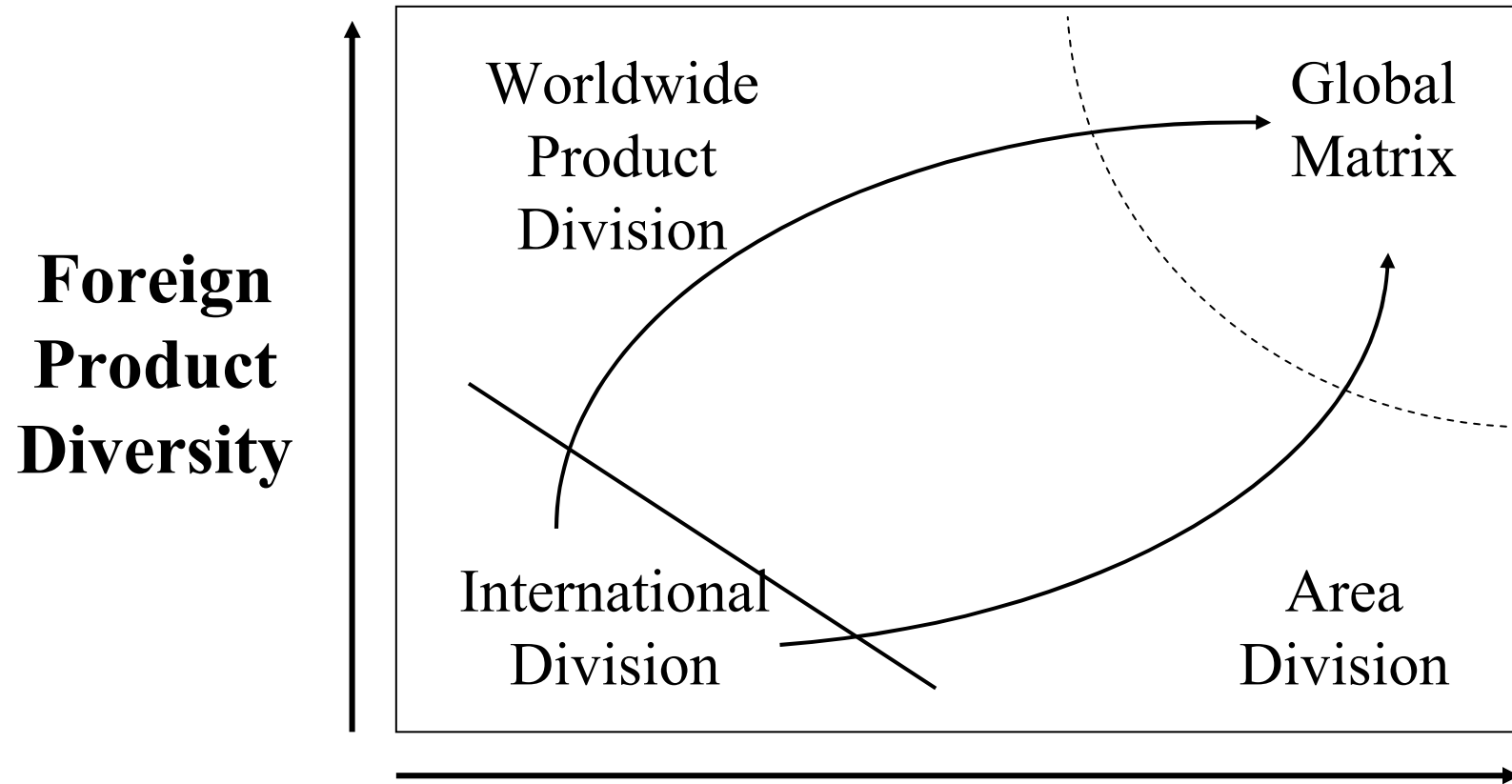
Challenge the Global Leader: Step-by-Step Approach

- Firms with low-profile foothold have dominated industries, e.g. Dell, Cemex
- Focus on developing strong competence in a narrow niche
- Careful expansion along both product and geographic dimensions; step-by-step

Protect Domestic Niches: Three Courses of Action

- Defend against competitor's global advantage (e.g. influence industry structure or market conditions)
- Offset competitor's global advantage (e.g. lobby for government tariff assistance)
- Approximate competitor's global advantage

International Structural Stages



Foreign Sales as a Percentage of Total Sales

Adapted from John Stopford & Louis Wells, *Strategy & Structure of the MNE* (New York: Basic Books, 1972)

Failure of the Matrix

- Many companies experimented with matrix structures in 1970s (Dow, Citibank)
 - Differences in country and business demands were amplified, and conflict exacerbated
 - Dual reporting led to confusion and informational logjams
 - The result: Very slow decision making
- Most companies abandoned formal matrix structures in the 1980s

Beyond Structural Solutions

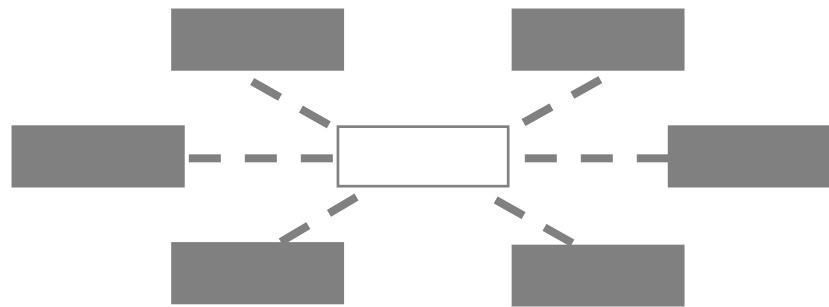
- Matrix management focused solely on formal structure as a tool for organization design
 - But to effectively manage a complex organization, executives need a much broader set of tools...
 - Administrative systems
 - Communication channels
 - Interpersonal relationships, etc.
- ...and have a deep understanding of the organization's *Administrative Heritage*

Administrative Heritage

- “Where to” is influenced by “where from”
- Competitive advantage shaped by country of origin, time of expansion, and nature of leadership
- The challenge is to build new capabilities while protecting existing strengths
- Three archetypes can be identified...

Pre-WW II European Empires: Dominance of Multinational Model

Decentralized Federation Organization...

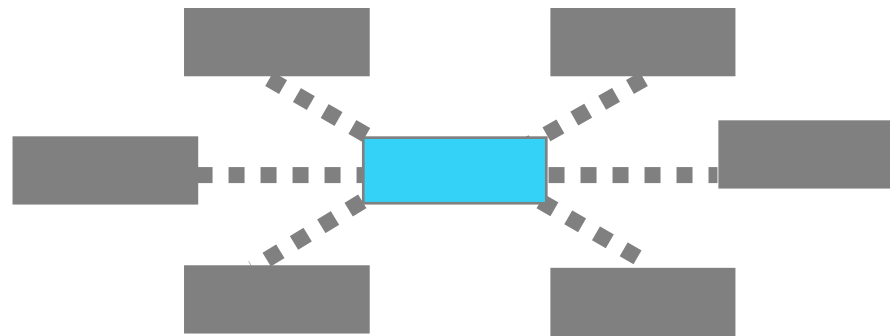


...Strategy of National Responsiveness

- Expanded abroad in a period of high international barriers; Preferential access to foreign empire markets
- Organization developed as a portfolio of national companies; heritage of family management, personal control
- Strategy based on understanding and responding to national markets

Post-WW II American Expansion: Dominance of International Model

Coordinated Federation Organization...

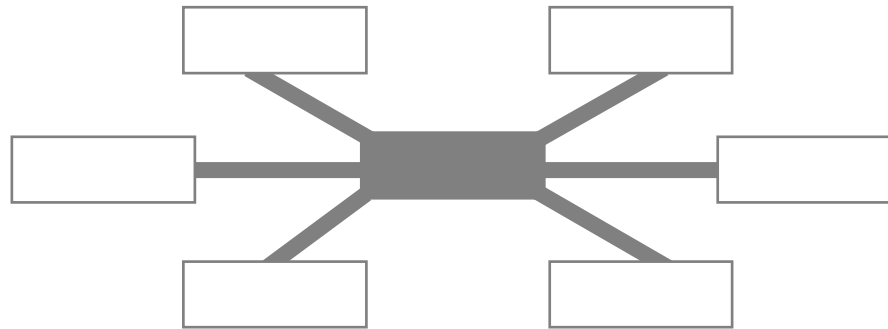


...Strategy of Knowledge Transfer

- Expanded abroad in a time of economic reconstruction: large, advanced home market as knowledge source
- Organization built on strong links to the parent company based on transfer of expertise: heritage of professional management, systems control
- Strategy based on transferring parent company's leadership in technology, marketing, and other skills

Late Century Japanese Challenge: Dominance of Global Model

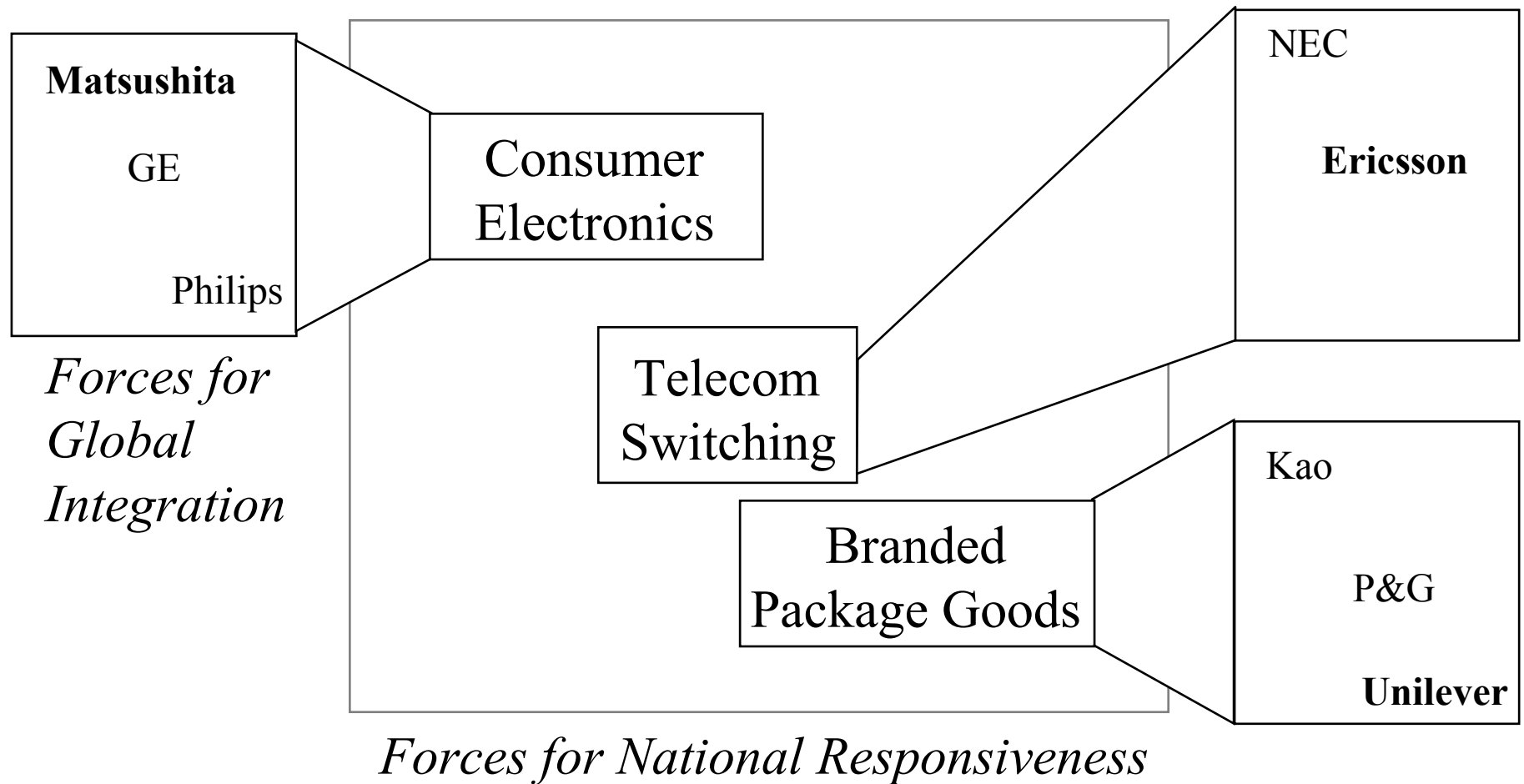
Centralized Hub Organization...



...Strategy of Global Efficiency

- Expanded abroad in a period of falling trade barriers: newly added capacity and government industrial policy as assets
- Organization grew as dependent foreign units tightly controlled from the center: heritage of culturally dependent management practices dominated by group processes
- Strategy based on capturing global scale economies

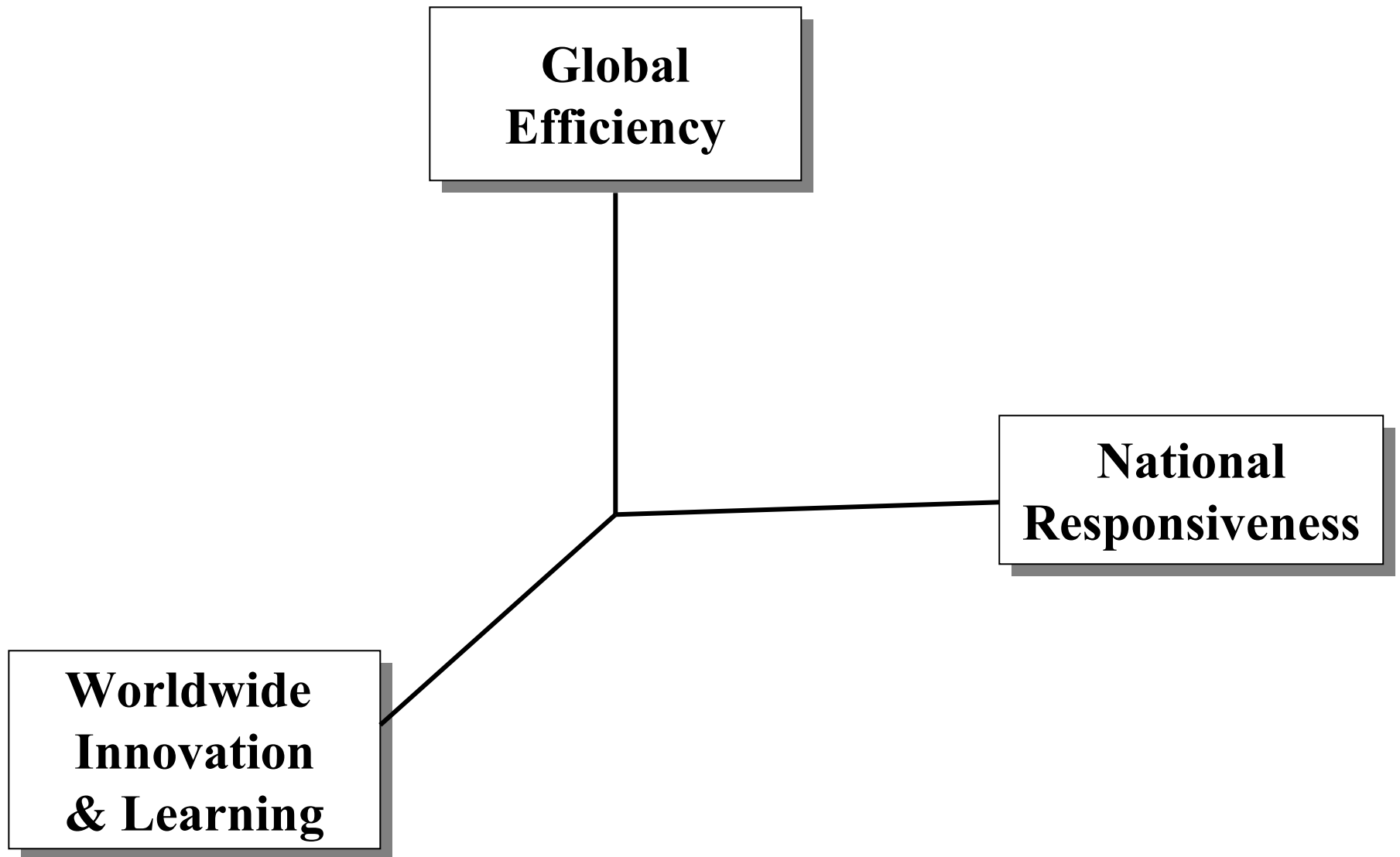
Administrative Heritage Meets Industry Characteristics



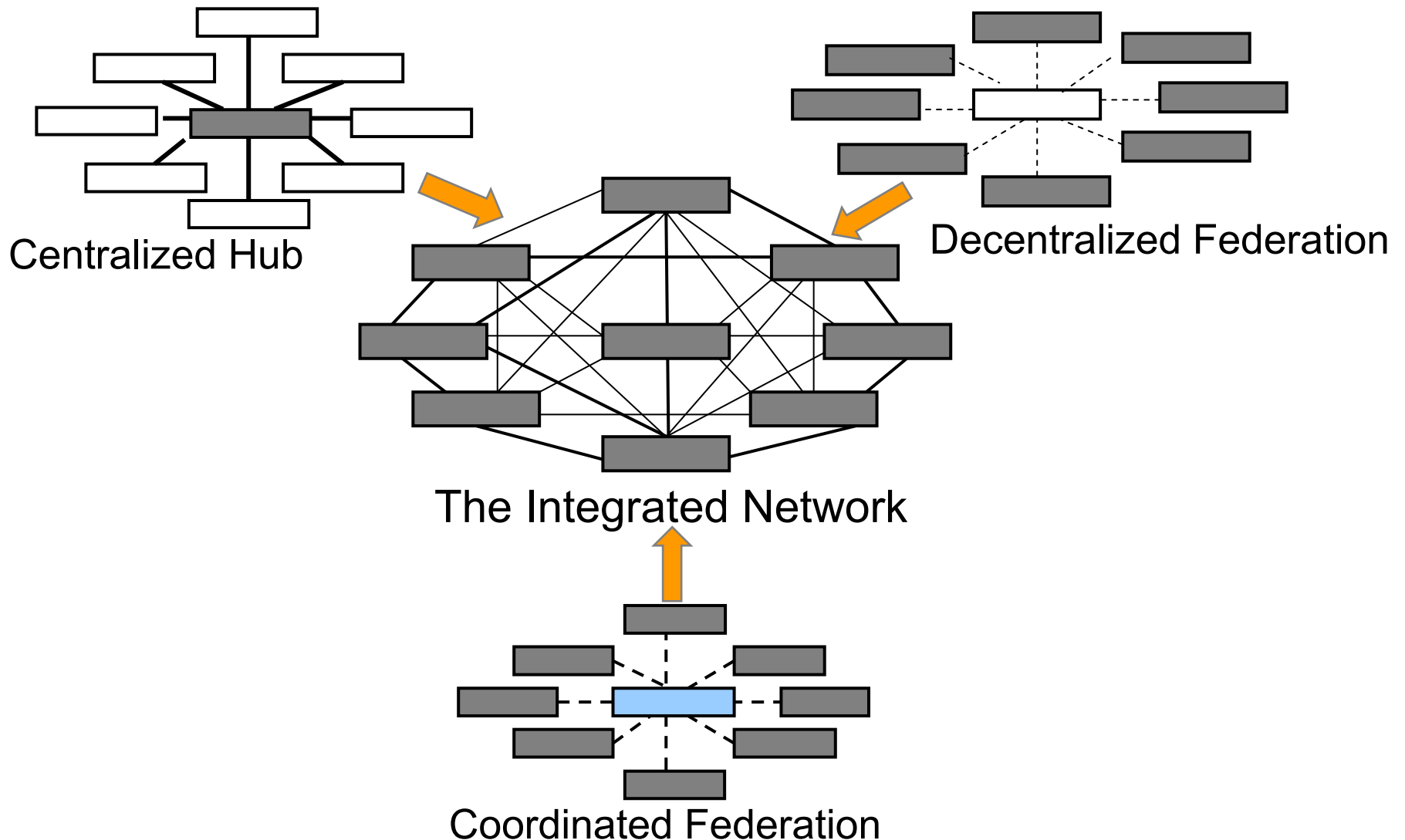
Building and Managing the Transnational

- The transnational organization attempts to resolve the inherent limitations of the three organization archetypes
- Three key characteristics:
 - Builds and legitimizes multiple internal perspectives
 - Dispersed and interdependent physical assets and capabilities
 - Robust and flexible integrative process

Characteristics of the Transnational



Organizational Configurations



Organizational Characteristics

| | Multinationa | Global | Internation | Transnation |
|--|---|---|---|---|
| Configuratio n of assets and capabilities | Decentralize d and nationally self-sufficient | Centralized and globally scaled | Core competenci es centralized, others decentralize | Dispersed, interdepende nt and specialized |
| Role of overseas operation | Sensing and exploiting local opportunities | Implementin g parent company strategy | Adapting and leveraging parent company competenci es | Differentiated contributions by national units to integrated worldwide operations |
| Development and diffusion of knowledge | Knowledge developed and retained within each unit | Knowledge developed and retained at the center | Knowledge developed at the center and transferred to overseas units | Knowledge developed jointly and shared worldwide |

Building a Transnational: More than a Matrix Structure

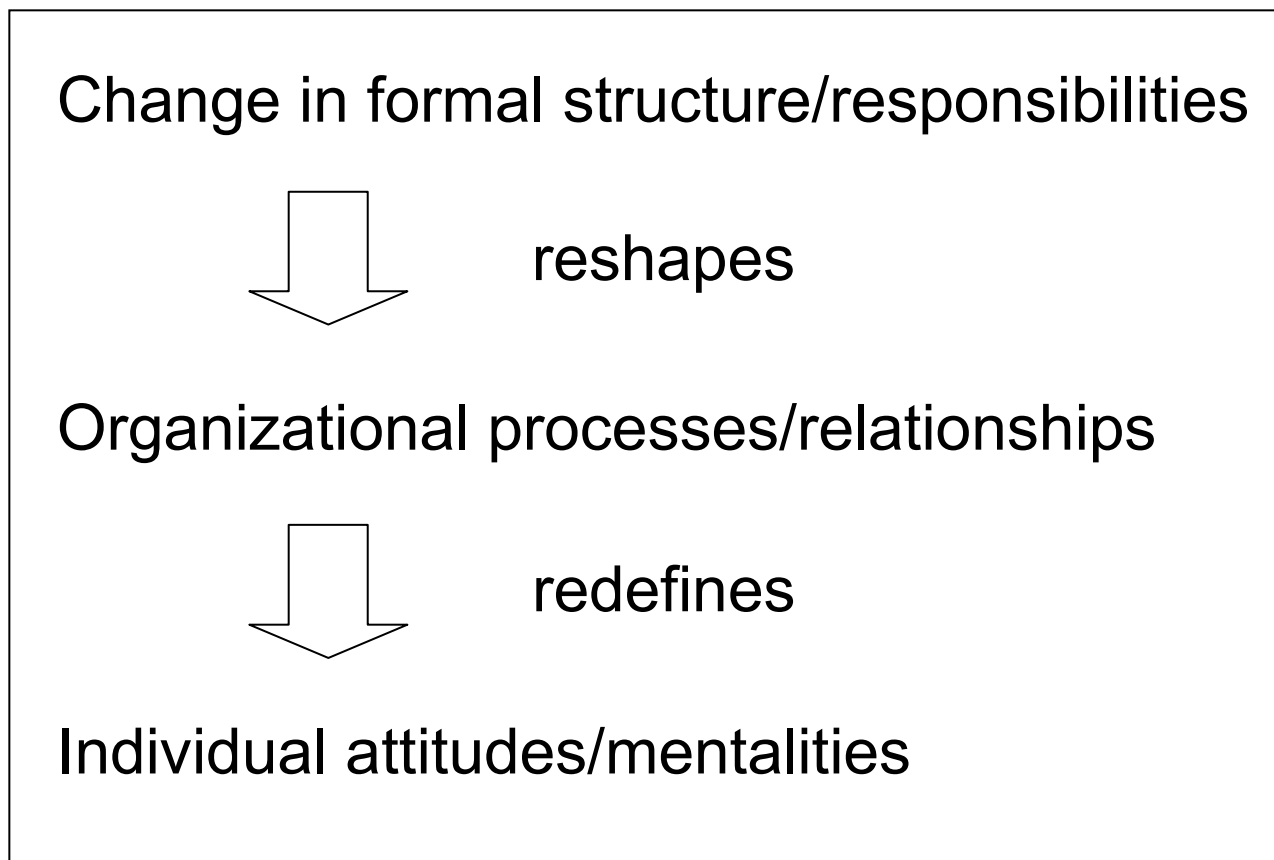
- Business Unit framework defines the structure
 - But no clear roles and responsibilities
- “Client-Server” model conceptualizes the processes
 - But no definition of relationships
- “Global Brand-Local Touch” communicates the culture
 - But philosophy unconnected to business model

The Transnational: A New Type of Organization

- A new structural anatomy
 - Redistributing assets and responsibilities
- A new process physiology
 - Redefining information flows and relationships
- A new cultural psychology
 - Readjusting mentalities and beliefs

Managing the Process of Change: Traditional Model

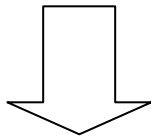
- Classic change process driven by structural reconfiguration



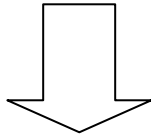
Managing the Process of Change: Emerging Model

- Change process initiated by changes in attitudes and mentalities

Change in individual attitudes and mentalities



Changes in interpersonal relationships and processes



Change in formal structure and responsibilities

Building & Maintaining Multiple Strategic Capabilities

