Managing in a Global Context – Book Summary

Chapter 1

Expanding Abroad: Motivations, Means and Mentalities

There are a lot of management challenges associated with developing the strategies, building the organizations and managing the operations of companies whose activities stretch across national borders. Operating in an international rather than in a domestic arena presents new opportunities, giving a company access to low cost resources and opening up new sources of information and knowledge that broadens the options for strategic moves.

MNE have substantial direct investment in foreign countries and they have to be engaged in the active management of these offshore assets rather than simply holding them in a passive investment portfolio. So they are not true MNEs unless they have substantial direct investment in foreign countries and actively manage and regard those operations as integral parts of the company, both strategically and organizationally.

MNE – enterprise comprising entities in two or more countries which operates under a system of decision making permitting coherent policies and a common strategy through one or more decision making centers and in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of the others, in particular to share knowledge, resources and responsibilities. Both strategic and organizational integration and, thereby, the active, coordinated management of operations located in different countries are the key differentiating characteristics of a MNE as it creates an internal organization to carry out key cross-border tasks and transactions internally rather than depending on trade through external markets. MNEs have considerable influence on the global economy, employ high percentage of business graduates, and pose the most strategic and organizational challenges for their managers.

Traditional Motivations

- The need to **secure key supplies**.
- Another strong trigger for internationalization could be described as the market-seeking behavior. This motivation was particularly strong for companies that had some intrinsic advantage, typically related to their technology and brand recognition, that gave them a competitive advantage in offshore markets. Many companies eventually realized that additional sales enabled them to exploit economies of scale and scope, thereby providing a source of competitive advantage over their domestic rivals.
- The desire to access **low cost factors of production**. Soon it became clear that labor was not the only productive factor that could be sourced more economically overseas. The availability of lower-cost capital (for example, through a government investment subsidy) also became a strong factor for internationalization.
- The **product life cycle theory** suggests that early in a product's life-cycle all the parts and labor associated with that product come from the area in which it was invented. After the product becomes adopted and used in the world markets, production gradually moves away from the point of origin. In some situations, the product becomes an item that is imported by its original country of invention.

Emerging Motivations

Once MNEs had established international sales and production operations, their perceptions and strategic motivations gradually changed. Initial, the typical attitude was that the foreign operations were

strategic and organizational appendages to the domestic business and should be managed opportunistically. Gradually, however, managers began to think about their strategy in a more integrated, worldwide sense.

- Increasing **scale economies**, **ballooning R&D**, and **shortening product life cycles**.
- **Global scanning and learning capability**. A company drawn offshore to secure supplies of raw materials was more likely to become aware of alternative, low cost production sources around the globe; a company tempted abroad by market opportunities was often exposed to new technologies or market needs that stimulated innovative product development. The very nature of MNE's worldwide presence gave it a huge informational advantage that could result in it locating more efficient sources or more advanced product and process technologies. A company whose international strategy was triggered by a technological or marketing advantage could enhance that advantage through the scanning and learning potential inherent in its worldwide network of operations.
- Being a multinational rather that a national company brought important advantages of **competitive positioning**, namely when it comes to strategies such as cross-subsidization of markets, the practice of charging higher prices to one group of consumers in order to subsidize lower prices for another group.

More adaptable companies soon learned how to capitalize on the potential advantages available form their international operations – ensuring critical supplies, entering new markets, tapping low-cost factors of production, leveraging their global information access, and capitalizing on the competitive advantage of their multinational market positions.

Prerequisites for Internationalization

A company must possess certain competencies if it is to succeed in overseas markets. In each national market, a foreign company suffers from some disadvantages in comparison with local competitors, at least initially. Being more familiar with the national culture, industry structure, government requirements and other aspects of doing business in that country, domestic companies have a huge natural advantage. Their existing relationships with relevant customers, suppliers and regulators provide additional advantages that the foreign company must either match or counteract with some unique strategic capability. Most often, this countervailing strategic advantage comes from the MNE's superior knowledge or skills, which typically take form of advanced technological expertise or specific marketing competencies, scale economies, R&D or production. The multinational company cannot expect to succeed unless it has some distinctive competency to overcome the liability of its foreignness.

The other precondition for a company to become a MNE is that it must have the organizational capability to leverage its strategic assets more effectively through its own subsidiaries than through contractual relations with outside parties. If superior knowledge is the main source of competitive advantage then it must have an organizational system that provides better returns from extending and exploiting its knowledge through direct foreign operations than the return it could get by selling or licensing that knowledge.

- Some foreign countries must offer certain location-specific advantages to provide the requisite **motivation** for the company to invest there.
- The company must have some **strategic competencies** or ownership-specific advantages to counteract the disadvantages of its relative unfamiliarity with foreign markets.
- It must possess some **organizational capabilities** to achieve better returns from leveraging its strategic strengths internally rather than through external market mechanisms such as contracts or licenses.

The Process of Internationalization

The process of developing these strategic and organizational attributes lies at the heart of the internationalization process through which a company builds its position in world markets.

Foreign market-entry is a learning process (Uppsala Model). The company makes an initial commitment of resources to the foreign market, and through this investment, it gains local market knowledge about its customers, competitors and regulatory conditions. Gradually, and through several cycles of investment, the company develops the necessary levels of local capability and market knowledge to become an effective competitor in the foreign country. One important set of factors is the assimilation of local market knowledge by the subsidiary unit. However, some companies invest in or acquire local partners to shortcut the process of building up local market knowledge. Equally important, also, is the level of market commitment made and the level of control needed. Some companies internationalize by gradually moving up the scale (indirect export, export through agent, licensing, franchising, joint venture, wholly owned subsidiary – augmenting level of control over foreign activities), from exporting through joint venture to direct foreign investment. Others prefer to move straight to the high-commitment, high-control mode of operating, in part because they are entering mature markets in which it could be very difficult to build a business form nothing. Still, other choose to adopt a low-commitment, low-control mode, such as exporting or subcontracting. It is also important to emphasize that some companies are born global, establishing significant international operations at or near their founding. Whether this is due to their international orientation or the need to move quickly due to the nature of their product or services, such firms do not take an incremental approach.

The Evolving Mentality: International to Transnational

A gradual evolution has occurred in the strategic role that foreign operations play in emerging MNEs. For most MNEs, the objectives that initially induced management to go overseas evolve into a very different set of motivations over time, thereby progressively changing management attitudes and actions.

International Mentality – Company's overseas operations are distant outposts whose main role is to support the domestic parent company in different ways such as contributing incremental sales to the domestic manufacturing operations. Products are developed to the domestic market and only subsequently sold abroad; technology and other knowledge are transferred from the parent company to the overseas operators; and offshore manufacturing represents a means to protect the company's home market. Companies like this regard themselves as domestic with some foreign appendages.

Multinational Mentality – International activities can provide opportunities of more than marginal significance, there is a growing importance of sales and profits coming from foreign markets. To leverage these opportunities they must do more than just ship out old equipment, technology or product lines that have been developed for the home market. A multinational strategic mentality develops as managers begin to recognize and emphasize the differences among national markets and operating environments. Companies with this mentality adopt a more flexible approach to their international operations by modifying their products, strategies and even management practices country by country. Using their market knowledge and the parent company's willingness to invest in these growing opportunities, managers can build significant local growth and independence from headquarters.

Global Mentality – Very responsive marketing approaches in the different national markets. However, it also gives rise to an inefficient manufacturing infrastructure within the company as plants are built more to provide local marketing advantages or improve political relations than to maximize production efficiency. These companies think in terms of creating products for a world market and manufacturing

them on a global scale in a few highly efficient plants, often at the corporate center. It views the world, not just individual national markets, as its unit of analysis and provides customers with standardized products at adequate cost. This strategic approach requires considerably more central coordination and control and research, development and manufacturing activities are typically managed from the headquarters, and the most strategic decisions also take place at the center.

Transnational Mentality – The success of global companies created and strengthened a set of countervailing forces because many governments increased both the restrictions and the demand they placed on global companies, requiring them to invest in, transfer technology to, and meet local content need at their host countries. Also, customers started rejecting standardized products and reasserting their national preferences so companies realized that demands to be responsive to local market and political needs and pressures to develop global-scale competitive efficiency were simultaneous. So in the strategic approach key activities and resources are neither centralized in the parent company nor so decentralized that each subsidiary can carry out its own tasks on a local basis. Instead, the resources and activities are dispersed but specialized, to achieve efficiency and flexibility at the same time. In contrast to the global model, the transnational mentality recognizes the importance of flexible and responsive country-level operations.

Chapter 4

Developing a Transnational Organization: Managing Integration, Responsiveness and Flexibility

MNEs have been forced to optimize global efficiency, national responsiveness and worldwide learning simultaneously. The choice of a basic organizational structure has a very powerful influence on the management process in an MNE.

Stopford and Well's International Structural Stages Model – worldwide corporations typically adopt different organizational structures at different stages of the international expansion. According to this model, worldwide companies typically managed their international operations through an international division at the early stage of foreign expansion. Subsequently, those companies that expanded their sales abroad without significantly increasing their foreign product diversity typically adapted and are structure. Other companies that expanded by increasing their foreign product diversity tended to adopt a worldwide product division structure. Finally, when both product diversity and foreign sales were high companies resorted to a **global matrix**.

Confronted with increasing complexity, diversity and change managers in many worldwide companies looked for ways to restructure. The global matrix was a solution but many times it failed.

Failure of the matrix – Having frontline managers report simultaneously to different organizational groups should have enabled companies to maintain a balance among centralized efficiency, local responsiveness and worldwide knowledge transfer. However, the global matrix structure often seemed to result in complex and rather bureaucratic processes and relationships. Dual reporting led to conflict and confusion on many levels because problems would escalate and overlapping responsibilities would occur so it was virtually impossible to clarify the confusion and resolve the conflicts. The initial appeal of the global matrix structure quickly faded into a recognition that a different solution was required.

Administrative Heritage

Formal structure is a powerful but blunt instrument of strategic change. Structural fit is becoming both less relevant and harder to achieve. More subtle and sophisticated tools, such as administrative heritage – a company's history and its embedded management culture – can influence an organization and its ability and willingness to change. A company's ability to respond to strategic challenges and market opportunities will be greatly influenced by its existing internal world: its asset configuration and resource distribution, its historical definition of management responsibilities and its ingrained organizational norms. A company's organization is shaped not only by current external task demands but also by past internal management biases. In particular, each company is influenced by the path by which it developed – its organizational history – and the values, norms, and practices of management – its management culture. Collectively, these factors constitute what we call a company's administrative heritage. Administrative heritage can be, at the same time, one of the company's greatest assets, the underlying source of its core competencies, and a significant liability, because it resists change and thereby prevents realignment because companies are captives of their past to a great extent.

Decentralized Hub (Europe) – national subsidiaries were able to modify products and marketing approaches to meet widely differing local market needs. This management style tended to reinforce these companies' willingness to delegate more operating independence and strategic freedom to their foreign subsidiaries. Corporate management treats subsidiaries as independent national businesses.

Coordinated Federation (US) – Willingness to delegate responsibility while retaining overall control through sophisticated management systems. Foreign subsidiaries were often free to adapt products or strategies to reflect market differences, but their dependence on the parent company for new products,

processes and ideas dictated a great deal more coordination and control by headquarters. Corporate management treats subsidiaries as foreign extensions of the domestic operations.

Centralized Hub (Japan) – Very different internal norms and values. Cost advantages and quality assurance, demanding tight control over product development, procurement and manufacturing. All major value-adding and strategic activities are kept at home. This approach is an export based internationalization as corporate management treats subsidiaries as delivery pipelines to the global market.

The Transnational Challenge

Many worldwide industries were transformed in the 80s and 90s from traditional multinational, international and global forms into transnational forms. With its resources and capabilities consolidated at the center the global company achieves efficiency primarily by exploiting potential scale economies in all its activities. But its national subsidiaries' lack of resources and responsibilities may undermine their motivation and ability to respond to local market needs, whereas the central groups often lack adequate understanding of market needs and production realities outside their home market. The classic multinational company suffers from other limitations. Although its dispersed resources and decentralized decision making allow its national subsidiaries to respond to local needs, the fragmentation of activities leads to inefficiency. Learning also suffers, because knowledge is not consolidated and does not flow among the various parts of the company. In contrast, the international company is better able to leverage the knowledge and capabilities from the parent company (but it is still not very good at learning from its foreign operations). However, its resource configuration and operating system make it less efficient than the global company and less responsive than the national company.

The Transnational Organization

The transnational organization develops and legitimizes multiple diverse internal perspectives, its physical aspects and management capabilities are distributed internationally but are independent and it has a robust and flexible internal integrative process.

- Managing in an environment in which strategic forces are both diverse and changeable, the transnational company must create the ability to sense and analyze the numerous and often conflicting opportunities, pressures and demands it faces worldwide. Strong *national subsidiary management* is needed to sense and represent the changing needs of local consumers and the increasing pressures from host governments; capable *global business management* is required to track strategy of global competitors and provide the coordination necessary to respond appropriately; and influential *worldwide functional management* is needed to concentrate knowledge, information, and expertise and facilitate their transfer among organizational units. In transnational companies, however, biases in the decision making process are consciously reduced by building up the capability, credibility and influence of the less powerful management groups while protecting the morale and expertise of the dominant group. The objective is to build a multidimensional organization where all three management groups have a set at the table.
- The transnational organization must be able to make choices among the diverse opportunities and demands it faces and respond in a timely and effective manner to those that are deemed strategically important. Management ensures that viable national units achieve global scale by specializing their activities and giving them responsibility of becoming the company's world source for a given product or expertise. This way, the interdependence of worldwide units increases and an integrated network structure is developed. In the integrated network

configuration, management regards each of the worldwide units as a source of ideas, skills, capabilities, and knowledge that can be harnessed for the benefit of the total organization.

- The transnational organization requires a management process that can integrate the dispersed assets and resources. Management must be able to differentiate its operating relationships and change its decision making roles by function, across businesses, among geographic units, and over time. In turn, the management process must be able to change from product to product, from country to country and even from decision to decision.

Anatomy, Physiology and Psychology of the Transnational

To be effective, changes in an organization's anatomy (the formal structure of its assets, resources and responsibilities) must be complemented by adaptations to its physiology (the organization's systems and decision processes) and its psychology (the organization's culture and management mentality).

1. Developing a transnational company requires management to pay equal attention to designing and developing a supporting structure that both supplements and counterbalances the embedded power of the dominant line managers. Having carefully defined the structure and the responsibilities of all management groups, it is important that those without line authority have appropriate access and influence in the management process as they should also be able to assume responsibility and obtain authority. Moreover, transnational companies use task forces and special assignment committees as legitimate, ongoing structural tools that can help top management rebalance the basic structure.
2. Developing the communication channels through which the organization's decision making process operates is one of the key roles of management. By adapting the various administrative systems, communication channels and informal relationships, management can shape and control the information flows, the lifeblood of all management processes, as there are very large volumes of complex information to be gathered, exchanged and processed.
3. Each organization has a psychology, a set of explicit or implicit corporate values and shared beliefs that greatly influences the way it operates. Shared management understanding is often a much more powerful tool than formal structures and systems for coordinating different activities. There is a need for a clear, shared understanding of the company's mission an objectives. The second tool is the visible behavior and public actions of senior management as actions speak louder than words and tend to have a powerful influence on the company's culture. A company can develop a multidimensional and flexible organization process only if its personnel systems develop and reinforce the appropriate kinds of people

Managing the Process of Change

When going through a restructuring process, the lines that are redrawn are not just formal reporting channels but interpersonal relationships that may have taken years to develop. As a result, forcing changes in the organizational process and management mentality by altering the formal structure can have a high cost.

Most European and Japanese companies tend to adopt a very different approach that relies more on personnel assignment as an important mechanism of organizational change, building on the informal relationships to forge interpersonal links, build organizational cohesion and develop consistency. The first objective for these companies seeking major change is to influence the understanding and perceptions of key individuals. Then follows a series of changes aimed to modify communication flows and decision making processes. Only at a final stage are the changes consolidated and confirmed by structural realignment. However, radical restructuring may be necessary to achieve rapid and sweeping change.

Political, competitive and social pressures have reinforced the need for MNEs to create organizations that can sense and respond to complex yet conflicting demands. Yet, as more and more companies confront the need to build worldwide organizations that are both multidimensional and flexible, the form of the transnational organization they are creating continues to adapt.

The most observed trends are:

- Disenchantment with Formal Matrix Structures – Multidimensional and flexible organizations are best built by developing overlaid processes and supportive cultures, not just by formalizing multiple reporting relationships. You cannot change organizations with structure alone.
- The primarily organizational characteristics that defined the transnational company began to change, with the global customer dimension becoming increasingly important in many worldwide organizations. The pressure to create such customer driven organizations grew because global customers began demanding uniform prices and service levels from suppliers and because they expect increasing levels of value-added services. Now companies are shifting from selling products to providing solutions.
- With the expansion of the information-based, knowledge-intensive service economy, the resources and expertise that resided in specialized functions such as finance, human resources and logistics became increasingly important sources of competitive advantage. Similarly, companies are also placing more and more importance in the organization's ability to capture and leverage valuable information, best practices or scarce knowledge

Chapter 6

Engaging in Cross-Border Collaboration: Managing across Corporate Boundaries

Few companies have all the resources and capabilities they need to develop multidimensional strategies and adaptive organizational capabilities by themselves so they must collaborate with suppliers, distributors, customers, agents, licensors, joint venture partners and others to meet the needs of the increasingly complex global environment. This requirement implies that today's MNEs must develop the skills to not only manage assets and resources under their own direct control but also span their corporate boundaries and capture vital capabilities in the partnerships and alliances that are becoming central to the strategic response capability of so many companies.

Historically, the strategic challenge for a company has been viewed primarily as one of protecting potential profits from erosion through either competition or bargaining and to maintain its independence by keeping control over its activities. However, the need to pursue multiple resources of competitive advantage simultaneously led to the need for building not only an interdependent and integrated network organization within the company but also collaborative relationships externally with other firms. This important shift in strategic perspective was triggered by many factors:

- Rising R&D costs
- Shortened product life cycles
- Growing barriers to market entry
- Increasing need for global scale economies
- Expanding importance of global standards

Many of the human, financial and technological resources companies require to compete effectively lay beyond their boundaries and building competitive advantage through collaboration with competitors is a solution.

Strategic alliances, the increasing propensity of MNEs to form cooperative relationships with their global competitors, have become central components of most MNE strategies. Classically, traditional joint ventures were formed between a senior multinational headquartered in an industrialized country and a junior local partner in a less developed or less industrialized country. The goal was to gain market access for existing products. The senior partner provided existing products while the junior partner provided the local marketing expertise, the means to overcome any protectionist barriers and the governmental contacts to deal with national regulations. The multinational achieved increased sales in volume and the local firm gained access to new products and often learned new important skills from its partner. But the scope and motivations for the modern form of strategic alliances are clearly broadening:

- <u>Technology Exchange</u>

Technology transfer or R&D collaboration is a major objective of many strategic alliances. The necessary capabilities and resources are often beyond the scope of a single firm, making it increasingly difficult to compete effectively on the strength of one 's own internal R&D efforts. Shorter product life cycles increase both the time pressure and risk exposures while reducing the potential payback of massive R&D investments. Companies in industries such as information technology, pharmaceuticals and electronics face an environment accelerating change, short product life cycles and small market windows. Interfirm cooperation has provided solutions to many of these strategic challenges.

- <u>Global Competition</u>

Using alliances is a key tool in competitive positioning. In the new game of global networks, successful MNEs from any country of origin may well be the ones that have chosen the best set of corporate allies. Particularly in industries where there is a dominant worldwide market leader, strategic alliances and networks allow coalitions of smaller partners to compete more effectively against a global "common enemy" rather than one another.

- Industry Convergence

Many high-technology industries are converging and overlapping in a way that seems destined to create a huge competitive traffic jam. Strategic alliances are sometimes the only way to develop the complex and interdisciplinary skills necessary in the time frame required. Alliances become a way of shaping competition by reducing competitive intensity, excluding potential entrants and isolating particular players, and building complex integrated value chains that can act as barriers to those who choose to go it alone.

- Economies of Scale and Reduction of Risk

Strategic alliances allow participating firms to reap the benefits of scale economies or learning – advantages that are particularly interesting to smaller companies trying to match the economic benefits that accrue to the largest MNEs. First, partners can pool their resources and concentrate their activities to raise the scale of activity or the rate of learning within the alliance significantly over those firms that act alone. Second, alliances enable partners to share and leverage specific strengths and capabilities. Also, trading different or complementary resources among companies can result in mutual gains and save each partner the high cost of duplication. Because none of the participating firm bears the full risk and cost of the joint activity, alliances are often seen as an attractive risk-hedging mechanism.

- Alliances as an Alternative to Merger

There remain industry sectors in which political, regulatory and legal constraints limit the extent of cross-border mergers and acquisitions. In such cases, companies often create alliances not because they are inherently the most attractive organizational form but because they represent the best available alternative to a merger..

Risks and Costs

Some risks arise from the simultaneous presence of both collaborative and competitive aspects in the relationships. Others arise from the higher levels of strategic and organizational complexity involved in managing cooperative relationships outside the company's own boundaries. Some strategic alliances involve partners who are fierce competitors outside the specific scope of the cooperative venture. The collaborative venture might be used by one or both partners to develop a competitive edge over the other, or at least that the benefits from the partnerships will be asymmetrical for the two parties. A partnership is often motivated by the desire to join and leverage complimentary skills and resources. For example, the two partners may have access to different technologies that could be combined to create new businesses or products. Such an arrangement for competency pooling inevitably entails the possibility that, in the course of the partnership, one of the partners will learn and internalize the other's skills while carefully protecting its own, thereby creating the option of discarding the partner and appropriating all benefits created by the partnership. This possibility becomes particularly salient when the skills and competencies of one partner are tacit and deeply embedded in complex organizational processes (and thereby difficult to learn or emulate), whereas those of the other partner are explicit and embodied in specific individual machines or drawings (thereby liable to relatively easy observation and emulation). Another predatory tactic might involve capturing investment initiative to use the partnership to erode the other's competitive position. The company ensures that it, rather than the

partner, makes and keeps control over the critical investments. However the vast majority of cross-company collaborations are founded and maintained on a basis of mutual trust and shared commitment. Because such alliances typically involve task sharing, each company almost inevitably trades off some of the benefits of “learning by doing” the tasks that it externalizes to its partner. The very success of the partnership leads to some benefits for each partner and therefore to some strengthening of a competitor. Behind the success of the alliance, therefore, lies the ever-present possibility that a competitor’s newly acquired strength will be used against its alliance partner in some future competitive battle. Finally, there is the risk that collaborating with a competitor might be a persecutor to a takeover by one of the firms.

Building and Managing Collaborative Ventures

In a strategic alliance, the participating companies retain their own competitive strategies and performance expectations, as well as their national, ideological and administrative identities. Yet, to obtain the required benefits of a partnership, diverse organizational units in different companies and different countries must effectively and flexibly coordinate their activities. Such collaborative ventures inevitably present some management challenges: strategic and environmental disparities among the partners, lack of common experience and perception base, difficulties in Interfirm communication, conflicts of interest and priorities, and inevitable personal differences among the individuals who manage the interface. There is a big difference between making alliances and making them work.

The challenge can be considered in two parts, reflecting the pre-alliance tasks of analysis, negotiation and decision making and the post-alliance tasks of coordination, integration and adaptation.

- Building Cooperative Ventures – there are three aspects of the pre-alliance process to which managers must pay close attention if the alliance is to have the best possible chance of success:

(1) Partner selection. Many factors impede the quality of the choice making process as the availability of information required for an effective evaluation of the potential partner such as tangible and intangible assets and organizational capabilities. The pressure of time and distance sometimes result in suboptimal partner selection and it is already difficult enough to make a static assessment of a potential partner’s strategic and organizational capabilities let alone a dynamic one.

(2) Escalating commitment. Some managers involved in the process can build up a great deal of personal enthusiasm and expectations so key operating managers should not only be involved in the implementation stage of the alliance but also in the pre-decision negotiation process. The greatest benefit accrues to the long-term understanding that must be developed between the partners.

(3) Alliance Scope: Striving for Simplicity and Flexibility. Added complexity will increase the likelihood of problems and difficulties in achieving the objectives of the partnership so firms should make agreements as simple and flexible as possible in the beginning.

- Managing Cooperative Ventures – a company’s ability to manage an ongoing relationship also tends to be a key determining factor for the success or failure of an alliance.

(1) Structuring the Interface. If agreements are very complex then independent legal organizations can be created and given complete freedom to manage the alliance’s tasks. If simple, then joint committees can be created, which is a less bureaucratic process.

(2) Managing Knowledge Flows. The very process of collaboration creates flows of information across boundaries of the participating companies and creates the potential for learning from each other.

Companies must ensure full exploitation of the created learning potential but they also must prevent the outflows of any information or knowledge they do not wish to share with their alliance partners. To maximize its learning from the partnership, a company must effectively integrate its interface managers into the rest of its organization (gatekeepers). They must be well versed in the company's internal organizational process: they must have the personal credibility and status necessary to access key managers in different parts of the organization and they must have sufficiently broad understanding of the company's business and strategies to be able to recognize useful information and knowledge that might cross their path.

When complete independence and self-sufficiency are not possible because of resource scarcity, lack of expertise, or time, strategic alliances often become the most realistic option.

Flexibility is key. The flexibility to adapt the goals, scope, and management of the alliance to changing conditions is essential so it is extremely important to monitor environmental changes and allow the partnership to evolve in response.

Finally, learning is one of the main benefits that a company can derive from a partnership. A company must be receptive to knowledge and skills available from the partner and have an organization able to diffuse and leverage such learning. Building and managing an integrated network organization is an essential prerequisite not only for effective internal processes but also effective management across organizational boundaries.

Chapter 7

Building Multidimensional Capabilities

The globalization of markets, the acceleration of product and technology life cycles, the assertion of national governments' demands and, above all, the intensification of global competition have created an environment of complexity, diversity and change for most MNEs. The ability to compete on the basis of a single dominant competitive advantage gave way to a need to develop multiple strategic assets: global-scale efficiency and competitiveness, national responsiveness and flexibility and worldwide innovation and learning capabilities. These new strategic task demands put pressure on existing organization structures and management processes such as integrated networks of assets and resources, multidimensional management perspectives and capabilities and flexible coordinative processes. To succeed in the international environment of the present, managers must be able to sense and interpret complex and dynamic environmental changes, they must be able to develop and integrate multiple strategic capabilities and they must be able to build and manage complicated yet subtle new organizations required to deliver coordinated action on a worldwide basis. Without effective managers in place, sophisticated strategies and organizations will fail.

- Global Business Management – the challenge of developing global efficiency and competitiveness requires that management capture the various scale and scope economies available to the MNE as well as capitalize on the potential competitive advantages inherent in its worldwide market positioning. These requirements demand a management with the ability to see opportunities and risks across national boundaries and functional specialties, and the skill to coordinate and integrate activities across these barriers to capture the potential benefits. There are three core roles and responsibilities that will always fall to this key manager. Only a manager with a worldwide perspective and responsibility can assess the strategic position and capability in a given business. Companies must configure information, planning and control systems so that they can be consolidated into consistent, integrated, global business reports. This manager need to maximize global efficiency. The business strategy must fit within the broader corporate strategy, which should provide a clear vision of what the company wants to be and explicit values pertaining to how it will accomplish its mission. This manager need to prepare an integrated strategy of how the company will compete in a particular business. Tied to the shaping of an integrated business strategy, it's also his responsibility to oversee the worldwide distribution of key assets and resources. In deciding where to locate key plants or develop vital resources the business manager can never assume a zero base because such decisions must be rooted in the company's administrative heritage so he must build on rather than ignore or destroy. This manager needs to shape the future configuration by leveraging existing resources and capabilities and linking them in a configuration that resembles the integrated network form. Moreover, this managers has to decide on sourcing patterns and managing cross-border transfer policies and mechanisms. The task of coordinating flows of materials, components and finished products becomes extremely complex as companies build transnational structures and capabilities. Transnational companies specialize their operations worldwide, building on the most capable national operations and capitalizing on locations of strategic importance. But the resulting integrated network of specialized operations is highly interdependent and to achieve such interdependence involves both corporate-owned and outsourced supply.

- Worldwide Functional Manager – refers to those individuals with the specialist responsibility for activities such as R&D, manufacturing and marketing as well as those responsible for support activities. Their job is to diffuse innovations and transfer knowledge on a worldwide basis. This vital task is built on knowledge that is highly specialized by function. Most innovations start with some stimulus driving the company to respond to a perceived opportunity or threat and awareness to these situations is key but

alone is not sufficient as information needs to flow quickly and in an effective manner so that companies can act. Functional managers are linked through informal networks that are nurtured and maintained through frequent meetings, visits and transfers. Through such linkages, these managers develop the contacts and relationships that enable them to transmit information quickly around the globe. However, overseas subsidiaries can be more than sources of strategic intelligence as they can also be source of capabilities, expertise and innovation that can be transferred to other parts of the organization. These managers can identify where the best practices are being developed and implemented and they are in a position where they can expose others to new ideas. Moreover, these managers play a key role in transnational innovations as by scanning their companies' worldwide operations they can identify local innovations that have applications elsewhere. This type of innovation fully exploits the company's access to worldwide information an expertise by linking and leveraging intelligence sources with internal centers of excellence, wherever they may be located.

- Geographic Subsidiary Management – The manager of the country is often held accountable for results but has only limited formal authority over the people and assets within his jurisdiction. The transnational challenge requires resolving conflicting demands for global efficiency, multinational responsiveness and worldwide learning. The country manager is at the center of this strategic tension, defending the company's market positions against global competitors, satisfying the demands of the host government, responding to the unique needs of local customers and leveraging the company's local resources and capabilities to strengthen the company's competitive position worldwide. This manager acts as a bicultural interpreter as he should be an expert on the local market and acts like and efficient sensor of the national environment, being an important vehicle of information. However, information and analysis conveyed to corporate headquarters must not only be well understood but also acted upon. The country manager's role is to counteract centralizing tendencies and ensure that the needs and opportunities that exist in the local environment are well understood and incorporated in the decision making process. It is the country manager's responsibility to become the defender of national needs and perspectives. In addition, this managers need to take the broad corporate goals and strategies and translate them into specific actions that are responsive to the need of the national environment. The actions decided on should be sensitive enough to respect the limits of the diverse local constituencies, pragmatic enough to achieve the expected corporate outcome and creative enough to balance the diverse internal and external demands and constraints. This manager does not only act as an implementer of the corporate strategy, he plays a key role in its formulation.

Top-Level Management

Senior executives have to integrate and provide direction for the diverse management groups. Top management's role became bureaucratized and as layers of management slowed decision making, top management's attention was distracted from the external demands of customers and competitive pressures and began to focus internally on an increasingly bureaucratic process. Top management must add value, which means liberating rather than constraining the organization below them. This means not only creating a diverse set of business, functional and geographic management groups and assigning them specific roles and responsibilities but also maintaining and integrating their often divergent influences in the ongoing management process, maintaining a long term unifying sense of purpose and direction in the face of often conflicting needs and priorities. Although aligning the company's resources, capabilities and commitments to achieve common long-term objective is vital, top management must also achieve results in the short term to remain viable among competitors and credible with stakeholders. Top management's role is to provide the controls, support, and coordination to leverage resources and capabilities to their highest level of performance. The flows of goods, resources and information are the lifeblood of any company and any organization's ability to make them more efficient and effective depends on top management's ability to develop a rich portfolio of

coordinative processes by creating synergies and leveraging performance. Finally, as strategy as processes ossify, management loses its flexibility and eventually the organization sees its role as protecting its past heritage. However, a strong learning ability will lead to powerful innovations. It is top management's role to stop this ossifying process and to ensure that the organization continues to renew itself rather than just reinventing its past. By reducing internal bureaucracy and constantly orienting the organization to its customers and benchmarking it against its best competitors, top management can ensure an external orientation.

Concluding, this is ultimately the biggest challenge facing the transnational organization – to create a generation of managers that have the requisite skills and the sense of perspective needed to operate in a multibusiness, multifunctional, multinational system.