chapter 11

Global Strategy and Organization

Learning Objectives

In this chapter, you will learn about:

1. The role of strategy in international business
2. The integration-responsiveness framework
3. Distinct strategies emerging from the integration-responsiveness framework
4. Organizational structure
5. Alternative organizational arrangements for international operations
6. Building the global firm
7. Putting organizational change in motion

IKEA's Global Strategy

Furniture retailer IKEA is a Swedish company that has transformed itself into a global organization over the past three decades. Ingvar Kamprad founded the firm in Sweden in 1943 when he was 17 years old. IKEA originally sold pens, picture frames, jewelry, and nylon stockings—any product that Kamprad could sell at a low price. In 1950, IKEA began selling furniture and housewares. In the 1970s, the company began expanding into Europe and North America. IKEA's philosophy is to offer quality, well-designed furnishings at low prices. The company designs "knock-down" furniture that the customer purchases and then assembles at home. Designs implement functional, utilitarian, and space-saving features, with a distinctive Scandinavian style.

IKEA Group sales for the fiscal year 2006 totaled 17.3 billion euros, making IKEA the largest furniture retailer in the world. Its stores, usually located in major cities, are mammoth, warehouse-style outlets, with each stocking approximately 9,500 items, including everything for the home—from sofas to plants to kitchen utensils.

IKEA is now owned by a Dutch-registered foundation controlled by the Kamprad family. Its corporate offices are in the Netherlands, Sweden, and Belgium.

Product development, purchasing, and warehousing are concentrated in Sweden. Headquarters designs and develops IKEA's global product line and branding, often in close collaboration with external suppliers. Approximately 30 percent of the merchandise is made in Asia, and two-thirds in Europe. A few items are sourced in North America to address the specific needs of that market, but 90 percent of IKEA's product line is identical worldwide. Managers at IKEA stores feed market research back to headquarters in Sweden on sales and customer preferences.

IKEA targets people all over the world, with a focus on families with limited income and limited living space. This global segment is characterized by liberal-minded, well-educated, white-collar people—including college students—who care little about status and view foreign products positively. Targeting a global customer segment allows IKEA to offer standardized products at uniform prices, a strategy that minimizes the costs of international operations. IKEA seeks scale economies by consolidating worldwide design, purchasing, and manufacturing. It distinguishes itself from conventional furniture makers that serve fragmented markets. Its designers work closely with contract suppliers around the world to ensure savings, high volume, and high standards.

Each IKEA store follows a centrally developed communications strategy. The catalogue is the most important marketing tool. In 2006, 175 million copies were printed in 27 languages, representing the largest circulation of a free publication in the world. The catalogue, also available online (www.ikea.com), is prepared in Sweden to assure conformity to the IKEA look. The catalogue conforms to IKEA's cosmopolitan style. Each product has a unique, proper name. For sofas, IKEA uses Scandinavian rivers or cities (Henriksberg, Falkenberg), women's names for fabric (Linne, Mimmi, Adel), and men's names for wall units (Billy, Niklas, Ivar).

IKEA's employees ("co-workers") across the globe are widely acknowledged as the basis for the firm's success. Corporate culture is informal. There are few titles, no executive parking spaces, and no corporate dining room. Managers fly economy class and stay in inexpensive hotels. Regional organizations are minimized so that stores maintain direct contact with IKEA in Sweden. This speeds decision making and ensures that the IKEA culture is easily globalized. Management in each store is required to speak either English or Swedish, to ensure efficient communications with headquarters.

IKEA organizes an "antibureaucratic week" each year in which managers wear sales clerks' uniforms and do everything from operating cash registers to driving forklifts. By using this system, managers stay in touch with all of IKEA's operations and remain close to suppliers, customers, and salespeople. The firm's culture emphasizes consensus-based decision making and problem solving, and managers readily share their knowledge and skills with co-workers. IKEA's distinct culture helps employees and suppliers feel they are an important part of a global organization. This culture has a strong global appeal, supporting IKEA's continued growth.

How does a company like IKEA manage its operations across 35 countries, 240 stores, more than 100,000 employees, 20 franchises, and 2,000 suppliers? Part of the complexity comes from having to adapt to local regulations on labor laws, store operations, unique supplier relationships, and shopping preferences. Among other challenges, IKEA must figure out how to:

1. Ensure valuable customer feedback (for example, design preferences) from individual markets reach decision makers at headquarters
2. Reward employees and motivate suppliers with expectations that vary from country to country
3. Achieve the real benefits of international operations—efficiency on a global scale and learning—while remaining responsive to local needs
4. Keep designs standardized across markets, yet be able to respond to local preferences and trends
5. Delegate adequate autonomy to local store managers while retaining central control

Sources: Coppola, V. (2002). "Furniture as Fashion Wins Ikea." *Adweek,* Feb. 25, pp. 12–13; Duff, M. (2003). "IKEA Eyes Aggressive Growth," *DSN Retailing Today* Jan. 27, p. 23; *www.businessweek.com*, "Online Extra: IKEA's Design for Growth," June 6, 2005; *www.businessweek.com*, "IKEA: How the Swedish Retailer became a Global Cult Brand," November 14, 2005; IKEA corporate web site at www.IKEA-group.IKEA.com; IKEA company profile at Hoovers, at *www.hoovers.com*

Globalization has increased the speed, frequency, and magnitude by which firms from diverse industries can access international markets for customers. Managers are evolving their internationalization strategies to transform their organizations into globally competitive enterprises. As the IKEA vignette shows, managers are striving to coordinate sourcing, manufacturing, marketing, and other value-adding activities on a worldwide basis. They seek to eliminate redundancy and adopt organization-wide standards and common processes. Some managers, like those at IKEA, try to nurture products that may gain the approval of a global clientele and become global brands. Nevertheless, organizing the firm on a global scale is very challenging. It requires strategic posi-

tioning, organizational capabilities, alignment of value-adding activities on a worldwide basis, a high degree of coordination and integration, attention to the needs of individual markets, and implementation of common processes.

In this chapter, we discuss the role of strategy and alternative structural arrangements in building a globally integrated enterprise. In the next chapter, we follow up with a discussion of how managers can go about identifying global market opportunities.

The Role of Strategy in International Business

Strategy is a plan of action that channels an organization's resources so that it can effectively differentiate itself from competitors and accomplish unique and viable goals. Managers develop strategies based on their examination of the organization's strengths and weaknesses relative to its competition and the opportunities it faces. Managers decide which customers to target, what product lines to offer, and with which firms to compete.

Strategy A plan of action that channels an organization's resources so that it can effectively differentiate itself from competitors and accomplish unique and viable goals.

Strategy in the international context is a plan for the organization to position itself positively from its competitors and configure its value-adding activities on a global scale. It guides the firm toward chosen customers, markets, products, and services in the global marketplace, not necessarily in a particular international market.[1] As a minimum, strategy in the international context should help managers to formulate a strong international vision, allocate scarce resources on a worldwide basis, participate in major markets, implement global partnerships, engage in competitive moves in response to global rivals, and configure value-adding activities on a global scale.[2]

Strategy in the international context A plan for the organization to position itself positively from its competitors and configure its value-adding activities on a global scale.

What is the role of strategy in creating competitive advantage in international business? It has been argued that an effective international strategy begins with developing a standardized product that can be produced and sold the same way in multiple countries.[3] Kenichi Ohmae[4] argues that delivering value to customers worldwide is the overriding goal, while other observers stress achieving strategic flexibility.[5] The idea of exploiting scale economies by building global volume and deriving synergies across the firm's different activities is also relevant.[6] Managers should also build a strong worldwide distribution system and use profits from successful products and markets to subsidize the development of other products and markets.[7]

The most widely accepted prescription for building sustainable, competitive advantage in international business is that of Bartlett and Ghoshal.[8] They argue that managers should look to "develop, *at one and the same time,* global scale efficiency, multinational flexibility, and the ability to develop innovations and leverage knowledge on a worldwide basis."[9] They propose that the firm that aspires to become a globally competitive enterprise must seek simultaneously these three strategic objectives—efficiency, flexibility, and learning. Let's review each objective.

Efficiency *The firm must build efficient international supply chains.* Efficiency refers to lowering the cost of the firm's operations and activities on a global scale. Multinational enterprises with multiple value chains around the world must pay special attention to how they organize their R&D, manufacturing, sourcing product, marketing, and customer service activities. For example, automotive companies such as Toyota strive to achieve scale economies by concentrating manufacturing and sourcing activities in a limited number of locations around the world.

Flexibility *The firm must develop worldwide flexibility to manage diverse country-specific risks and opportunities.* The diversity and volatility of the international environment is a special challenge for managers. Therefore, the firm's ability to tap

local resources and exploit local opportunities is critical. For example, managers may opt for contractual relationships with independent suppliers and distributors in one country while engaging in direct investment in another. Or, the firm may adapt its marketing and human resource management practices to suit its unique country conditions (we discuss marketing and human resource management issues in chapters 17 and 18). Changing environmental circumstances, such as exchange rate fluctuations, may prompt managers to switch to local sourcing or to adjust prices.

Learning *The firm must create the ability to learn from international exposure and exploit learning on a worldwide basis.* The diversity of the global environment presents the internationalizing firm with unique learning opportunities. Even though the firm goes abroad to exploit its unique advantages, such as technology, brand name, or management capabilities, managers can add to the stock of capabilities by internalizing new knowledge gained from international exposure. Thus, the organization can acquire new technical and managerial know-how, new product ideas, improved R&D capabilities, partnering skills, and survival capabilities in unfamiliar environments. The firm's partners or subsidiaries can capture and disseminate this learning throughout their corporate network. For example, it was Procter & Gamble's research center in Brussels that developed a special capability in water-softening technology, primarily because European water contains more minerals than water in the United States. Similarly, the company learned to formulate a different kind of detergent in Japan, where customers wash their clothes in colder water than in the United States or Europe.

In the final analysis, international business success is largely determined by the degree to which the firm achieves its goals of efficiency, flexibility, and learning. But it is often difficult to excel in all three areas simultaneously. Rather, one firm may excel at efficiency while another may excel at flexibility, and a third at learning. In the 1980s, for example, many Japanese MNEs achieved international success by developing highly efficient and centralized manufacturing systems. In Europe, numerous MNEs have succeeded by being locally responsive while sometimes failing to achieve substantial economic efficiency or technological leadership. Many MNEs based in the United States have struggled to adapt their activities to the cultural and political diversity of national environments, and instead have proven to be more skillful at achieving efficiency via scale economies.

Strategy in Multidomestic and Global Industries

Companies in the food and beverage, consumer products, and clothing and fashion industries may often resort to a country-by-country approach to marketing to specific needs and tastes, laws, and regulations. Industries in which competition takes place on a country-by-country basis are known as **multidomestic industries**. In such industries, each country tends to have a unique set of competitors.

Multidomestic industry An industry in which competition takes place on a country-by-country basis.

Global industry An industry in which competition is on a regional or worldwide scale.

By contrast, industries such as aerospace, automobiles, telecommunications, metals, computers, chemicals, and industrial equipment are examples of **global industries**, in which competition is on a regional or worldwide scale. Formulating and implementing strategy is more critical for global industries than multidomestic industries. Most global industries are characterized by the existence of a handful of major players that compete head-on in multiple markets. For example, Kodak must contend with the same rivals—Japan's Fuji and the European multinational, Agfa-Gevaert—wherever it does business around the world. Similarly, American Standard and Toto dominate the worldwide bathroom fixtures market. In the earthmoving equipment industry, Caterpillar and Komatsu compete head-on in all major world markets.

The Integration-Responsiveness Framework

Since efficiency and learning objectives are often related, they are frequently combined into a single dimension, called global integration. **Global integration** refers to the coordination of the firm's value-chain activities across countries to achieve worldwide efficiency, synergy, and cross-fertilization in order to take maximum advantage of similarities between countries. The flexibility objective is also called local responsiveness. **Local responsiveness** refers to meeting the specific needs of buyers in individual countries.

Global integration
Coordination of the firm's value-chain activities across countries to achieve worldwide efficiency, synergy, and cross-fertilization in order to take maximum advantage of similarities between countries.

Local responsiveness
Meeting the specific needs of buyers in individual countries.

The discussion about the pressures on the firm to achieve the dual objectives of global integration and local responsiveness has become known as the *integration-responsiveness (IR) framework*.[10] The IR framework, shown in Exhibit 11.1, was developed to help managers better understand the trade-offs between global integration and local responsiveness.

In companies that are locally responsive, managers adjust the firm's practices to suit distinctive conditions in each market. They adapt to customer needs, the competitive environment, and the local distribution structure. Thus, Wal-Mart store managers in Mexico adjust store hours, employee training, compensation, the merchandise mix, and promotional tools to suit conditions in Mexico. Firms in multidomestic industries such as food, retailing, and book publishing tend to be locally responsive because language and cultural differences strongly influence buyer behavior in these industries

In contrast, global integration seeks economic efficiency on a worldwide scale, promoting learning and cross-fertilization within the global network and reducing redundancy. Headquarters personnel justify global integration by citing converging demand patterns, spread of global brands, diffusion of uniform technology, availability of panregional media, and the need to monitor competitors on a global basis. Thus, designing numerous variations of the same basic product for individual markets will only add to overall costs and should be avoided. Firms in global industries such as aircraft manufacturing, credit cards, and pharmaceuticals are more likely to emphasize global integration.

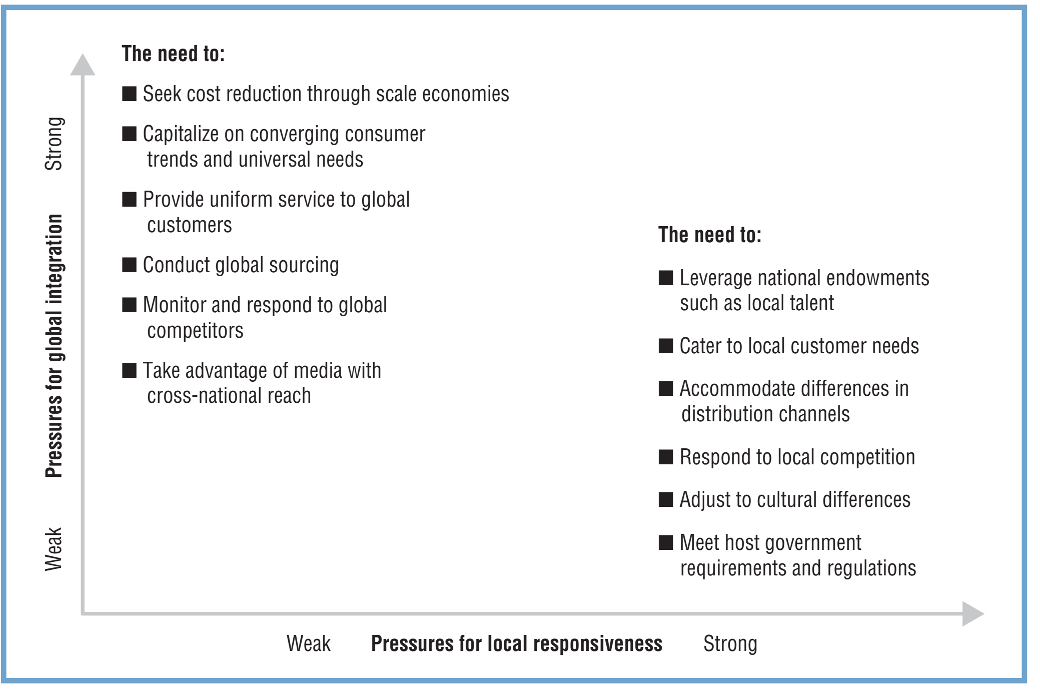


Exhibit 11.1

Integration-Responsiveness Framework: Competing Pressures on the Internationalizing Firm

Pressures for Local Responsiveness

There are various factors that compel the firm to become locally responsive in the countries where it conducts business.[11] These factors are:

- *Unique natural endowments available to the firm.* Each country has national endowments that the foreign firm should access.
- *Diversity of local customer needs.* Businesses, such as clothing and food, require significant adaptation to local customer needs.
- *Differences in distribution channels.* These vary considerably from market to market and may increase the need for local responsiveness. For example, small retailers in Japan understand local customs and needs, so locally responsive MNEs use them to distribute products in that country.
- *Local competition.* When competing against numerous local rivals, centrally controlled MNEs will have difficulty gaining market share with global products that are not adapted to local needs.
- *Cultural differences.* Cultural characteristics influence consumer buying decisions. The influence of cultural differences may vary considerably, depending on the type of product. For those products where cultural differences are important, such as clothing and furniture, local managers require considerable freedom from headquarters to adapt their product and marketing practices.
- *Host government requirements and regulations.* When governments impose trade barriers or complex business regulations, they can halt or reverse the competitive threat of foreign firms. The MNE may establish a local subsidiary with substantial decision-making authority to minimize the effects of protectionism.

Pressures for Global Integration

Another set of factors compels the firm to coordinate its activities across countries in an attempt to build efficient operations.[12] These are:

- *Economies of scale.* Concentrating manufacturing in a few select locations where the firm can profit from economies of mass production motivates global integration. Also, the smaller the number of manufacturing and R&D locations, the easier it is for the firm to control quality and cost.
- *Capitalize on converging consumer trends and universal needs.* Standardization is appropriate for products with widespread acceptance and whose features, quality, and cost are similar worldwide. Examples include computer chips and electronic components. Companies such as Nike, Dell, ING, and Coca-Cola offer products that appeal to consumers everywhere.
- *Uniform service to global customers.* Services are easiest to standardize when firms can centralize their creation and delivery. Multinational enterprises with operations in numerous countries particularly value service inputs that are consistent worldwide.
- *Global sourcing of raw materials, components, energy, and labor.* Firms face an ongoing pressure to procure high-quality input goods in a cost-efficient manner. Sourcing of inputs from large-scale, centralized suppliers provides benefits from economies of scale and more consistent performance outcomes. Sourcing from a few well-integrated suppliers is more efficient than sourcing from numerous loosely connected distributors.
- *Global competitors.* Competitors that operate in multiple markets threaten firms with purely domestic operations. Global coordination is

necessary to monitor and respond to competitive threats in foreign and domestic markets.

- *Availability of media that reaches consumers in multiple markets.* The availability of cost-effective communications and promotion makes it possible for firms to cater to global market segments that cross different countries. For example, firms now take advantage of the Internet and cross-national television to simultaneously advertise their offerings in numerous countries.

Distinct Strategies Emerging from the Integration-Responsiveness Framework

The integration-responsiveness framework presents four distinct strategies for internationalizing firms. Exhibit 11.2 illustrates these strategies. Internationalizing firms pursue one or a combination of four major types of strategies. In general, multidomestic industries favor home replication and multidomestic strategies, while global industries favor global and transnational strategies.

With a **home replication strategy** (sometimes called *export strategy* or *international strategy*), the firm views international business as separate from, and secondary to, its domestic business. Early in its internationalization process, such a firm may view international business as an opportunity to generate incremental sales for domestic product lines. Typically, products are designed with domestic customers in mind, and international business is sought as a way of extending the product life cycle and replicating its home-market success. The firm expects little knowledge flows from foreign operations.[13]

A second approach is **multidomestic strategy** (sometimes called *multilocal strategy*), whereby an internationalizing firm delegates considerable autonomy to each country manager, allowing him or her to operate independently and pursue local responsiveness. With this strategy, managers recognize and emphasize differences between national markets. As a result, the internationalizing firm allows

Home replication strategy An approach in which the firm views international business as separate from and secondary to its domestic business.

Multidomestic strategy An approach to firm internationalization where headquarters delegates considerable autonomy to each country manager, allowing him or her to operate independently and pursue local responsiveness.

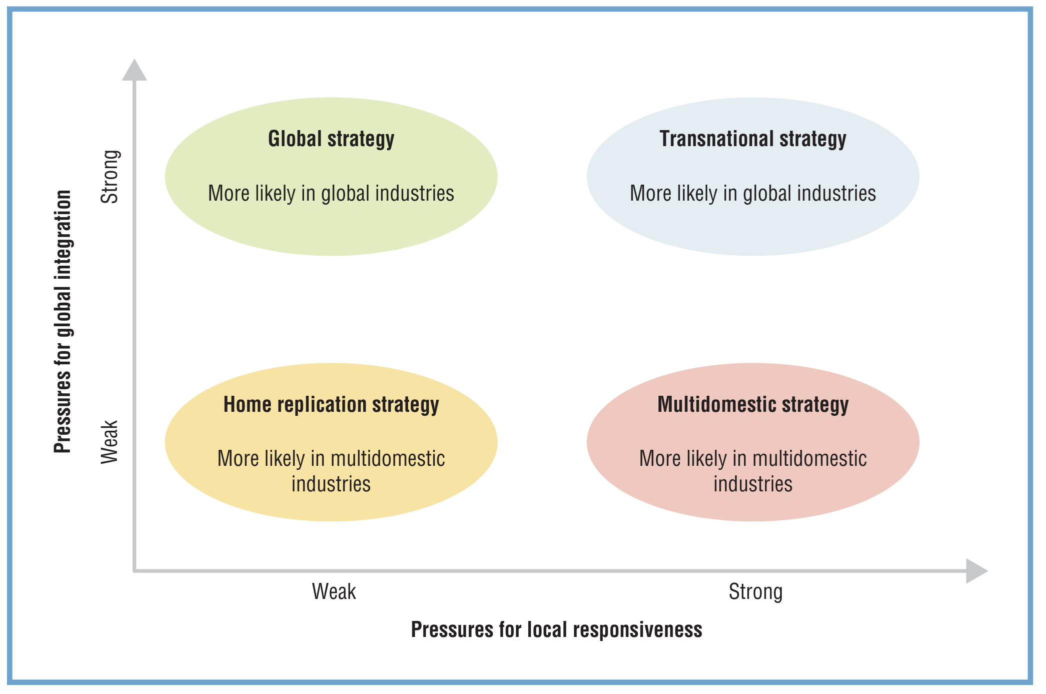


Exhibit 11.2

Four Distinct Strategies Emerging from the Integration-Responsiveness Framework

subsidiaries to vary product and management practices by country. Country managers tend to be highly independent entrepreneurs, often nationals of the host country.[14] They function independently and have little incentive to share knowledge and experience with managers in other countries. Products and services are carefully adapted to suit the unique needs of each country.

Firms that pursue a multidomestic strategy relinquish considerable autonomy to foreign subsidiaries and exercise little central control. The multidomestic approach has several advantages. If the foreign subsidiary includes a factory, locally produced goods and products can be better adapted to local markets. The approach places minimal pressure on headquarters staff because management of country operations is delegated to individual managers in each country. Firms with limited internationalization experience often find multidomestic strategy an easy option, as they can delegate many tasks to their country managers (or foreign distributors, franchisees, or licensees, where they are used).

Nevertheless, multidomestic strategy has some disadvantages. The firm's foreign subsidiary managers tend to develop strategic vision, culture, and processes that differ substantially from those of headquarters. They have little incentive to share knowledge and experience with managers in the firm's other country markets, which leads to duplication of activities and reduced economies of scale. Limited information sharing also reduces the possibility of developing a knowledge-based competitive advantage.[15] Competition may escalate between the subsidiaries for the firm's resources because subsidiary managers do not share a common corporate vision. While a multidomestic strategy results in firms having a highly responsive presence in different national markets, it leads to inefficient manufacturing, redundant operations, a proliferation of products designed to meet local needs, and generally higher cost of international operations than other strategies.[16]

Global strategy An approach where headquarters seeks substantial control over its country operations in an effort to minimize redundancy and achieve maximum efficiency, learning, and integration worldwide.

These disadvantages may eventually lead management to abandon multidomestic strategy in favor of a third approach—**global strategy**. With this strategy, headquarters seeks substantial control over its country operations in an effort to minimize redundancy and achieve maximum efficiency, learning, and integration worldwide. In the extreme case, global strategy asks why not make "the same thing, the same way, everywhere?"[17] In this way, global strategy emphasizes greater central coordination and control than multidomestic strategy, with various product or business managers having worldwide responsibility. Activities such as R&D and manufacturing are centralized at headquarters, and management tends to view the world as one large marketplace.

Global strategy offers many advantages: It provides management with a greater capability to respond to worldwide opportunities, increases opportunities for cross-national learning and cross-fertilization of the firm's knowledge base among all the subsidiaries, and creates economies of scale, which results in lower operational costs. Global strategy can also improve the quality of products and processes—primarily by simplifying manufacturing and other processes. High-quality products promote global brand recognition and give rise to consumer preference and efficient international marketing programs.

The ability of firms to pursue global strategy has been facilitated by many factors, including the converging needs and tastes of consumers around the world, the growing acceptance of global brands, the increasing diffusion of uniform technology (especially in industrial markets), the integrating effects of the Internet and e-commerce, the integration of markets through economic blocs and financial globalization, and the spread of international collaborative ventures.

As in other approaches, global strategy has its limitations. It is challenging for management to closely coordinate the activities of a large number of widely dispersed international operations. The firm must maintain an ongoing communication between headquarters and its subsidiaries, as well as between the subsidiaries. When carried to an extreme, global strategy results in a loss of responsiveness and flexibility in local markets. Local managers who are stripped

of autonomy over their country operations may become demoralized and lose their entrepreneurial spirit.

A final alternative is **transnational strategy**, a coordinated approach to internationalization in which the firm strives to be more responsive to local needs while retaining sufficient central control of operations to ensure efficiency and learning. Transnational strategy combines the major advantages of multidomestic and global strategies while minimizing their disadvantages.[18] Transnational strategy implies a flexible approach: *standardize where feasible; adapt where appropriate.* In practice, managers implement transnational strategy by:

Transnational strategy A coordinated approach to internationalization in which the firm strives to be more responsive to local needs while retaining sufficient central control of operations to ensure efficiency and learning.

- Exploiting scale economies by sourcing from a reduced set of global suppliers and concentrating the production of offerings in relatively few locations where competitive advantage can be maximized
- Organizing production, marketing, and other value-chain activities on a global scale
- Optimizing local responsiveness and flexibility
- Facilitating global learning and knowledge transfer
- Coordinating *competitive moves*— that is, how the firm deals with its competitors, on a global, integrated basis[19]

Transnational strategy requires planning, resource allocation, and uniform policies on a global basis. Firms standardize products as much as possible while adapting them as needed to ensure ample sales in individual markets. For example, in IKEA's case, some 90 percent of its product line is identical across more than two dozen countries. IKEA's overall marketing plan is centrally developed at company headquarters in Europe in response to convergence of product expectations. Nevertheless, the plan is implemented with local adjustments. The firm also modifies some of its furniture offerings to suit tastes in individual countries. IKEA decentralizes some of its decision making, such as the language to use in advertising, to local stores.

The British bank Standard Chartered, Procter & Gamble (P&G), Dow Chemical, and software maker Oracle are all striving for a transnational strategy. Dow Chemical created global business divisions to take charge of investment and market development. But Dow also relies on local managers to deal with regulatory issues, which can be complex in emerging markets. Procter & Gamble cut the country manager's role and handed all strategic questions about brands back to headquarters. Procter & Gamble's new model differentiates between high- and low-income countries. In high-income countries, major decisions are made at headquarters. In low-income countries, some decision making is delegated to the regional level. Local managers in these countries require more autonomy to deal effectively with difficult local issues such as sourcing and marketing.

Given the difficulty of maintaining a delicate balance between central control and local responsiveness, most firms find it difficult to implement transnational strategy. In the long run, almost all firms find that they need to include some elements of localized decision making as well, because each country has its idiosyncratic characteristics. For instance, few people in Japan want to buy a computer that has an English-language keyboard. Thus, while Dell can apply a mostly global strategy to Japan, it must incorporate some multidomestic elements as well. Even Coca-Cola,

This IKEA Home Furnishings store opened in Shanghai, China in April, 2003. Consistent with a global strategy, IKEA standardizes its products as much as possible.

often touted as a global brand, varies its ingredients slightly in different markets. While consumers in the United States prefer a sweeter Coca-Cola, the Chinese want less sugar.[20]

Having discussed distinct strategies that firms pursue in international expansion, let's now explore the related topic—organizational structure alternatives. While a strategy is the blueprint for action, a firm needs a structure with people, resources, and processes to implement the blueprint.

Organizational Structure

Organizational structure
Reporting relationships inside the firm that specify the linkages between people, functions, and processes.

Organizational structure refers to the reporting relationships inside the firm—"the boxes and lines"—that specify the linkages between people, functions, and processes that allow the firm to carry out its international operations. In the larger, more experienced MNE, these linkages are extensive and include the firm's subsidiaries and affiliates. A fundamental issue in organizational design is how much decision-making responsibility the firm should retain at headquarters and how much it should delegate to foreign subsidiaries and affiliates. This is the choice between *centralization* and *decentralization.* Let's examine this fundamental choice in more detail.

Centralized or Decentralized Structure?

A centralized approach means that headquarters retains considerable authority and control. A decentralized approach means that the MNE delegates substantial autonomy and decision-making authority to the country subsidiaries. There is no clear-cut best approach.

Exhibit 11.3 identifies the typical contributions of headquarters and subsidiaries. Generally, the larger the financial outlay or the riskier the anticipated result, the more involved headquarters will be in decision making. For example, decisions on developing new products or entering new markets tend to be centralized to headquarters. Decisions involving strategies for two or more countries are best left to headquarters managers who have a more regional or global perspective.[21] Decisions to source products from one country for export to another, or decisions on intracorporate transfer pricing are likely to be centralized. Decisions on global products that are marketed in several countries with common trademarks and brand names are usually the responsibility of headquarters. Conversely, decisions on local products that are sold only in single-

A subsidiary is the primary contributor to these activities:	Headquarters is the primary contributor to these activities:	Shared responsibility of subsidiary and headquarters:
• Sales • Marketing • Local market research • Human resource management • Compliance with local laws and regulations	• Capital planning • Transfer pricing • Global profitability	**With the subsidiary's lead:** • Geographic strategy • Local product and service development • Technical support and customer service • Local procurement **With the headquarters' lead:** • Broad corporate strategy • Global product development • Basic research and development • Global product sourcing • Development of global managers

Exhibit 11.3 Subsidiary and Headquarters Contributions

country markets should be the joint responsibility of corporate and respective country managers, with the latter taking the leadership role.

The choice between headquarters and subsidiary involvement in decision making is also a function of the nature of the product, the nature of competitors' operations, and the size and strategic importance of foreign operations. In the long run, no firm can centralize *all* its operations. Retaining some local autonomy is desirable. Companies need to effectively balance the benefits of centralization and local autonomy. The challenge is for companies to achieve these goals simultaneously.[22] The old phrase, "think globally, act locally," is an oversimplification of the true complexities of today's global competition; *"think globally and locally, act appropriately"* better describes the reality of today's marketplace.[23]

A worker inspects the first production of bottled Coca-Cola beverages during the opening of the new Coca-Cola plant in central Bacolod City, Philippines. While the headquarters organization of Coca-Cola will provide global brand support and broad marketing guidance to its bottlers in individual countries, the local bottler organization will assume responsibility for such activities as local sales promotion, labeling to meet local government requirements, retail support, and local customer research.

Planning, shared by managers at headquarters and subsidiaries, is vital to the design of effective strategies that take full advantage of existing worldwide operations. Highly centralized, top-down decision making ignores subsidiary managers' intimate knowledge of host countries. Conversely, highly decentralized, bottom-up decision making by autonomous subsidiary managers ignores the functional knowledge that managers at headquarters possess and fails to integrate strategies across countries and regions. Shared decision making necessitates negotiations between headquarters and subsidiary managers, with give-and-take on both sides. In the final analysis, however, all decisions are subject to headquarters approval. Senior corporate managers should employ various strategies to encourage positive, open-minded, collaborative relationships with country managers. These strategies include:

- Encouraging local managers to identify with broad, corporate objectives and make their best efforts
- Visiting subsidiaries to instill corporate values and priorities
- Rotating employees within the corporate network to develop multiple perspectives
- Encouraging country managers to interact and share experiences with each other through regional meetings
- Providing/establishing financial incentives and penalties to promote compliance with headquarters' goals

Alternative Organizational Arrangements for International Operations

There are four typical organizational structures for the internationalizing firm: export department/international division, decentralized structure, centralized structure, and global matrix structure. A long-established body of literature suggests that "structure follows strategy."[24] The organizational design a firm chooses for international operations is largely the result of how important managers consider international business and whether they prefer centralized or decentralized decision making. The firm's experience in international business also affects its

organizational design. Organizational designs tend to follow an evolutionary pattern: As the firm's international involvement increases, it adopts increasingly more complex organizational designs. Let's explore the four types of organizational structures in detail.[25]

Export Department or International Division

Export department A unit within the firm charged with managing the firm's export operations.

International division structure An organizational design in which all international activities are centralized within one division in the firm, separate from domestic units.

For manufacturing firms, exporting is usually the first foreign market entry strategy. At first, it rarely involves much of a structured organizational response. As export sales reach a substantial proportion of the firm's total sales, however, senior managers will usually establish a separate **export department** whose manager may report to senior management or to the head of domestic sales and marketing. Exhibit 11.4 illustrates the export department structure.

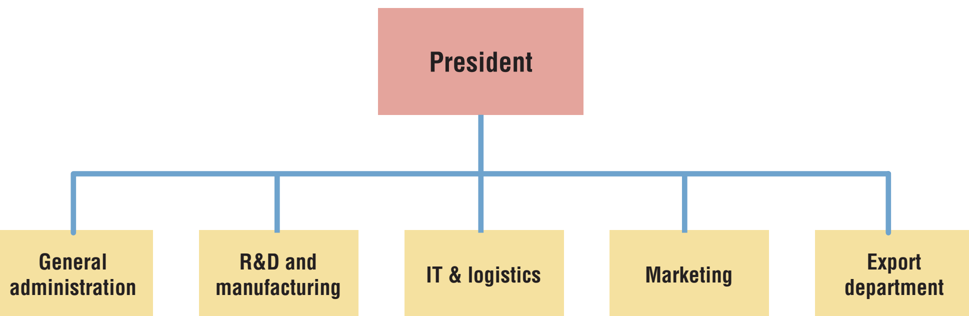
The export department is the simplest form of organizational structure for controlling international operations. As the company develops extensive export operations, or as it initiates more sophisticated foreign market entry strategies, such as FDI, management will typically create an **international division structure**, a separate division within the firm dedicated to managing its international operations. Exhibit 11.5 illustrates this organizational structure. Typically, a vice president of international operations is appointed, who reports directly to the corporate CEO. The decision to create a separate international unit is usually accompanied by a significant shift in resource allocation and an increased focus on the international marketplace.[26] Managers in this division typically oversee the development and maintenance of relationships with foreign suppliers and distributors. The division typically undertakes more advanced internationalization options, such as licensing and small-scale foreign investment.

The international division structure offers several advantages. It centralizes management and coordination of international operations. It is staffed with international experts who focus on developing new business opportunities abroad and offering assistance and training for foreign operations. When a firm develops the division, it signals that management is committed to international operations. Nevertheless, the international division structure has several disadvantages. For one, a domestic versus international power struggle often occurs—for example, over the control of financial and human resources. There is likely to be little sharing of knowledge between the foreign units or between the foreign units and headquarters. R&D and future-oriented planning activities tend to remain domestically focused. Products continue to be developed for the domestic marketplace, with international needs considered only after domestic needs have been addressed. Because of these problems, many firms eventually evolve out of the international division structure.[27]

Firms at more advanced stages of internationalization tend to set up more complex organizational designs. The major rationale for firms to select a more complex structure is to reap economies of scale through high-volume production and economies of scope—that is, more efficient use of marketing and other strategic resources over a wider range of products and markets. There is greater emphasis on innovative potential through learning effects, pooling of resources, and

Exhibit 11.4

The Export Department Structure



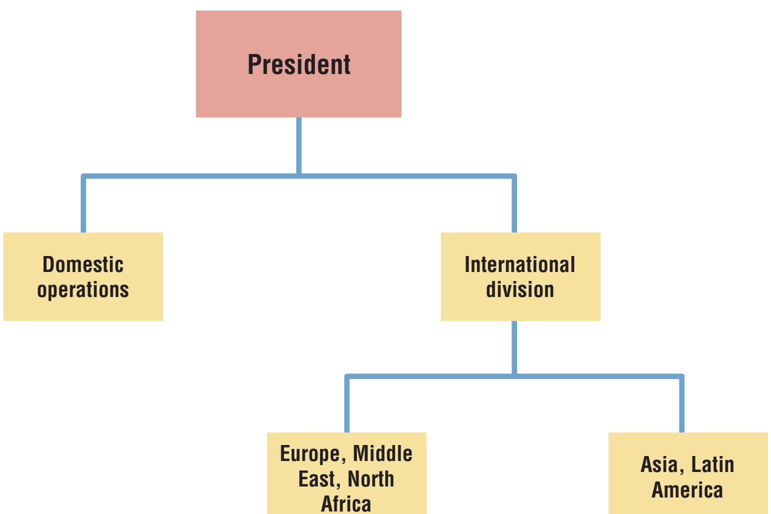


Exhibit 11.5

The International Division Structure

know-how. The integrated chain of command in this structure allows management to make rapid, cohesive decisions regarding global operations.[28]

The more complex organizational designs emphasize a decentralized structure, typically organized around geographic areas; or a centralized structure, typically organized around product or functional lines. We describe these structures next.

Decentralized Structure (Geographic Area Division)

Geographic area division is an organizational design in which control and decision making are decentralized to the level of individual geographic regions, whose managers are responsible for operations within their region. Exhibit 11.6 illustrates this type of organizational design. Firms that market relatively uniform goods across entire regions with little adaptation requirements tend to organize their international operations geographically. The structure is decentralized because management of international operations is largely delegated to the regional headquarters responsible for each geographic area. Nestlé uses such a structure. It has organized its international divisions into a South America division, North America division, Europe division, Asia division, and so forth. The firm treats all geographic locations, including the domestic market, as equals. All areas work in unison toward a common global strategic vision. Assets, including capital, are distributed with the intent of optimal return on corporate goals—not area goals. Geographic area divisions usually manufacture and market locally appropriate goods within their own areas. Firms that use the geographic area approach are often in mature industries with narrow product lines, such as the pharmaceutical, food, automotive, cosmetics, and beverage industries.

Geographic area division An organizational design in which control and decision making are decentralized to the level of individual geographic regions, whose managers are responsible for operations within their region.

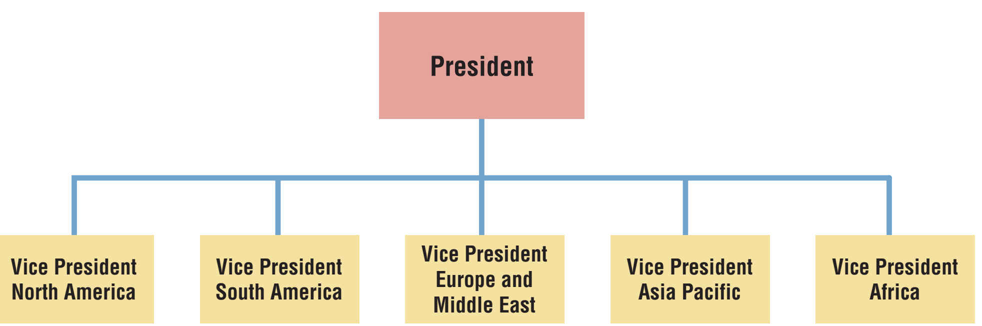


Exhibit 11.6

The Geographic Area Structure.

Nestlé chocolate bars on sale in Beijing. Nestlé uses a geographic area division structure for organizing its international operations.

Advantages of the geographic area structure include the ability to strike a balance between global integration while achieving local adaptation on a regional basis. The area division leadership has authority to modify products and strategy. Improved communications and coordination are possible between subsidiaries within each region, but communication and coordination with *other* area divisions and corporate headquarters may be de-emphasized. The area focus may distract the regional management team from addressing *global* issues such as product development and product management.[29]

Centralized Structure (Product or Functional Division)

Product division An arrangement in which decision making and management of the firm's international operations is organized by major product line.

A **product division** is an arrangement in which decision making and management of the firm's international operations is organized by major product line. Management creates a structure based on major categories of products within the firm's range of offerings. Each product division has responsibility for producing and marketing a specific group of products, worldwide. For instance, Motorola organizes its international operations within each of its product categories, including cell phones, consumer electronics, and satellites. Exhibit 11.7 illustrates such an organization. Each of the international product divisions operates as a stand-alone profit center with substantial autonomy. Their primary goal is to achieve a high degree of worldwide coordination within each product category. Increased coordination encourages greater economies of scale and an improved flow of product knowledge and technology across borders.

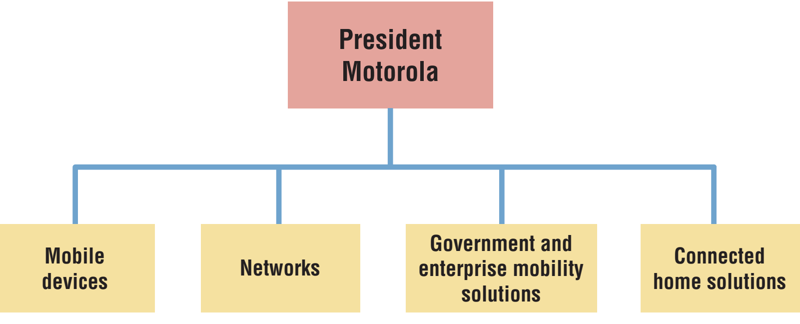
The advantage of the product division structure is that all support functions, such as R&D, marketing, and manufacturing, are focused on the product. At the same time, products are easier to tailor for individual markets to meet specific buyer needs. Nevertheless, the product division structure also causes duplication of corporate support functions for each product division and a tendency for managers to focus their efforts on subsidiaries with the greatest potential for quick returns.[30] In addition, suppliers and customers may be confused if several divisions call on them.

Functional division An arrangement in which decision making and management of the firm's international operations are organized by functional activity (such as production and marketing).

A variation of the centralized structure is the functional division. A **functional division** is an arrangement in which decision making and management of the firm's international operations are organized by functional activity (such as production and marketing). For example, oil and mining firms, which have value-adding processes of exploration, drilling, transportation, and storing, tend to use this type of structure. Exhibit 11.8 illustrates such an arrangement. Cruise ship lines may engage in both shipbuilding and passenger cruise marketing—two very distinctive functions that require separate departments for international production and international marketing. Thus, it makes sense to delineate separate divisions for the performance of production and marketing functions worldwide. The advantages of the

Exhibit 11.7

The Global Product Structure



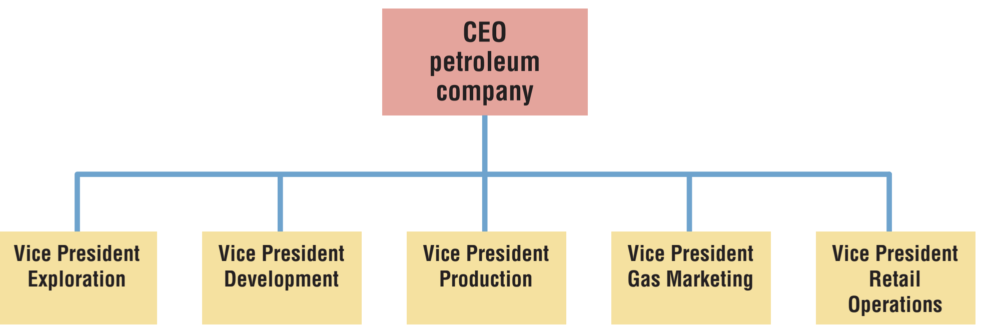


Exhibit 11.8

The Global Functional Structure

functional division are a small central staff, which provides strong central control and coordination, and a united, focused global strategy with a high degree of functional expertise. However, the functional approach may falter in coordinating manufacturing, marketing, and other functions in diverse geographic locations because the central staff lacks expertise in these areas. In addition, when the firm deals with numerous product lines, coordination can become unwieldy.[31]

Global Matrix Structure

The organizational designs described so far worked well in the 1970s and 1980s. As worldwide business moved into the early 1990s, however, a number of economic conditions began to shift. Many countries experienced increasing trade deficits and rising interest rates on foreign debt. Local governments responded by increasing restrictions on foreign companies, requiring them to invest locally, meet local content needs, and transfer technology. In some markets, local customers showed a renewed preference for local brands. Corporations began to realize that these economic forces increasingly required them to address global and local needs *simultaneously.* This realization led managers to create the global matrix structure.

A **global matrix structure** is an arrangement that blends the geographic area, product, and functional structures in an attempt to leverage the benefits of a purely global strategy and maximize global organizational learning while remaining responsive to local needs. It is an attempt to capture the benefits of the geographic area, product, and functional organization structures simultaneously while minimizing their shortcomings.

Global matrix structure An arrangement that blends the geographic area, product, and functional structures in an attempt to leverage the benefits of a purely global strategy and maximize global organizational learning while remaining responsive to local needs.

Among the four strategy alternatives we discussed so far, the global matrix structure is most closely associated with the transnational strategy. The area structure facilitates local responsiveness but can inhibit worldwide economies of scale and the sharing of knowledge and core competences among the geographic areas. The product structure overcomes these shortcomings but is weak in local responsiveness. By using the global matrix structure approach, responsibility for operating decisions about a given product is shared by the product division and the particular geographic areas of the firm. To implement the matrix approach, the firm develops a dual reporting system in which, for example, an employee in a foreign subsidiary may report on an equal basis to two managers: the local subsidiary general manager and a corporate product division manager.

In the global matrix structure, organizational capabilities and best practices are shared with all country units. This approach requires managers to think and operate along two of the following three major dimensions: geography, product, and function (cross-functional). The firm must simultaneously possess the ability to: (1) develop worldwide coordination and control, (2) respond to local needs, and (3) maximize interorganizational learning and knowledge sharing.[32]

The global matrix structure recognizes the importance of flexible and responsive country-level operations and shows firms how to link those operations to retain competitive effectiveness and economic efficiency. Managers working in this structure must make shared decisions that affect the entire organization. For most firms, the

Firms such as Unilever, which owns numerous global brands such as Lipton tea, Hellman's spreads, Slimfast, and Dove products, need to balance forces of global integration with local adaptation. Local adaptation is necessary for such marketing issues as retail distribution strategy, labeling requirements, and consumer incentives.

matrix approach represents relatively new thinking in the management of the modern MNE. How successfully firms are able to implement and maintain this approach for long-term global success remains to be seen.

Unilever—the European company with over $50 billion sales in food, beverage, cleaning, and personal care products—is an example of a firm that has benefited from a matrix organization. Originally a merger between British and Dutch firms, in recent years Unilever headquarters has moved toward coordination while retaining local responsiveness. The firm had long pursued a multidomestic approach, but this became unwieldy over time. For example, in the late 1990s, Unilever was buying more than 30 different types of vanilla for its ice cream in Europe, while its Rexona deodorant had 30 different packages and 48 distinctive formulations. Advertising and branding efforts were handled locally and often amateurishly. The firm struggled to develop global products that could compete with rivals such as Procter & Gamble and L'Oreal. These competitors, with more centralized operations, were responding faster to changing consumer tastes. They were better at coordinating their international units and had captured efficiencies by striking supplier contracts for many countries simultaneously. At the same time, giant retailers such as Wal-Mart were pressuring Unilever to cut its prices. Unilever's total sales were in line with P&G, but the firm had over 230,000 employees, twice as many as P&G. The decentralized structure of Unilever's international organization had produced needless duplication and countless obstacles to applying a more efficient global approach.

To address its problems, Unilever put in place a massive reorganization plan designed to centralize authority and reduce the power of local country bosses. To implement a global culture and organization, the firm divested hundreds of businesses, cut 55,000 jobs, closed 145 factories, and discontinued 1,200 brands. Today, Unilever has about 400 brands. The firm develops new products using global teams that emphasize the commonalities among major-country markets. Local managers are not allowed to tinker with packaging, formulation, or advertising of global brands, such as Dove soap. Unilever is well on the road to implementing a more balanced matrix approach to its international operations.[33]

As with the other organizational structures, the matrix approach has its disadvantages. For example, the chain of command from superiors to subordinates can become muddled. It is difficult for employees to receive directions from two different managers who are located thousands of miles apart and have different cultural backgrounds and business experiences. When conflict arises between two managers, senior management must offer a resolution. The matrix structure can, therefore, give rise to conflict, waste management's time, and compromise organizational effectiveness. The heightened pace of environmental change, increased complexity and demands, and the need for cultural adaptability have been overwhelming for many firms that have attempted the matrix structure.[34] For this reason, many companies that have experimented with the matrix structure have eventually returned to simpler organizational arrangements.

Building the Global Firm

Exhibit 11.9 illustrates the requisite dimensions of a truly global firm. As highlighted earlier, management must start with an appropriate strategy and organizational structure. While critical, these dimensions by themselves are insufficient. In addition to strategy and organizational structure, management must cultivate three additional areas: visionary leadership, organizational culture, and organizational processes. We discuss these three attributes of truly global firms next.[35]

Visionary Leadership

Visionary leadership is defined as senior human capital in an organization that provides the strategic guidance necessary to manage efficiency, flexibility, and learning in an internationalizing firm.[36] Leadership is more complex in global firms than in domestic firms because valuable organizational assets—such as productive capabilities, brands, and human resources—all cross national borders. In firms with various complex international operations, visionary leadership is critical for success.

Visionary leadership Senior human capital in an organization that provides the strategic guidance necessary to manage efficiency, flexibility, and learning in an internationalizing firm.

Take the example of Peter Brabeck, CEO of Nestlé. Brabeck is a keen pilot, mountain climber, and Harley-Davidson fan with a reputation for straight talking. From Nestlé's headquarters in Switzerland, he is leading Nestlé into the growing nutrition market by developing healthier, value-added products and services. Brabeck perceived a worldwide market for food products that meet consumers' growing interest in health and nutrition. To address this growing market, Nestlé recently purchased Jenny Craig, the U.S. weight management and food-products company. In Germany, Nestlé launched a nutritional institute to advise consumers on dietary issues, dispensing nutritional advice to more than 300,000 customers per month. In France, Brabeck created a nutritional home-care service, providing for patients with special dietary needs. These initiatives position Nestlé in a growing global market and generate global brand loyalty for the firm's line of healthy food products.[37]

At least four traits exemplify visionary leaders:

Global mindset and cosmopolitan values. Initially, visionary leadership requires management to acquire a **global mindset**—openness to, and awareness of, diversity across cultures. The degree of management's global outlook is critical to ultimate success.[38] Dogmatic managers—who tend to be close-minded, lack vision, and have difficulty adapting to other cultures—are likely to fail. By contrast, managers who are open minded, committed to internationalization, and adopt to other cultures are likely to succeed. Such a posture is particularly important among smaller internationalizing firms that lack substantial tangible resources.[39]

Global mindset Openness to, and awareness of, diversity across cultures.

Strategy
Visionary Leadership
Organizational Structure
The Global Firm
Organizational Culture
Organizational Processes

Exhibit 11.9

Dimensions of Truly Global Companies

Willingness to commit resources. Commitment drives visionary leaders to develop needed financial, human, and other resources to achieve their firms' international goals. The complexities of foreign markets imply that international ventures take more time than domestic ones to become profitable. Such conditions require high levels of managerial commitment and the unrelenting belief that the firm will eventually succeed. In the absence of such commitment, lower-level managers cannot respond adequately to foreign markets and perform the tasks necessary to ensure success. Highly committed firms engage in systematic international market expansion, allocate necessary resources, and empower structures and processes that ensure ultimate success.

Global strategic vision. Visionary leaders are effective in articulating a *global strategic vision*—what the firm wants to be in the future and how it will get there. As they develop their strategic vision, senior managers focus on the ideal picture of what the company should become. This ideal picture is the central rallying point for all plans, employees, and employee actions. This is akin to the concept of *strategic intent,* defined as an ambitious and compelling dream that energizes and provides emotional and intellectual energy.[40]

As an example of a firm with strategic vision, consider Synclayer, a Japanese SME whose senior managers have envisioned a large and growing market for new products for the elderly. By 2015, one in four Japanese—about 30 million people—will be over 65. The company has ambitions to take worldwide leadership in developing products for senior citizens. Synclayer has developed an IT-based system that allows older people still living at home to take basic medical measurements, such as blood pressure and temperature, and send them to a local health database. The medical service can then act if the measurements suggest a health problem. The firm's vision is to develop the products in Japan and then launch them into foreign markets with sizeable elderly populations.[41]

Willingness to invest in human assets. Visionary leaders must nurture the most critical asset of any organization—human capital. At the center of any globalization effort are a handful of managers who understand the world and are prepared to manage the complexity, uncertainty, and learning that the firm faces in the global marketplace. Leadership involves the ongoing effort to develop human capital that is capable of creating the organizational culture, strategy, structure, and processes of a global firm. In global firms, senior leaders adopt such human resource practices as the use of foreign nationals, promoting multicountry careers, and cross-cultural and language training to develop global supermanagers.[42]

Ratan N. Tata, the chairman of the Tata Group who transformed this Indian conglomerate into a transnational organization, and Carlos Ghosn, the CEO of Nissan and Renault, featured in this chapter's Closing Case, both exemplify visionary leadership. Tata oversees a $22 billion family conglomerate whose companies market a range of products from automobiles to watches. Since 2000, his group has made numerous international acquisitions (from Tetley Tea to the London-based steel firm Corus), reflecting a change in strategic vision from local to global. Another example is Toyota CEO Fujio Cho, who has led his firm to record sales in the intensely competitive global automobile industry. In a recent year, profits rose nearly 150 percent. His leadership style emphasizes innovation, product quality, continuous improvement, and an ability to spot future-ori-

Ratan Tata is chairman of India's Tata group. Tata transformed the giant Indian conglomerate into a transnational organization, with operations throughout the world.

ented opportunities, including the Prius hybrid and the youth-oriented Scion brands of Toyota cars.[43]

Organizational Culture

Organizational culture refers to the pattern of shared values, norms of behavior, systems, policies, and procedures that employees learn and adopt. Employees acquire them as the correct way to perceive, think, feel, and behave in relation to new problems and opportunities that confront the firm.[44] Organizational culture is the "personality" of the firm. Employees demonstrate organizational culture by using the firm's common language and accepting rules and norms, such as the pace and amount of work expected and the degree of cooperation between management and employees.

Organizational culture The pattern of shared values, norms of behavior, systems, policies, and procedures that employees learn and adopt.

As seen in the case of IKEA, in the opening vignette, organizational culture usually derives from the influence of founders and visionary leaders or some unique history of the firm. The role of the founder's values and beliefs is particularly important. Visionary leaders can transform organizational culture, as Lou Gerstner and Jack Welch radically altered the fortunes of IBM and General Electric (GE), respectively—large bureaucratic organizations that had failed to adapt to changing environments.

At the Japanese electronics giant Canon, CEO Fujio Mitarai has developed an organizational culture that emphasizes science and technology. The focus extends from product development to the way goods are made on the factory floor. Recent innovations have slashed production time and costs. Canon invests billions in R&D and is the world's second largest recipient of new U.S. patents. This orientation has allowed Canon to become a world leader in digital cameras, copiers, printers, and flat-screen TVs.[45] Similarly, focus on product quality is a pillar of Toyota's organizational culture. For instance, the gap between the hood and the grille on its Lexus luxury car is not allowed to be more than an eyelash. Toyota workers in Canada receive continuous quality-oriented training in Lexus manufacturing processes, and if no one responds to computer-detected manufacturing flaws within 15 minutes, upper management is automatically notified. Toyota performs a *triple-check* on quality at every stage of Lexus production.[46]

Today, management at firms like Canon and Toyota seek to build a *global* organizational culture—an organizational environment that plays a key role in the development and execution of corporate global strategy. Companies that proactively build a global organizational culture:[47]

- Value and promote a global perspective in all major initiatives
- Value global competence and cross-cultural skills among their employees
- Adopt a single corporate language for business communication
- Promote interdependency between headquarters and subsidiaries
- Subscribe to globally accepted ethical standards

Firms aspiring to become truly global seek to maintain strong ethical standards in all the markets where they are represented. Ultimately, senior leadership of any company must be held accountable for cultivating an organizational culture that welcomes social responsibility and is deliberate about fulfilling its role. We define **corporate social responsibility** as operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations of stakeholders (customers, shareholders, employees, and communities). The *Global Trend* feature elaborates on the role of corporate social responsibility in the multinational firm.

Corporate social responsibility Operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations of stakeholders (customers, shareholders, employees, and communities).

Firms combine visionary leadership with organizational culture to create processes that define how the firm will carry out day-to-day activities in order to achieve company goals. Let's examine these organizational processes next.

> GLOBAL TREND

Global Corporate Social Responsibility Rises to the Top of the MNE Agenda

As companies internationalize, they increasingly confront the question of how to be good global citizens. Global corporate social responsibility (CSR) affects the quality of life of customers, suppliers, workers, and other stakeholders with which the firm interacts. CSR addresses issues such as workers' rights, workers' pay sufficient to ensure a reasonable living standard, company activities that disrupt traditional communities and lifestyles, and environmental damage caused by corporate activities. A study by McKinsey & Co. found that executives worldwide overwhelmingly embrace the idea that firms have societal and environmental obligations in addition to ensuring corporate profitability.

As an example, IKEA (featured in the opening vignette) has been deliberate about promoting social and environmental responsibility. The firm employs its own specially trained auditors and environmental coordinators. IKEA products must be manufactured under acceptable working conditions by suppliers who take responsibility for the environment. IKEA and its suppliers work closely with UNICEF, Save the Children, and the WWF to prevent child labor and to support responsible forestry. All work is in conjunction with the UN Convention on the Rights of the Child (1989). All suppliers must meet the standards of the Forest Stewardship Council (FSC). In addition to these activities, the IKEA Foundation supports various charitable causes through generous contributions.

Governments and stakeholders have expectations of how multinational firms should fulfill their global CSR social contract. These expectations include contributing to a region's employment opportunities, protecting workers and communities from physical harm, providing good working conditions, avoiding discriminatory hiring practices and workplaces, maintaining transparency and avoiding corruption, reducing poverty and injustice, and improving access to quality health care and education.

Minding social and environmental accountability is increasingly part of how international business gets done. Managers must incorporate CSR into its various activities abroad. Nevertheless, the task is complex, because when companies step onto the global stage, they encounter a wide variety of stakeholders, whose expectations often appear contradictory and overwhelming. In addition, social and environmental problems commonly encountered abroad may appear baffling to management at headquarters, who have little direct international experience. It is often country managers, rather than those at headquarters, who are at the forefront of deciding what issues to address and how to address them.

How do MNEs address global CSR? The Center for Corporate Citizenship at Boston College interviewed managers worldwide and found that they are becoming more sophisticated about identifying, balancing, and prioritizing social and environmental issues. In a world ever sensitive to social and environmental issues, managers increasingly undertake the following types of activities:

- Develop closer relations with foreign stakeholders to better understand their needs and jointly work toward solutions
- Build internal and external capabilities to enhance the firm's contribution to the local community and the global environment
- Ensure that diverse voices are heard by creating organizational structures that employ managers and workers from around the world
- Develop global CSR standards and objectives that are communicated and implemented across the firm, worldwide
- Train managers in global CSR principles and integrate these into managerial responsibilities

Global CSR has firmly inserted itself into the day-to-day agenda of the executive suite, as growing MNE activities increasingly pose environmental concerns and bring firms into daily contact with a range of international activities—such as R&D, manufacturing, sales, and marketing—that can pose a variety of ethical dilemmas. The McKinsey study found that business executives should balance their obligation to shareholders with explicit contributions "to the broader public good." Eighty percent of the executives agreed that generating high returns for investors should be accompanied by a focus on providing good jobs, supporting social causes in local communities, and going beyond legal requirements to minimize pollution and other negative effects of business.

Sources: Center for Corporate Citizenship. (2005). *Going Global: Managers' Experiences Working with Worldwide Stakeholders.* Research report. Boston: Boston College; McKinsey & Co. (2006). *The McKinsey Global Survey of Business Executives: Business and Society.* Accessed January 2006 at www.mckinseyquarterly.com

Organizational Processes

Organizational processes refer to managerial routines, behaviors, and mechanisms that allow the firm to function as intended. In an international firm, typical processes include mechanisms for collecting strategic market information, assessing and rewarding employees, and budgeting for international operations.

Organizational processes Managerial routines, behaviors, and mechanisms that allow the firm to function as intended.

General Electric and Toyota have gained substantial competitive advantage by emphasizing and refining the countless processes that comprise their value chains. For example, GE digitizes all key documents and uses intranets and the Internet to automate many activities and reduce operating costs. Many processes cross functional areas within the firm. For example, the new product development process involves input from R&D, engineering, marketing, finance, and operations. In global firms, processes also cut across national borders, which increase both the urgency and complexity of devising well-functioning processes.

Common Organizational Processes Designed to Achieve Coordination

Contemporary firms develop and implement common processes. Managers attempt to achieve global coordination and integration not just by subscribing to a particular organizational design, such as the global matrix structure, but by also implementing a variety of common processes or *globalizing mechanisms.* These common processes provide substantial interconnectedness within the MNE network and allow for meaningful cross-fertilization and knowledge. Together, they constitute important and powerful vehicles in the creation of truly global firms. These common processes include *global teams, global information systems,* and *global talent pools.*

Global teams Increasingly, global teams are charged with problem-solving and best-practice development within the company.[48] A **global team** is "an internationally distributed group of people . . . with a specific mandate to make or implement decisions that are international in scope."[49] Team members are drawn from geographically diverse units of the MNE and may interact entirely via corporate intranets and video conferencing, without meeting in person. A global team brings together employees with the experience, knowledge, and skills to resolve common challenges. It is assigned fairly complex tasks, represents a diverse composition of professional and national backgrounds, and has members that are distributed around the world. Often, global teams are charged with specific agendas and a finite time period to complete their deliberations and make recommendations.

Global team An internationally distributed group of people with a specific mandate to make or implement decisions that are international in scope.

The nature of global teams varies. *Strategic global teams* identify or implement initiatives that enhance the positioning of the firm in its global industry. *Operational global teams* focus on the efficient and effective running of the business across the whole network.[50] An example of a strategic global team is the Global Strategy Board at General Motors (GM). It includes GM executives who are leaders in processes such as labor relations, design-engineering, manufacturing, marketing, quality, human resource management, and purchasing. The team is charged with overseeing the development of common global processes, spreading best practices throughout GM's worldwide operations, and avoiding "reinventing the wheel" in individual regions.

The most successful teams are flexible, responsive, and innovative. To develop global strategies, it is important that the team involve culturally diverse managers whose business activities span the globe. Culturally diverse teams have three valuable roles:

1. Create a global view inside the firm while remaining in touch with local realities.
2. Generate creative ideas and make fully informed decisions about the firm's global operations.
3. Ensure team decisions are implemented throughout the firm's global operations.

Global information systems The desire to create a globally coordinated company is motivated by the need for world-scale efficiency and minimal redundancy. In the past, geographic distance and cross-cultural differences served as impediments to achieving an interconnected, global company. The advent of the Internet and modern information technologies now provide the means for virtual interconnectedness within the global company network. Global IT infrastructure, together with tools such as intranets and electronic data interchange, make it feasible for distant parts of the global network to share and learn from each other.

The development of Chevrolet Equinox by General Motors illustrates the effective use of modern IT and communication technologies. When GM decided in 2001 to develop a sports utility vehicle to compete with Toyota's RAV4 and Honda's CR-V, it tapped its capabilities all over the globe. The V6 engine was built in China, with cooperation from engineers in Canada, China, Japan, and the United States. From a global collaboration room in Toronto, engineers teleconferenced almost daily with counterparts from Shanghai, Tokyo, and Warren, Ohio. They exchanged virtual-reality renderings of the vehicle and collaborated on the styling of exteriors and design of components. The SUV was built in Ontario, Canada, at a factory that GM shares with its Japanese partner, Suzuki.

Global talent pools Developing managers and other members of the organization to think and behave globally is necessary for ultimate global success. International firms employ a combination of home-country personnel, host-country personnel, and expatriates. An **expatriate** is an employee who is assigned to work and reside in a foreign country for an extended period, usually a year or longer. For example, a U.S. firm might employ a German or U.S. manager in its subsidiary in France. In this example, both the German and American managers are expatriates. Sophisticated MNEs develop a pool of highly developed talent, regardless of nationality, to manage evolving international operations. The MNEs develop a database of skilled individuals within the firm and make it available on the corporate intranet. As an example, Citibank managers can search on the company intranet for the right recruit—with desirable qualifications—regardless of where that individual is located in the company's global network. In this way, Citibank identifies and uses the best talent worldwide for the task at hand.

Expatriate An employee who is assigned to work and reside in a foreign country for an extended period, usually a year or longer.

Global firms invest in their employees to build needed capabilities, not just in technical or business terms, but in terms of language and cultural capabilities and types of international experience. The development of a *global talent pool* requires the creation of an environment that fosters and promotes cooperation across borders, the free exchange of information, and the development of creative managers capable of functioning effectively anywhere in the world.

Putting Organizational Change in Motion

This chapter has highlighted strategies, structures, and processes that help build truly global firms. Reorganizing the firm on a global scale is not a simple task nor can it be accomplished quickly. Take the case of Procter & Gamble's "Organization 2005" program, launched in 1998.[51] The plan called for an aggressive redesign of P&G's organizational structure, work processes, culture, and pay structures worldwide. Procter & Gamble's management sought to create a global organization that could simultaneously serve specific national needs. The firm moved from four business units based on geographical regions to seven based on global product lines, thereby changing their organizational structure significantly. It established Market Development Organizations in eight world regions to tailor its global marketing to local markets. Business processes such as human resource management, order management, and accounting were to be consolidated from separate geographic regions to one corporate organization that would serve P&G operations worldwide.

However, "Organization 2005" floundered in various ways. Efforts to make P&G a more nimble MNE did not go well in the firm's conservative corporate culture. Management laid off thousands of workers and abruptly transferred about 2,000 people to Geneva and about 200 to Singapore. These changes created resentment among key personnel. A reorganization of reporting structures created confusion. Some food and beverage managers at the U.S. headquarters had to report to the president of the Venezuela subsidiary. Managers in the U.S. household cleaning division reported to Brussels. Global marketing programs failed from insufficient research. In Germany, the name of P&G's dishwashing liquid suddenly changed from Fairy to Dawn, the U.S. brand. But since Dawn was unknown in Germany, sales plummeted. In short, while seemingly a promising plan, "Organization 2005" was based on inadequate research and poor implementation. Headquarters alienated managers and sowed anxiety and confusion among customers and employees alike.

As this example illustrates, firms must approach the development of global strategy with great care. For many firms, a truly global organization remains an ideal yet to be achieved. To ensure international business success, the firm should: (1) formulate a global strategy; (2) develop an appropriate organizational structure; (3) provide visionary leadership; (4) cultivate an organizational culture worldwide and (5) refine and implement organizational processes.

Internationalizing a company will not fully succeed unless all five of these organizational dimensions complement each other to support the desired outcomes. Success in international markets is not based on a single prescription or formula but a multidimensional and coherent set of actions. These include: participating in all major markets in the world, standardizing product and marketing programs wherever feasible, taking integrated, competitive moves across the country markets, concentrating value-adding activities at strategic locations across the world, and coordinating the value-chain activities to exploit the synergies of multinational operations. Superior global performance will result if all the dimensions of a global strategy are aligned with external industry globalization forces and internal organizational resources.[52]

In this chapter, we have described the essential dimensions of internationally effective firms. In all of its complexity, there are seemingly countless variables to consider when designing for international success. How should senior leaders proceed? Where does one start? With processes? Structure? Organizational culture? Hasty and highly ambitious efforts to transform an organization may fail. It is best for senior management to focus on only one or two dimensions at a time, tackling the most easily changed dimensions of the organization first in order to prepare the way for the more difficult changes.

Finally, transforming an organization into a truly global company can take years and involve many obstacles and uncertainty. Senior management needs to instill a sense of urgency to drive the organization toward the desired changes. Equally important is buy-in from employees for implementation—securing wholehearted participation of key individuals and groups toward common organizational goals. One CEO of a very large company, who was asked to resign by his board of directors after a bungled corporate turnaround, put it this way: ". . . we did not fail because we did not have a clever strategy. We did not fail because we did not have shrewd managers or talented engineers and scientists. We failed because I simply could not rally the troops."

CLOSING CASE

Carlos Ghosn and Renault-Nissan: Leading for Global Success

Nissan Motor Co., based in Tokyo, is Japan's number two automobile manufacturer. The company's 2006 sales were over 10 billion Japanese yen, with an operating profit margin of 7.4 percent. In 2007, Nissan launched 11 all-new products globally. A few years ago, Nissan was on the verge of bankruptcy. The French automaker Renault stepped in, took a 44 percent stake, and installed Carlos Ghosn as Nissan's CEO. In a dramatic turnaround, Ghosn (hard *G,* rhymes with "stone") returned Nissan to profitability and became a celebrity in Japan. Born in Brazil, raised in Lebanon, and educated in France, Ghosn is a charismatic leader who speaks four languages. He is smooth in public, works constantly, and is committed to organizational goals. He is featured in Japanese comic books, mobbed for autographs during factory tours, and adored throughout Japan for saving a car company once given up for dead.

Under Ghosn's watchful eye, Nissan evolved from a troubled carmaker to a corporate success story in just a few years. He closed inefficient factories, reduced Nissan's workforce, curbed purchasing costs, shared operations with Renault, and introduced new products. Ultimately, Nissan became one of the world's most profitable automotive companies. How did Nissan do it?

Nissan's Organizational Culture

Ghosn defied Japan's often bureaucratic and clubby business culture, for example, by reducing Nissan's steel suppliers from five to three. The CEO of NKK Steel protested that "Toyota would never act in such a way." One of Ghosn's biggest tests was overcoming the denial inside Nissan about the firm's perilous condition. In Japan, large companies are viewed as too big to fail. If the *keiretsu's* banks don't rush to the rescue, then the government will. Ghosn cut through such antiquated thinking to save Nissan.

Corporate Japan often moves slowly and reactively. Ghosn introduced a proactive style, with fast decision making. Senior management at Nissan is now proactive, operating with a sense of urgency even when the firm is not in crisis. The culture is about anticipating problems, putting them on the table, and eliminating them before they happen. Ghosn is always in a rush, relying on decisiveness and delegation—but yielding to consensus when it is passionate. In the style of a true globalist, Ghosn notes that "It's irrelevant where you are headquartered . . . the keys are where the jobs are located and where the profits go." To reinforce his global aspirations, Ghosn has made English, not Japanese, the official language of Nissan. Managers who learn English advance faster than those who speak only Japanese. This move puts Nissan on a clear footing to change its organizational culture and become a global firm.

Ghosn's Leadership Style

Ghosn dislikes long meetings. Instead of spending a lot of time analyzing and discussing, he prefers action. At Nissan, he pushed top staff to meet tough sales targets and promised publicly that the entire management team would resign if it didn't meet the targets. He inspires the workforce by communicating with them on the factory floor. Even the most mundane events were handled like big media shows. One Nissan earnings news conference opened with loud music and dazzling video shots of zooming cars.

Renault-Nissan

On the heels of his success, Ghosn took over as CEO of Renault in 2005. He now runs *both* companies, commuting between Paris and Tokyo in his Gulfstream jet. The unusual arrangement underscores the demand for proven leaders in the global auto industry, which has suffered from oversupply and intense competition. In a typical month, he could spend the first week in Paris, focusing solely on Renault, and the third week in Japan, focusing on Nissan. He personally oversees Nissan's North America business, where 60 percent of Nissan profits are earned. He carries two agendas: one for Nissan and one for Renault.

Innovation Is Key

Renault-Nissan's long-term strategy is to continually invest substantially in R&D for breakthrough technologies and innovative products. In the 2000s, top management increased R&D by 50 percent, reinvesting 5 percent of net sales in new technologies. At its new Mississippi plant in the United States, Nissan launched five models in less than 8 months. It rolled out a small car (the "Versa"), a re-engineered Altima midsize sedan, a heavily redesigned Nissan Quest minivan, and a redesigned Infiniti G35. Nissan established a design subsidiary in Shanghai, China, to produce cars that fit that country's growing market. The firm has developed hybrid vehicles to address a growing consumer demand triggered by high gasoline prices.

Global Production

Renault-Nissan has production plants in Britain, France, and the United States, to be close to key foreign markets. It also manufactures in China, Taiwan, and the Philippines, to profit from low-cost, high-quality labor. Nissan uses modular architecture. The Maxima and Altima, built in

Nissan's U.S. plant in Tennessee, as well as the new Quest, Titan pickup, and Armada sport-utility vehicle are put together with single modules from parts suppliers. The finished modules are then bolted into a car or truck body rolling down the assembly line. All together, buying modules built by supplier partners save up to 30 percent of the total cost of that section of the car.

Nissan consolidated its U.S. manufacturing operations, moving thousands of jobs from southern California to Tennessee. The move centralized manufacturing and made it easier for senior management to keep tabs on U.S. operations. The Tennessee plant has been the most productive factory in North America for years, producing a car in less than 16 labor hours, several hours fewer than rival carmakers.

Additional Global Strategy Elements

Senior management set up a company in Amsterdam—Renault-Nissan BV—which offers a neutral forum where both firms can map out a common strategy for product engineering, model development, and computer systems and leverage their combined size to squeeze suppliers for lower costs. Renault-Nissan's board of directors consists of four members from each organization.

Nissan is globalizing its engineering, production, and purchasing operations. It built a $45 million engineering center near Tokyo to consolidate its global production-engineering activities. Also, Ghosn is taking the Infiniti luxury brand global. Nissan makes Infiniti dealerships conform to an interior design that gives them a uniform look and global image.

The integration of Nissan with Renault went smoothly. Renault has been building its Clio compact and Scenic minivan at Nissan plants in Mexico, while Nissan makes its Frontier pickup at a Renault factory in Brazil. The ultimate goal is to reduce the number of platforms (chassis) that the group uses to a minimum. This is important because every shared platform provides $500 million in annual savings for each carmaker. Renault also shares eight engine designs with Nissan. They share engineering and parts purchases. Roughly three-quarters of the parts used by the two automakers are jointly sourced. These moves allow both firms to slash the expense and time of introducing new models, consistently driving down purchasing costs and increasing global profits, and they shave months off development time of new vehicles. One result of shared platforms is the world's most global car, called the Nissan Versa in the United States, the Renault Clio in Europe, the Nissan Tiida in Asia, and the Renault Logan in the Middle East. In total, Nissan offers seven different vehicles based on the underpinnings that go into the Versa, creating scale economies that cut costs and improve profits.

But avoiding redundancy is not the only way for Nissan to be global. It is also critical to have a presence in the most important markets. While the United States is a relatively expensive place to make cars, it is also the world's biggest market. Thus, Toyota, Honda, BMW, Mercedes, Nissan, and Hyundai all produce there, even expanding U.S. production in recent years. Nissan now exports its U.S.-made Quest minivans to China, considered to be the next big market. It exports other U.S.-made models—the Altima sedan and Infiniti QX56 SUV—to the Middle East and Latin America.

The Future of Automobile Industry Growth—Emerging Markets

In the coming decade, hundreds of millions of Indians, Chinese, Russians, Brazilians and others will join the ranks of the middle class and will have automobiles high on their list of wanted items. Estimates indicate that the market for automobiles priced under $10,000 will grow from 12 million to 18 million cars by 2012. India's car market is forecast to double to 3.3 million cars by 2014, and China's demand will grow 140 percent, to 16.5 million cars in the same period.

The One-Lakh Car

India's Tata Motors is planning to launch a new automobile in 2008 that is targeted at a retail price of one-lakh (about U.S. $25,000). The key is the low wages of engineers in India and the firm's ability to squeeze manufacturing costs to their lowest levels. Tata's prototype has four doors, achieves a top speed of 80 mph, and has a 33-horsepower engine. Renault-Nissan CEO Ghosn announced that it plans to create its own $2,500 vehicle to compete with the new Tata Motors model.

The Logan is key to Ghosn's success in emerging markets. The Logan, built in Romania, was first launched in 2004 for about $7,500. In 2006, Renault-Nissan sold 247,000 Logans, and it is forecasting sales in excess of 1 million Logans worldwide by 2010. Many of these sales will be in China and India. The company plans to build a low-cost pickup truck based on the Logan for sale in Southeast Asia, South Africa, and the Middle East. Renault-Nissan originally planned to sell the Logan only in emerging markets, but the Logan became available for sale in Western Europe in 2005. Demand has been exceedingly strong because of the high quality and low price.

Renault-Nissan in Emerging Markets

At Renault, Ghosn is charging ahead with an ambitious restructuring plan. He is expanding Renault's potential beyond Europe, especially into Eastern Europe, India, Iran, Russia, and South Korea. He aims to increase international sales of Renault to nearly half the firm's total production. Part of the rationale for the expansion is to reduce production in France, which has become costly, in part due to strong union demands. Renault also

acquired full control of Samsung Motors, making South Korea an important base for both Renault and Nissan.

Renault is a market leader in Europe, Japan, China, and in the United States. Renault-Nissan is on the verge of capturing the number three spot globally, behind Toyota and General Motors.

AACSB: Reflective Thinking

Case Questions

1. In what ways is Carlos Ghosn a visionary leader? What traits does he possess that are typical of a visionary leader?
2. What is the nature of Nissan's international strategy? Is the firm following a primarily global strategy or a multidomestic strategy? What advantages does Nissan derive from the particular strategy that it pursues? In what ways does Nissan demonstrate efficiency, flexibility, and learning?
3. Describe Nissan's organizational culture. What are the characteristics of Nissan's culture? In what ways has Carlos Ghosn contributed to Nissan's culture? Elaborate.
4. Global firms pursue a relatively centralized approach to international operations. What are the characteristics of the trend toward global integration of company operations? How does Nissan demonstrate these characteristics?
5. Examine Nissan in terms of the Integration-Responsiveness Framework. What are the pressures that Nissan faces for local responsiveness? What are the pressures that Nissan faces for global integration? What advantages do each of local responsiveness and global integration bring to Nissan?

Sources: Bremner, B., G. Edmondson, and C. Dawson. (2004). "Nissan's Boss," *Business Week,* Oct 4, pp. 50–55; Flint, J. (2003). "Too Much Globalism," *Forbes,* Feb 17, p. 96; Ghosn, C., and P. Ries. (2005). *Shift: Inside Nissan's Historic Revival,* New York: Currency/Doubleday; Guthrie, A. (2005). "For Nissan, Success in Mexico Rides on Tsuru's Enduring Appeal," *Wall Street Journal,* Dec 21, p. 1; Hoovers' information web site at www.hoovers.com; Muller, J. (2006). "The Impatient Mr. Ghosn," *Forbes,* May 22, pp. 104–107; Shirouzu, N. (2006). "Ghosn's Goal for Renault: Go Global," *Wall Street Journal,* June 21, p. B3; Shirouzu, N., and N. Boudette. (2006). "What Alliance with Mr. Ghosn Could Bring GM," *Wall Street Journal,* July 7, p. B1; Welch, D. (2003). "How Nissan Laps Detroit," *Business Week,* Dec 22, p. 58; Wrighton, J. and J. Sapsford (2005), "Split Shift: For Nissan's Rescuer, Ghosn, New Road Rules Await at Renault," *Wall Street Journal,* April 26, p. A.1; www.businessweek.com. "Putting Ford In The Rearview Mirror," February 12, 2007; www.businessweek.com. "The Race To Build Really Cheap Cars," April 23, 2007; www.nissan-global.com.

CHAPTER ESSENTIALS

Key Terms

corporate social responsibility, p. 331
expatriate, p. 334
export department, p. 324
functional division p. 326
geographic area division, p. 325
global integration, p. 317
global mindset, p. 329
global industry p. 316
global matrix structure, p. 327
global strategy, p. 320
global team, p. 333
home replication strategy, p. 319
international division structure, p. 324
local responsiveness, p. 317
multidomestic industry, p. 316
multidomestic strategy, p. 319
organizational culture, p. 331
organizational processes, p. 333
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product division, p. 326
strategy, p. 315
strategy in the international context, p. 315
transnational strategy, p. 321
visionary leadership, p. 329

Summary

In this chapter, you learned about:

1. **The role of strategy in international business**

   Strategy is a plan of action that channels an organization's resources so that it can effectively differentiate itself from competitors and accomplish unique and viable goals**. Strategy in the international context** is a plan for the organization to position itself positively from its competitors and configure its value-adding activities on a global scale.

2. **The integration-responsiveness framework**

   The integration-responsiveness (IR) framework reduces the managerial imperatives to two key needs: the need for global integration of value-chain activities and the need for local responsiveness. **Local responsiveness** refers to meeting the specific needs of buyers in individual host countries. **Global integration** refers to the coordination of the firm's value-chain activities across countries to achieve worldwide efficiency, synergy, and cross-fertilization in order to take maximum advantage of similarities across countries. The key challenge is in deciding how locally responsive the firm should be in comparison to how far it should go in integrating its worldwide business.

3. **Distinct strategies emerging from the integration-responsiveness framework**

   The IR framework presents four alternative strategies. Using **home replication strategy,** the firm views international business as separate from, and secondary to, its domestic business. Products are designed with domestic consumers in mind, and the firm is essentially a domestic company with some foreign activities. **Multidomestic strategy** is a more committed approach, emphasizing entry via FDI, but in which managers recognize and emphasize differences among national markets. Managers treat individual markets on a stand-alone basis, with little cross-national integration of company efforts. **Global strategy** aims to integrate the firm's major objectives, policies, and action sequences into a cohesive whole, targeted primarily to the global marketplace. Top management performs sourcing, resource allocation, market participation, and competitive moves on a global scale. Using **transnational strategy**, the firm strives to be more responsive to local needs while simultaneously retaining maximum global efficiency and emphasizing global learning and knowledge transfer. The strategy involves combining the major beneficial attributes of both multidomestic and global strategies while minimizing their disadvantages.

4. **Organizational structure**

   Organizational structure refers to the reporting relationships in the organization between people, functions, and processes that allow the firm to carry out its international operations. Organizational structure determines where key decisions are made, the relationship between headquarters and subsidiaries, the nature of international staffing, and the degree of *centralization* and *decentralization* of decision making and value-chain activities in the firm's worldwide operations. In achieving a fine balance between the two choices, managers should recognize the unique contributions made by both headquarters and subsidiaries. The best role for corporate managers is to provide broad leadership, experience, and serve as a source of encouragement. In turn, subsidiary managers are best at dealing with customers, handling employee issues, and initiating action in the field. In this way, an ideal partnership develops and evolves.

5. **Alternative organizational arrangements for international operations**

   There are various organizational designs for global operations. The **export department** is the simplest, in which a unit within the firm manages all export operations. Slightly more advanced is the **international division structure,** in which all international activities are centralized within one division separate from other domestic units. The decentralized structure emphasizes the **geographic area division**, in which control and decision making are decentralized to the level of individual geographic regions. The centralized structure involves either product or functional divisions. Using the **product division,** decision making and management of the firm's international operations are organized by major product line. Using the **functional division**, decision making is organized by functional activity, such as production and marketing. The **global matrix structure** blends the geographic area, product, and functional structures in an attempt to leverage the benefits of a purely global strategy and maximize global organizational learning while remaining responsive to local needs.

6. **Building the global firm**

Managers who exhibit **visionary leadership** possess a **global mindset**, cosmopolitan values, and a globally strategic vision. They engage in strategic thinking, committing resources and human assets to realizing a global approach to business. **Organizational culture** is the pattern of shared values, norms, systems, policies, and procedures that employees learn and adopt. Advanced international firms value global competence and cross-cultural skills, adopt a single corporate language, and promote interdependency among headquarters and the firm's subsidiaries. They subscribe to globally accepted ethical standards and responsible citizenship. **Organizational processes** refer to managerial routines, behaviors, and mechanisms that allow the firm to function as intended. International organizational processes include **global teams**, global talent pools, and global information systems.

7. **Putting organizational change in motion**

As a minimum, managers should formulate a global strategy, develop a suitable organizational structure, provide visionary leadership, cultivate an organizational culture worldwide, and refine and implement organizational processes. Highly ambitious efforts to rapidly transform an organization may falter. Instead, focusing on one or two dimensions at a time is prudent. It is best to tackle the most easily changed dimensions of the organization first, in order to prepare the way for the more difficult changes. Senior management needs to instill a sense of urgency to drive the organization forward.

Test Your Comprehension AACSB: Reflective Thinking

1. What are the primary strategic objectives in international business?
2. Describe the integration-responsiveness framework. What are the pressures for local responsiveness? What are the pressures for global integration?
3. What is the difference between global strategy and multidomestic strategy? Visit the web site of Dell Computer (www.dell.com). Does Dell generally apply a global strategy or a multidomestic strategy? How can you tell?
4. Define transnational strategy. Give examples of firms that apply a transnational strategy.
5. What is the difference between a centralized and a decentralized organizational structure? Why do firms often prefer to have a centralized structure?
6. What are different organizational arrangements for global operations? Which arrangement is most associated with global strategy?
7. Define visionary leadership. What are the traits of a manager who has visionary leadership?
8. Define organizational culture. What kind of organizational culture is needed to become a global firm?
9. Define organizational processes. Give and elaborate on several examples of organizational processes. What organizational processes are most salient to achieving a global approach to international business?

Apply Your Understanding AACSB: Communication, Reflective Thinking

1. Visit online sites for Toyota (www.toyota.com) and Procter & Gamble (www.pg.com). From what you can gather, how do these two firms organize their international activities? Do they seem to be applying multi-domestic strategy or global strategy in sourcing, manufacturing, product development, and marketing activities? Would you expect a firm to change its approach to internationalization over time?

2. AlumCo is a large producer of aluminum products. AlumCo now handles international operations through its export department. But top management believes this arrangement is no longer suited to the firm's growing international activities and wants to adopt a more sophisticated approach. What alternative organizational structures (international division, geographic area structure, etc.) should the firm consider? Make a recommendation to top management as to the most appropriate international structure that AlumCo should employ. For reference, check out the website of Alcan, the well-known Canadian aluminum firm, at www.alcan.com.

3. Firms with a global organizational culture have several common characteristics. They seek a global identity, value a global perspective in all undertakings, adopt a common language, promote interdependency between headquarters and subsidiaries, value input from foreign units, and subscribe to globally accepted ethical standards. Recall the opening vignette in this chapter on IKEA, the giant furniture retailer. Based on your reading, outline the various ways that IKEA exhibits these characteristics.

4. Multinational firms that apply a coordinated global strategy see the world as one large production and marketing platform and develop standardized products that are then marketed worldwide using a uniform marketing approach. In reality, however, most firms do not apply a purely global strategy. At the same time, a strictly multidomestic approach is inefficient. While a few large countries (e.g., China, Japan, and the United States) might warrant individual treatment, many firms strike a compromise by dividing the world into regions. Usually these firms apply a geographic area strategy for their international operations. What is the rationale for using a regional approach when thinking about, and devising strategy for, international business?

(http://globalEDGE.msu.edu)

AACSB: Reflective Thinking, Analytical Skills, Use of Information Technology

Refer to Chapter 1, page 27, for instructions on how to access and use globalEDGE™.

1. Multinational firms play a key role in globalization. Various news organizations prepare classifications and rankings of MNEs (e.g., *Business Week*, *Forbes*, *Fortune*, *Financial Times*). Find two such rankings and identify the criteria used to rank the top global firms. What countries are home to the great majority of MNEs on these lists? For each list, how "global" are the top three firms? That is, in what countries do they operate? Conduct a search for 'rankings.'

2. You work for an MNE that makes and markets cellular telephones. Senior managers want to begin selling the phones in Latin America. To pursue a transnational strategy, management wants to minimize adaptation of the phones. They have asked you for a briefing. Focusing on three Latin American countries, prepare a report that identifies the *common* features of Latin American markets that management should consider when developing the cell phones that the firm will sell there. For example, what language should be used in the cell phones? What pricing should management use? You may wish to consult the country commercial guides, Country Insights, and market research reports available through globalEDGE™. In addition, the Area Studies (http://www.psr.keele.ac.uk/area.htm), and the U.S. Department of Commerce (http://www.export.gov) portals are useful resources.

3. Global strategy is characterized by various elements. First, at its most basic level, managers who use global strategy seek to *centralize* the firm's value-chain activities around the world. Centralization helps the firm achieve economies of scale, thereby cutting the costs of operations. Second, the firm attempts to *standardize* its marketing activities by offering relatively standardized (that is, largely unadapted) products and services worldwide. Standardization is possible because world markets are being homogenized by advances in communication and transportation technologies. Customers worldwide increasingly exhibit similar preferences and demand for the same products. Finally, firms that pursue global strategy locate manufacturing and marketing subsidiaries at numerous locations around the world in order to leverage the comparative advantages of specific countries and operate on a truly global basis. globalEDGE™ is home to a large collection of articles that describe the global strategy approaches of numerous firms. Conduct a search at globalEDGE™ by entering the keyword *global strategy* to find articles on this topic. Find and describe examples of companies that apply global strategy. Based on your reading of these articles, and on the previous summary of global strategy elements, describe specific ways in which the example firms that you found employ global strategy in practice.

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The Critical Role of Negotiations in International Business

Negotiations are a cooperative process in which two parties commit to reach an agreement via communication and interaction. Negotiations are critical in international business. In any negotiation, cultural differences between the negotiators will play a significant role in how the participants think and act. It is critical to understand the negotiating culture, customs, and other characteristics of the other party before negotiations commence. In numerous cultures, for example, it is essential to get acquainted with each other and to establish a "comfort level" before initiating the negotiation process.

AACSB: Communication, Multicultural and Diversity, Analytical Skills

Managerial Challenge

Miscommunication is a key cause of failure in the negotiation process. Miscommunication arises from various sources, but perhaps the most important is a failure to understand the mindsets and motives of the negotiating parties. A critical managerial challenge is to develop an understanding of negotiators from a variety of national and cultural backgrounds. In order to succeed, a negotiator must conduct substantial advance research.

Background

Negotiations are an essential component of all international business transactions, whether they are the sale of a product or service to a buyer, the formation of a joint venture, the acquisition of a firm, or the licensing of a technology. Communication is the lifeblood of negotiations. The potential for cross-cultural misunderstandings is ever present. Differing circumstances dictate different approaches to negotiations. Goals of the parties may differ; they may even be diametrically opposed. The parties employ a number of techniques, such as persuasion, coercion, and even manipulation. Developing skills in international negotiations can determine the success of a wide range of collaborations, contractual relations, and everyday encounters in international business.

Managerial Skills You Will Gain

In this C/K/R Management Skill Builder©, as a prospective manager, you will:

1. Learn how to increase company performance by acquiring knowledge of negotiation skills.
2. Learn to recognize important cultural dimensions, negotiating styles, and other factors in international negotiations.
3. Acquire research skills to access the information needed to prepare for and to optimize international negotiations.

Your Task

Assume you are the team leader at an international firm that will engage in negotiations with businesspeople from Mexico and Saudi Arabia. To ensure success, you are to perform advance research on the cultural characteristics of the people with whom you will be negotiating.

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