Strategizing, Structuring, and Learning Around the World

Chapter 12

UNCW UNIVERSITY *of* NORTH CAROLINA WILMINGTON

Objectives

Describe relationship between strategy and structure

Explain how institutions and resources interact with strategy and structure

Outline challenges with learning, innovation, and knowledge management

Strategies and Structures

Focus on Large MNEs

International Strategy - The way firms make choices about acquiring and using scarce resources in order to achieve their international objectives
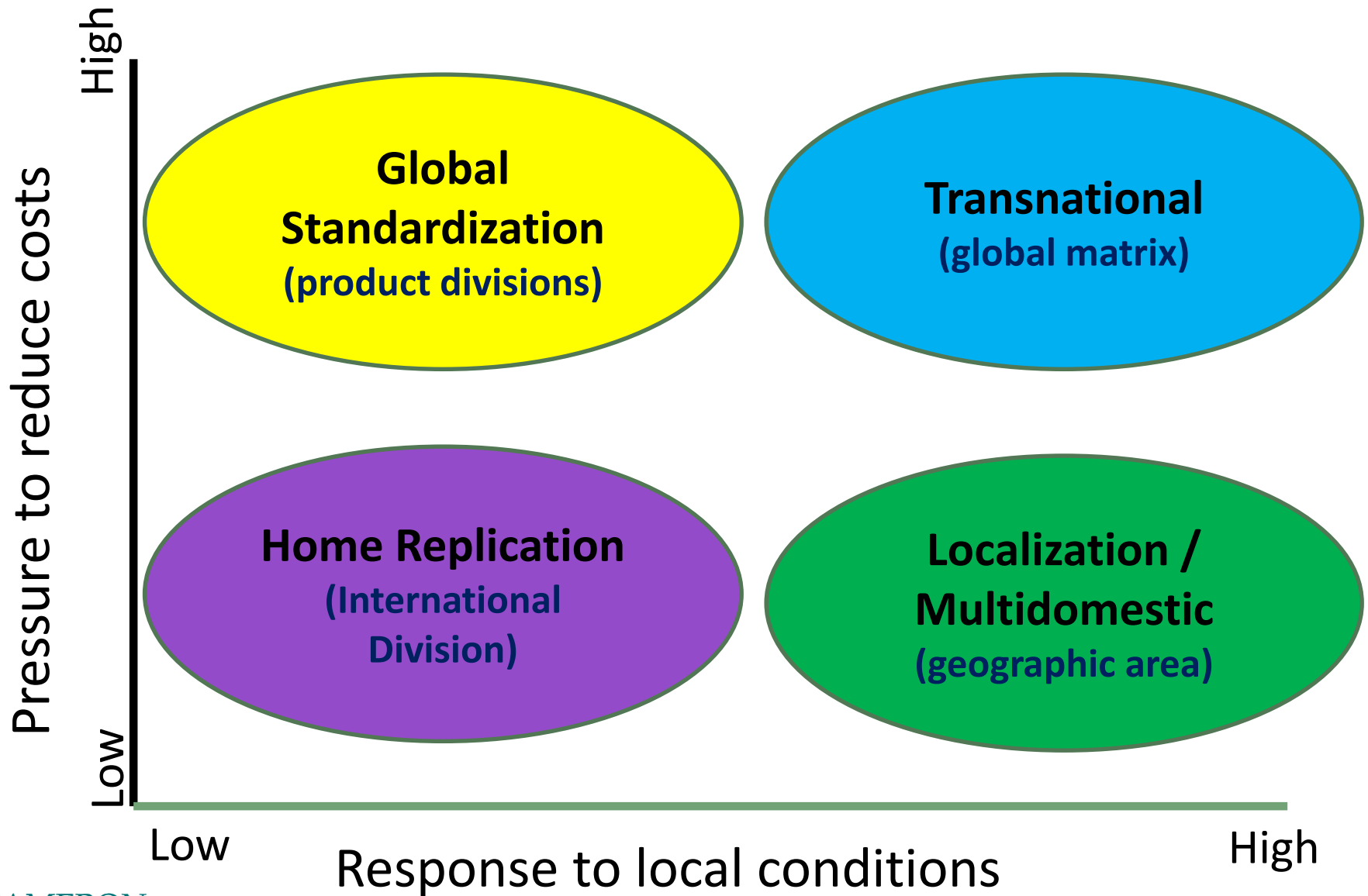
Structure – the way a firm:

- Arranges domestic and international units
- Set relationships among the organizations various elements

Strategies and Structures

MNEs face two opposing pressures

- **Pressure to reduce costs**
  - Always some pressure to cut costs
  - Standardization is cheaper

- **Pressure for local responsiveness**
  - Standardization may not work
  - Semiglobalization

- Pressures oppose each other
  - Dealt with in integration-responsiveness framework

Strategies

Pressure to reduce costs (vertical axis, Low → High)

Response to local conditions (horizontal axis, Low → High)

- **Global Standardization** (product divisions) — high pressure to reduce costs, low response to local conditions
- **Transnational** (global matrix) — high pressure to reduce costs, high response to local conditions
- **Home Replication** (International Division) — low pressure to reduce costs, low response to local conditions
- **Localization / Multidomestic** (geographic area) — low pressure to reduce costs, high response to local conditions

Same product everywhere
Pro: low cost
Con: no responsiveness
Ex: Boeing

Upstream centralized
downstream localized
Pro: cost efficient and responsive
Con: complexity, difficult
Ex: GM

Global Standardization
(product divisions)

Transnational
(global matrix)

essure to reduce cost

Home Replication
(International Division)

Localization / Multidomestic
(geographic area)

Duplicates home operations
Pro: easy to do
Con: lacks responsiveness
Ex: McDonalds, Microsoft

Each region stands alone
Pro: Responsiveness
Con: high costs,
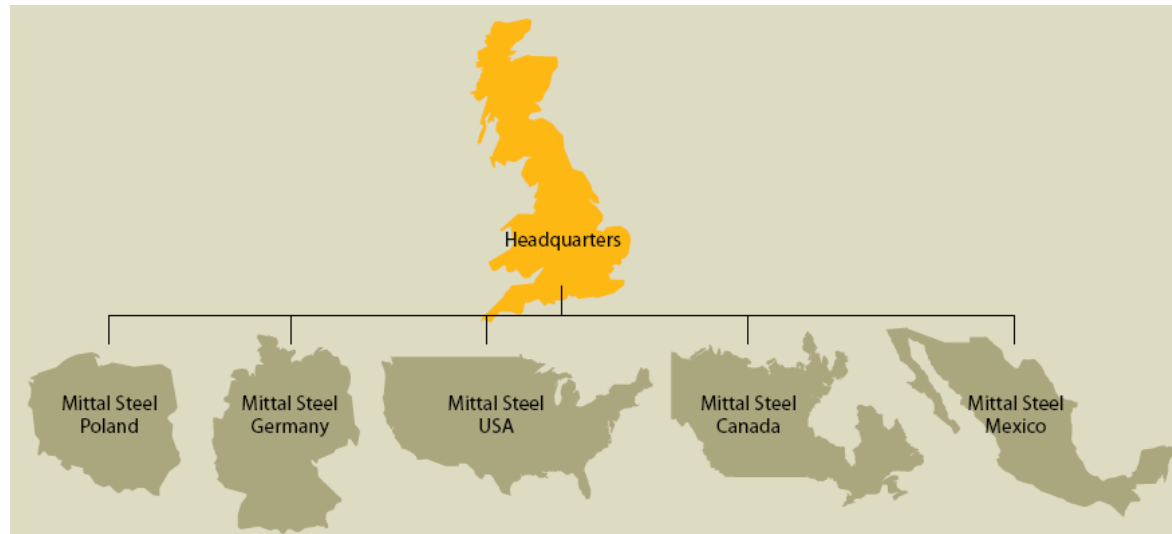Ex: MTV

Organizational Structures

Structures
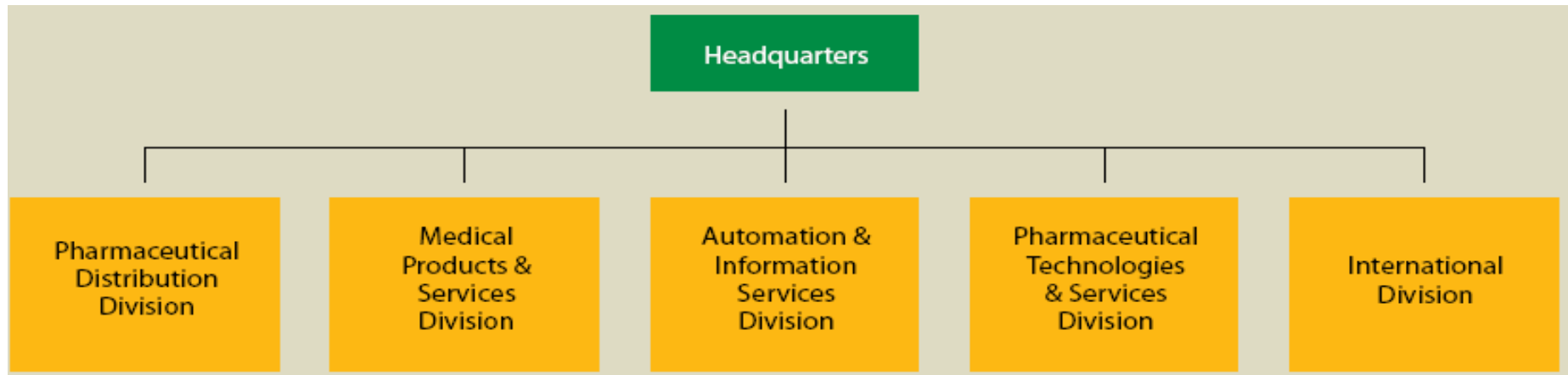
International division: Used for home replication strategy (young firms)

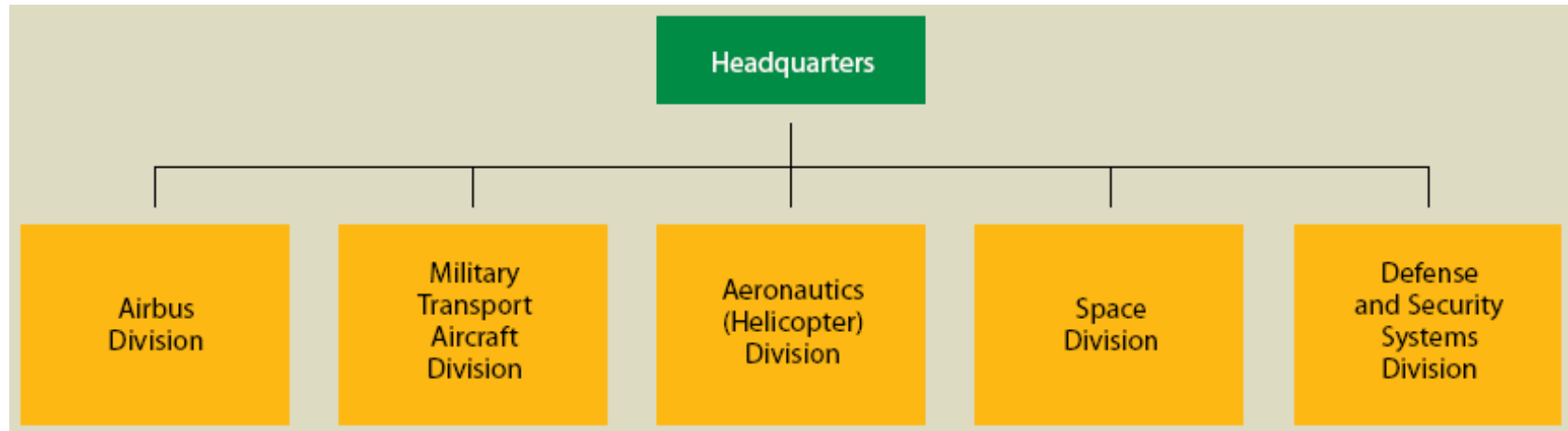- Int'l division often functions as silo, marginalized

Structures

Geographic Area Structure – organizes around geographic areas

- Locally responsive, costly
- Reduces duplication of regional experts
  - only need on expert on each region
- Increases duplication of product experts
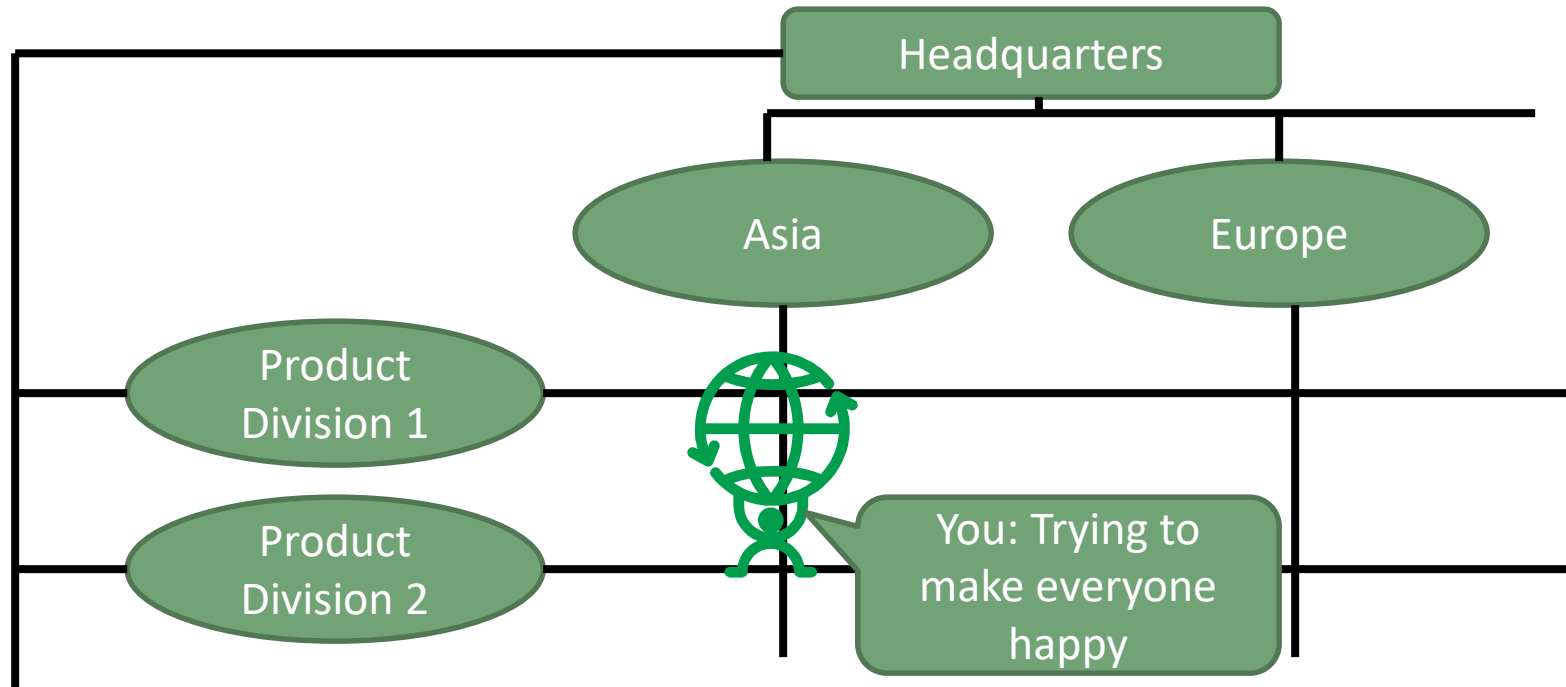 - Now need product experts for each region

Structures

Global product division – division responsible for product globally

- Cost efficient, not locally responsive
- Reduces duplication of product experts
  - Don't need a product expert in each country
- Increases duplication of regional experts
  - Need a country expert in each product division

Structures

- **Global matrix** – sharing responsibility and experts across product and geographic divisions
  - Objective: cost efficient and responsive (?????)
  - Reality: Difficult to deliver
 - Layers of management -> slow decision speed

Matrix Structure

Dow Chemical CEO:

> "We were an organization that was matrixed and depended on teamwork, but there was no one in charge. When things went well, we didn't know whom to reward; and when things went poorly, we didn't know whom to blame."

Restructuring

- **Restructured around**
  - Products
  - Geography
- **Layers of management added**
  - Until global matrix
- **Bog down, start over**

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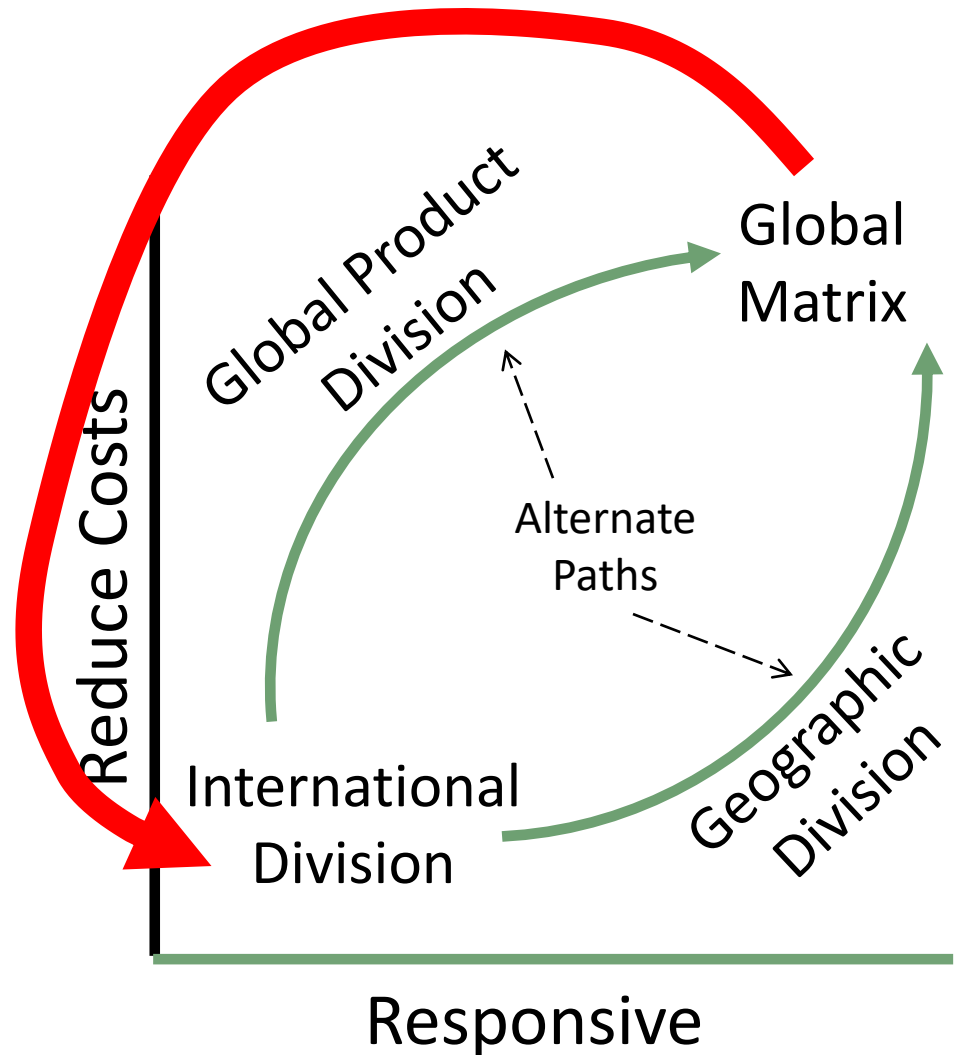
Marketing Mix

Marketing Mix

Standardization

- Cost savings/easier to control
  - Advertising, promo materials, training…
  - Economies of scale and experience

Often not effective

- Need some amount of localization

Marketing Mix

Most Recognized Brands

Most Recognized Brands

Sensitivity to Foreign Environment

Insensitive

Highly Sensitive

Industrial products and services

Basic Consumer Staples

High style and faddish consumer products

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Standardization

Industrial Products

- Many can be sold unchanged worldwide
  - Changes may be cosmetic
    - i.e. language of instructions

- Some may need modification
  - Developing countries:
    - Overload of equipment
    - Maintenance
  - Local legal requirements limit standardization
    - Design to meet strictest standard

Different Conditions

thehindu.com

Overloaded truck hauling rice, source: telegraph.co.uk

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Localization

Consumer Products

- Require greater modification than industrial
- Greater dissimilarity as you go down in income
  - High end products (i.e. Rolex) may cross cultures
  - Lower end products (lunchboxes) may need more adaptation
- Some can be sold unchanged to certain segments
  - Large automobiles, sporting equipment, and perfumes…

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Results **18**

Asian Fit Sunglasses

Sort by: Price **Best Sellers** Title

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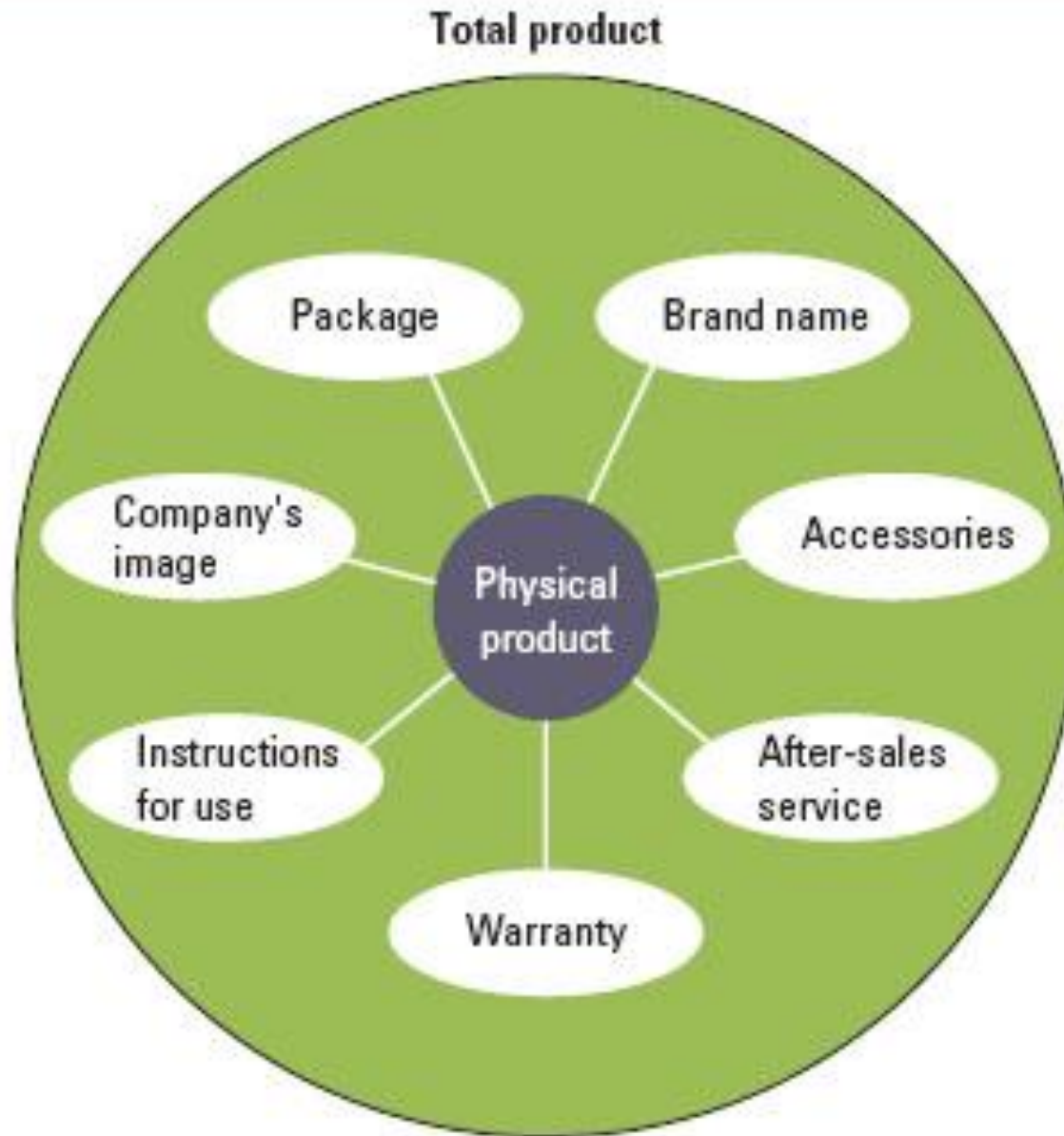
Localization

Reasons for localizing

- Culture
  - Colors, brand name, tastes, language
- Legal
  - Pollution, consumer protection, safety
- Economic
  - Income levels
- Physical environment
  - Heat, humidity, altitude, rough roads

Total Product

Marketing Mix

Cheap!!!

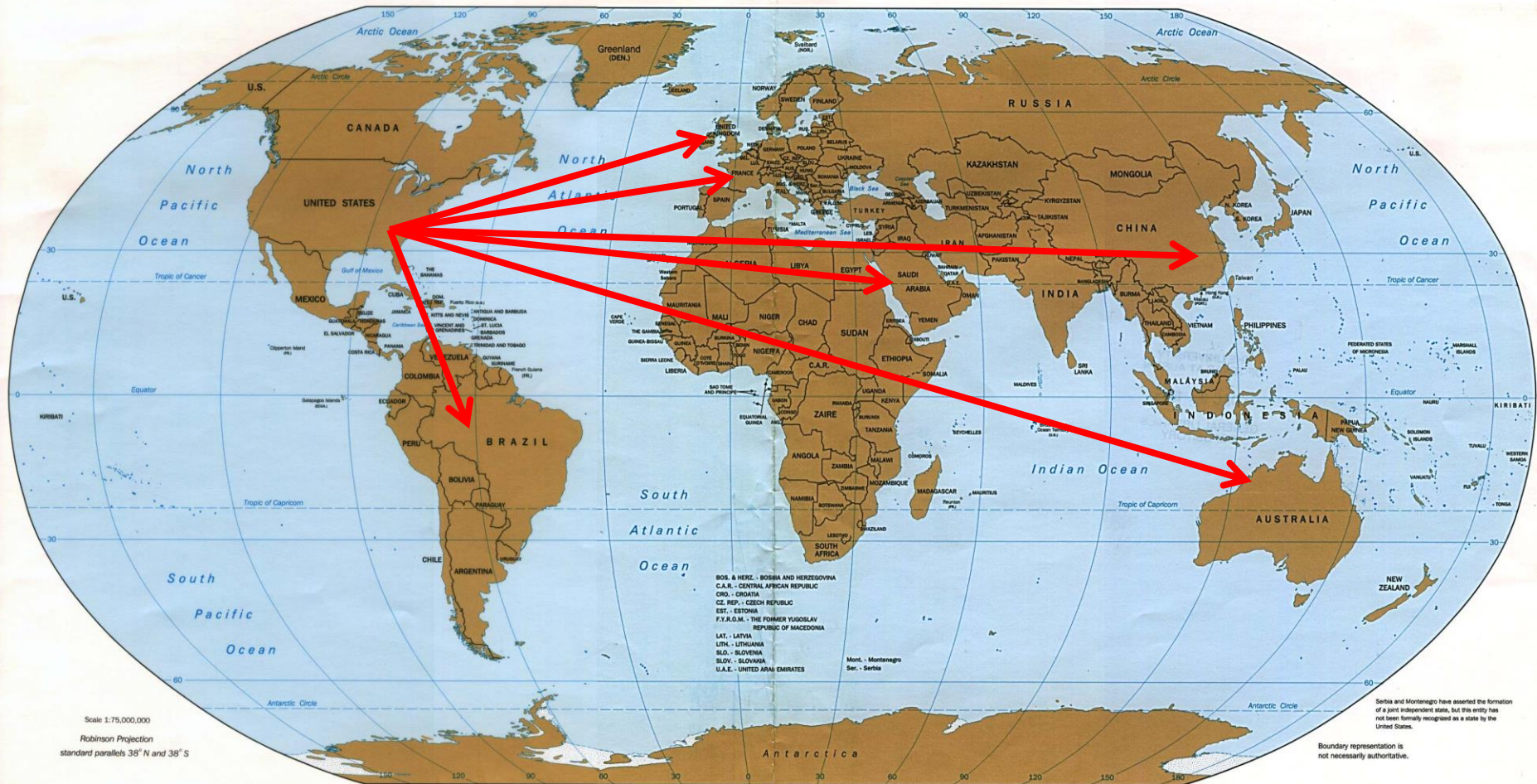|		Messaging	
		Same	Different
Product	Same	Industrial Products	Honda Motorcycles: fun vs. fuel efficient
	Different	Cheaper, stripped down version	Tang: sweetened and sold for all day consumption in L.A.

Most Expensive

Knowledge Management

Home Replication
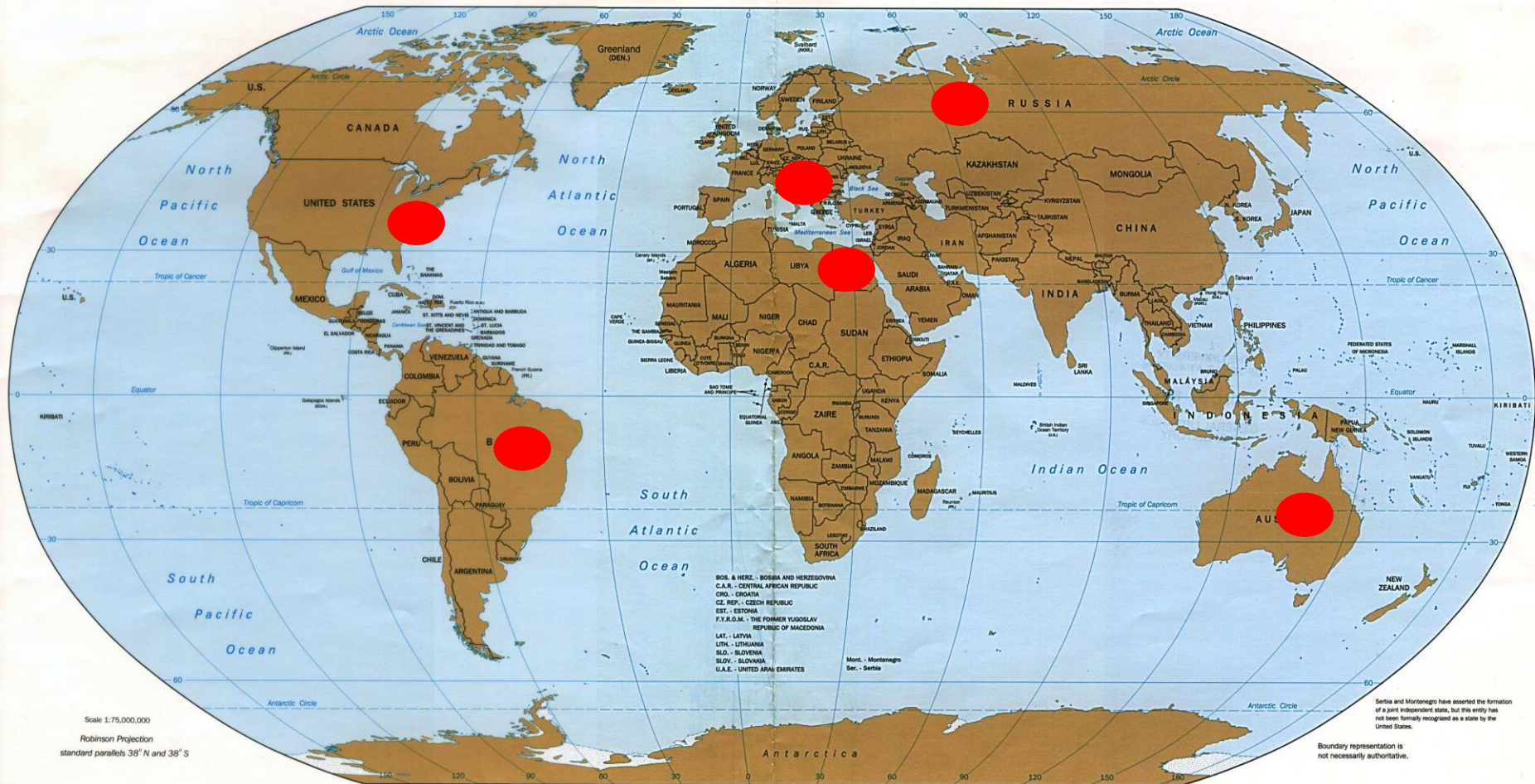
Knowledge Management

Important for both explicit and tacit

Can be defining feature of successful MNEs

Strategy	Home Replication	Localization	Global Standardization	Transnational
Interdependence	Moderate			
Role of foreign subsidiaries	Replicate HQ ideas			
Development and diffusion of knowledge	Developed at HQ -> outward			
Flow of knowledge and people	From headquarters to subsidiaries			

Localization or Multidomestic
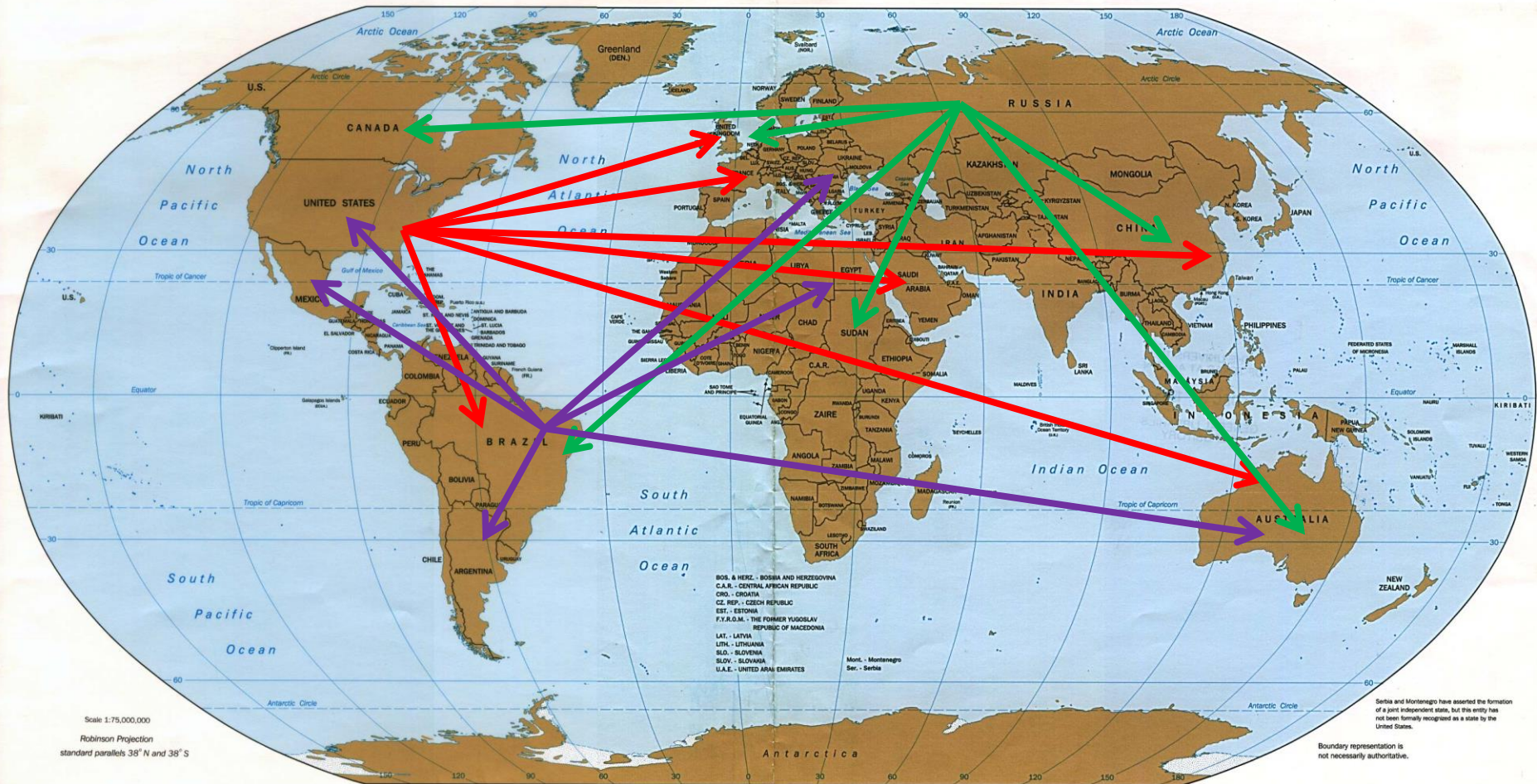
Knowledge Management

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Can be defining feature of successful MNEs

Strategy	Home Replication	Localization	Global Standardization	Transnational
Interdependence	Moderate	Low		
Role of foreign subsidiaries	Replicate HQ ideas	Sensing and exploring local opportunities		
Development and diffusion of knowledge	Developed at HQ -> outward	Developed and retained within subsidiary		
Flow of knowledge and people	From headquarters to subsidiaries	Limited flow		

Global Standardization
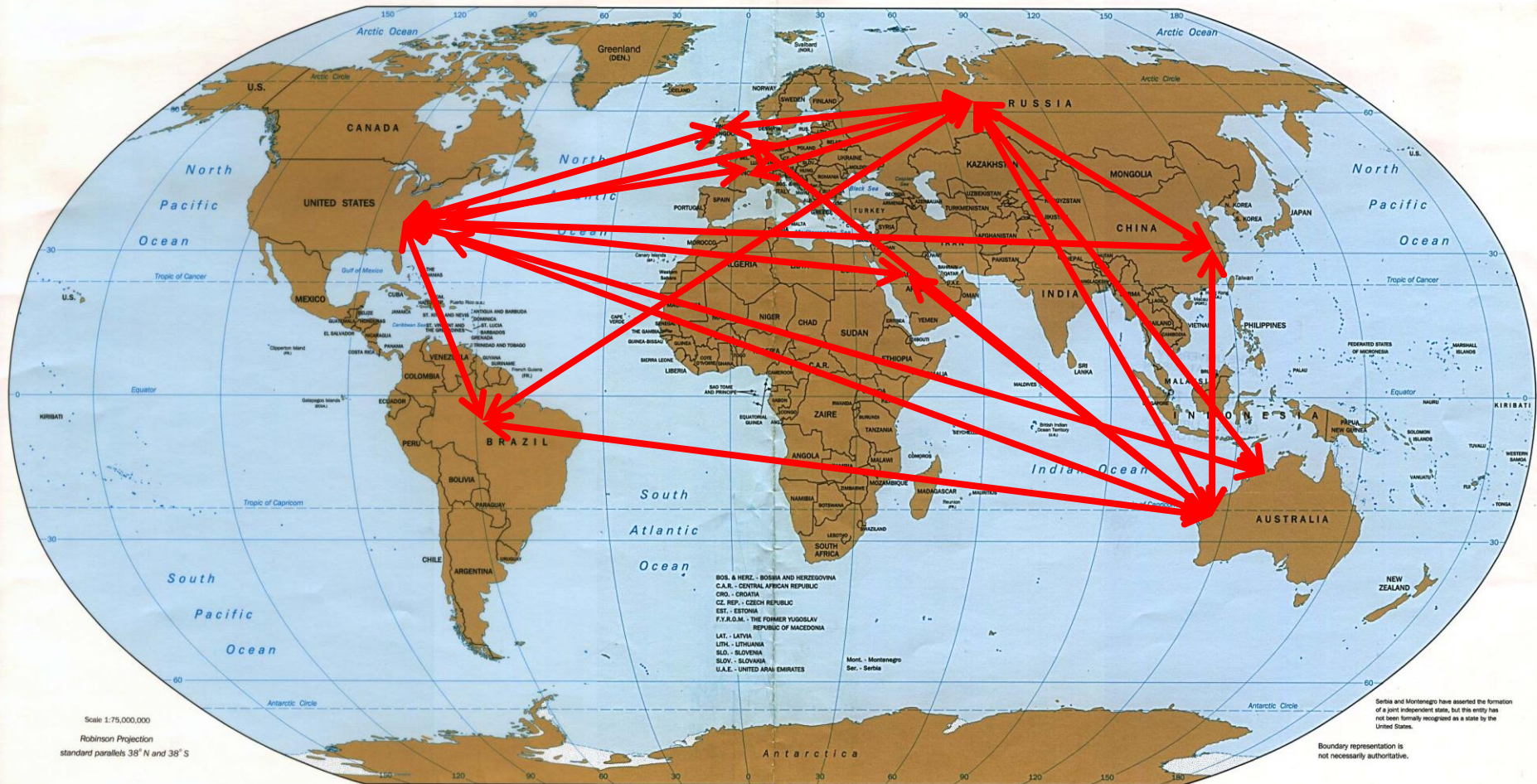
Knowledge Management

Important for both explicit and tacit

Can be defining feature of successful MNEs

Strategy	Home Replication	Localization	Global Standardization	Transnational
Interdependence	Moderate	Low	Moderate	
Role of foreign subsidiaries	Replicate HQ ideas	Sensing and exploring local opportunities	Implementing HQ's plan	
Development and diffusion of knowledge	Developed at HQ -> outward	Developed and retained within subsidiary	Developed and retained at key location	
Flow of knowledge and people	From headquarters to subsidiaries	Limited flow	Extensive flow from center to subsidiaries	

Transnational (Matrix)

Knowledge Management

Important for both explicit and tacit

Can be defining feature of successful MNEs

Strategy	Home Replication	Localization	Global Standardization	Transnational
Interdependence	Moderate	Low	Moderate	High
Role of foreign subsidiaries	Replicate HQ ideas	Sensing and exploring local opportunities	Implementing HQ's plan	Contribute to the whole
Development and diffusion of knowledge	Developed at HQ -> outward	Developed and retained within subsidiary	Developed and retained at key location	Developed jointly and shared
Flow of knowledge and people	From headquarters to subsidiaries	Limited flow	Extensive flow from center to subsidiaries	Extensive flow in multiple directions

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Implications for Action

Understand the rules of the game
- Formal and informal

Understand the different structures and strategies
- Which is appropriate for what situation and pattern of re-organization

Manage the knowledge flow well
- Foreign subsidiaries are boots on the ground
- Information is key to good decisions