Chapter 12

Strategizing, Structuring, and Learning Around the World
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

- Global Standardization (product divisions)
- Transnational (global matrix)
- Home Replication (International Division)
- Localization / Multidomestic (geographic area)

Pressure to reduce costs
- Low
- High

Response to local conditions
- Low
- High
Strategies

Global Standardization (product divisions)

- **Pressure to reduce costs**
  - **Pro:** Low cost
  - **Con:** No responsiveness
  - Ex: Boeing

- **Response to local conditions**
  - **Pro:** Cost efficient and responsive
  - **Con:** Complexity, difficult
  - Ex: GM

- **Home Replication (International Division)**
  - **Duplicates home operations**
    - **Pro:** Easy to do
    - **Con:** Lacks responsiveness
    - Ex: McDonalds, Microsoft

- **Localization / Multidomestic (geographic area)**
  - **Each region stands alone**
    - **Pro:** Responsiveness
    - **Con:** High costs
    - Ex: MTV

- **Transnational (global matrix)**
  - **Upstream centralized downstream localized**
    - **Pro:** Cost efficient and responsive
    - **Con:** Complexity, difficult
    - Ex: GM
Organizational Structures
**International division:** Used for home replication strategy (young firms)
- Int’l division often functions as silo, marginalized
Geographic Area Structure – organizes around geographic areas

- Locally responsive, costly
- Reduces duplication of regional experts
  - only need one expert on each region
- Increases duplication of product experts
  - Now need product experts for each region
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
• **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
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**
- Industrial products and services

**Highly Sensitive**
- Basic Consumer Staples
- High style and faddish consumer products
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
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…
Asian Fit Sunglasses

Do sunglasses tend to sit too low on your face or slide down your nose? Do they feel too narrow at the sides of your head? If so, Oakley has a solution for you. Oakley Asian Fit sunglasses represent our belief that getting the right fit is essential for comfort, protection, and even optical performance. Learn more about Asian Fit.

Fast Jacket™ (Asian Fit)  
Starting at $220.00  
BUY

Livestrong® Scalpel® (Asian Fit)  
Starting at $140.00  
BUY

Selected Filters:
- Sunglasses
- Asian Fit
- Men

Results 18
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

- Package
- Brand name
- Company's image
- Accessories
- Instructions for use
- After-sales service
- Warranty

Total product
### Marketing Mix

<table>
<thead>
<tr>
<th>Product</th>
<th>Messaging</th>
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<tbody>
<tr>
<td>Same</td>
<td>Same: Industrial Products</td>
</tr>
<tr>
<td></td>
<td>Different: Honda Motorcycles: fun vs. fuel efficient</td>
</tr>
<tr>
<td>Different</td>
<td>Same: Cheaper, stripped down version</td>
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<td></td>
<td>Different: Tang: sweetened and sold for all day consumption in L.A.</td>
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**Cheap!!!**

**Most Expensive**
Knowledge Management
Home Replication
Knowledge Management

Important for both explicit and tacit
Can be defining feature of successful MNEs

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Localization or Multidomestic
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Global Standardization
## Knowledge Management

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Transnational (Matrix)
Knowledge Management

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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

CAMERON School of Business
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