

# [The global company – the centralized hub](https://assignbuster.com/the-global-company-the-centralized-hub/)

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The Global Company was typically a Japanese MNC, which began its expansion to foreign markets in the 1970's where trade conditions had already improved substantially. They capitalized on centralized technological knowledge and their expertise in highly efficient mass-production. Their production operations and management were almost entirely centralized in Japan, although the labour-intensive production were placed in other East Asian countries, and therefore they only had sales operations in other developed countries.

Because of centralization the overseas subsidiaries lacked the resources and responsibilities to boost theirmotivationand responsiveness to local needs and the central management also lacked thorough information on foreign markets. Because of this the parent company did not have complete understanding or up to date information about the needs of the global market. This lessened the MNC's capabilities to come up with the right solutions for foreign markets. In this centralized hub, the role of the subsidiary was, traditionally, significantly less important than in the other two configurations, since, in general, its only important task was to sell the products developed and manufactured in the home country. A useful illustration of this can be seen in the relative low degree of prestige concerned with the appointing of Japanese expatriates to a foreign subsidiary.

This was certainly the case with the Japanese electronic manufacturing giant - Matsushita4 -, which is a clear example of a centralized hub. This company evolved to be the biggest competitor in the industry, but they, too, suffered from not acknowledging the true consumer preferences, sincecommunication, in essence, had a top-down direction from headquarter to subsidiaries. Even though central management attempted to address the issue by delegating moreresponsibilityto subsidiaries, these units complained that there was still a " Japanese shadow" embedded in the subsidiary. This discrepancy between addressing the problem and solving it characterizes very suitably the core of the problem of all three of these configurations - namely that of the endurance of the administrative heritage.

As illustrated above the three archetypes are very different in the structure and management of their globally dispersed operations. It can be seen that even companies from the same industries can have totally different structures and shape. Among many others, two central factors seem to be decisive in this context. The first one is the time of internationalization, or, to put it in another way, the state of theenvironmentpresent at the time of internationalization. The second factor is the difference of business and corporatecultureof MNCs, depending much on the region of origin.

Consequently, it is evident that administrative heritage does make a decisive difference in the shaping and continuing operations of the MNC, and last but not least, influences the degree of independence the subsidiaries possess. Evidently, the parent company plays a critical role in the shaping of the subsidiary evolution. In this top-down approach the parent company managers assign a specific role to the subsidiary through the allocation of certain activities. The subsidiaries can be seen as instruments in the parent company's strategic position on whether to increase its commitment to a specific host country.

The subsidiary evolution itself arises either internally from within the MNC or, through the possibilities identified in the external environment. The nature of such an evolution can be both of a negative, as in the case of down-sizing, out-sourcing or sheer divestment, and of a more positive character. The positive cases can be when subsidiaries, with the appointing from the parent company, develop into Centers of Excellence (CoE), often with global or regional responsibilities within certain areas of R; D. This creates strong interdependencies between the parent company and the CoE.

Most large MNCs have at some point in time been through a phase of restructuring. Since such structural changes are always initiated from top management, they inevitably change the evolution path of the subsidiary. The Philips-case, mentioned above as the decentralized federation, can also serve as an illustrative example in this context. In the attempt to regain some of the decision power so firmly embedded in the dispersed subsidiaries, and, also to rationalize the entire corporation, a lot of subsidiaries were closed down or significantly restructured. Thus, the evolution of the subsidiaries changed alongside Philips' corporate strategy, which went from a 'various country-based strategy' to a 'one coordinated global strategy'.

Additionally the other two structural arch types described above are also applicable when addressing parent-based drivers of evolution. Both of these arch types have a centralized nature and exercise the top-down control, which clearly symbolizes the parent-based drivers.

This bottom-up approach emphasizes the subsidiary roles of driving the process through its own initiative. Here the subsidiary managers have some degree of freedom in choosing which activities the subsidiary is to undertake, thus, making these drivers more of an entrepreneurial character. From a dynamic perspective, the motives for these subsidiary initiatives is expected to result in some kind of resource growth in an improved position within the MNC, and perhaps, in the longer run, create a virtuous circle of development.

The subsidiary-based drivers can either be internally or externally motivated. The internal initiatives stem from opportunities recognized from within the company in a traditional bottom-up sense. These could be a subsidiary turning into a special resource or competence center through the joint knowledge transfer process with the parent company and/or other subsidiaries. The external initiatives, in contrast, stem from opportunities in the external environment.

Here, subsidiary evolution can be influenced by the dynamism and attractiveness of the host country or by specific incentive programs offered by host country governments. Investigations by Papanastassiou and Pearce (1997, cited in Luostarinen and Marschan-Piekkari, 2001) show how creative subsidiaries by having access to host country technological knowledge, can apply this knowledge and share it with the rest of the group. Thus, the subsidiary can drive not only its own evolution, but also that of the parent company.

However, the subsidiary-based drivers often face a well known obstacle in the parent-subsidiary relationship - namely that of resistance from the parent company to anything new and unproven, especially since it comes from an outside unit. Many MNCs are still rather conservative and somewhat ethnocentric in their view towards foreign units. The term 'corporate immune system' first presented by Birkinshaw and Ridderstrale (1999, cited in Luostarinen and Marschan-Piekkari, 2001), serves well to illustrate the density of corporate top management's hostility and suspicious attitude towards subsidiary initiatives. The extent of this hostility differs considerably among subsidiaries, with the geographically and hierarchically peripheral subsidiaries generally suffering the most.

Applying the subsidiary-based drivers to the three structural arch types mentioned above gives a good indication of the variety in the functioning of subsidiary-based drivers. The decentralized federation-model allows for considerable opportunities for the proliferation of subsidiary-based drivers, but the big question mark here, is whether it can be coordinated to benefit the entire corporation. The ethnocentric problems addressed above can easily be recognized in the coordinated federation-model, and even more so in the centralized hub-model. In the latter model the opportunities of innovation of the subsidiary is very restricted, thus making the effect of subsidiary-based driver evolution minimal.