

# Globalization and the mnc assignment

Sociology



**ASSIGN  
BUSTER**

Eden L. (1991) identifies three main components of globalization: 1. Convergence ??? production, financial, technology structures approach a common average standard 2. Synchronization- tendency for Triad nations (EU, Japan & USA) to move in tandem, experiencing the same business cycle patterns 3. Interpenetration- the growing importance of trade, investment & technology in each domestic economy Globalization is manifest through: The rapid growth in international trade and international financial flows ??? The way economic booms (or recessions) spread more readily from one country to the next ??? The growing occurrence of mergers, acquisitions, & strategic alliances Opinions on Globalization: ??? It has ' enfeebled the state'/undermines or limits the sovereignty of countries National governments are not able to independently decide their exchange rate, interest rates, investment. Output affected (negatively) by market forces Multinational Corporations (transnational)

MNCs are the agents of increased international interdependence They dominate all underlying structures & substructures of the economy: production, finance, etc They, not markets, control the way in which the flow of capital, finance, products, technology crosses national boundaries. (John Kenneth Galbraith (1973)) Global Competition & the Firm In a globally competitive industry: ??? A company's position in one country affects and is affected by its position in another country ??? A firm's competitive advantage grows from its worldwide operations.

The rise of the newly industrializing countries (after the 1970's) disproved Vernon's Product Life Cycle theory- where the assumption that products are essentially independent of each other and every innovation gave birth to a

<https://assignbuster.com/globalization-and-the-mnc-assignment/>

new product life cycle. High tech products were difficult to establish from low tech industries/products.... What's mature from what's not at maturity stage? Some MNCs can grow into complex international economic networks.

Global Firm: A simple definition:

A firm able to manufacture its goods wherever it can find the best combination of price, quality and distribute them wherever it can discover and create demand Faults with the above: - overemphasizes corporate structure & organization - underemphasizes ownership, management culture & other variables key to the strategy-making process A more accurate definition would include: -A firm that provides a range of global products with little differentiation in each country's offering Ellis & Williams (1995) to manage a company on an integrated basis, it is necessary to reshape along 3 dimensions if competitive advantage is to be gained: 1. Product 2.

Geography 3. People/ Process The internationalization process is a lengthy process that can take place over a period of years. Multi-Domestic VS Globalization Strategy Multi-Domestic Company: -a company with international operations that allows operations in one country to be relatively independent of those in another. Multi-Domestic Strategy: Multi-domestic strategy means companies implement a strategy that is more responding to local needs, values and demands. This usually happens on a regional basis, e. g. Western European countries or Northern part of Europe. -Appropriate for industries where multi-country competition dominates -The more diverse market conditions are the more multi-domestic strategies should be employed Global Strategy: -Global strategy is based on a strategy implementation on the assumption of ' one' global village, thus one strategy

is implemented for all countries regardless of their social and cultural differences. Appropriate in markets that are globally competitive or beginning to globalize -When national differences are relatively insignificant, global strategy is more appropriate -With Global strategy, a firm can pursue sustainable competitive advantage by locating activities in the most cost-effective countries/ areas; & coordinating strategic actions worldwide.

Differences between Multi-domestic & Global Strategy  
 Multi-Domestic Global Strategy  
 Strategy Arena Selected target countries Most countries that make up the critical markets for product Business Strategy Custom strategies for each host country;

Little or no strategy coordination across countries Standardized strategy worldwide Minor variations where necessary Product Line Strategy Adapted to local needs Standardized products worldwide Production Strategy Plants scattered in host countries Worldwide production centres Raw Materials Supply Suppliers in host countries preferred Attractive suppliers from wherever Marketing & Distribution Adapted to host country's practices Worldwide coordination; minor adaptations to host country Company Organization Each subsidiary operates autonomously Strategic decisions taken by centralized unit/ hqs

Advantages of Globalization: according to Rodriguez (1996) ??? Increased benefits from Economies of Scale ??? Cut Costs by moving to lower cost countries ??? Reduce Costs by increasing bargaining power vis-a-vis suppliers, workers & host country ??? Improved Product & Programme quality ??? by focusing on a smaller no. of products ??? Worldwide

Availability, recognition ??? Competes Stronger- to attack/ counter competition Globalization Strategy: Interpretations The US Interpretation

Theodore Levitt (Harvard Business School) believed that globalization would lead to: ??? the emergence of global markets for standardized products ??? which would lead to benefits from economies of scale in production, marketing, etc ??? the global corporation operates with constancy, relative low cost; selling the same product everywhere ??? technology's impact would lead to further standardization of production rather than customized production \*\*\*The above neglects Economies of Scope. The Japanese Interpretation Kenichi Ohmae (McKinsey Japan) defines 5 steps in the globalization of a firm: . Export ??? activities done at home, exports handled by exclusive local distributor 2. Direct Sales & Marketing- if product is received well, sales company established in the foreign market 3. Direct Production- establish local production centers that report to HQ 4. Full Autonomy- all activities of business chain (R, engineering, financing...) to be transferred to key national markets 5. Global Integration- R, Investments, recruitment done on international scale. \*\*\* This is the opposite of Levitt's model as it stresses the advantage of expanding Economies of Scope

European Interpretation Dekker (former CEO of Phillips) sees the global enterprise as merely a stage towards becoming transnational. He defines globalization as a relatively early stage in the internationalization of a firm. Global Strategies in Action ??? Standardization vs flexibility ??? Centralization vs local operation Becoming Global requires overcoming challenges such as: ??? Cultural differences ??? Measuring profitability ??? Different

regulatory and tax regimes Case Studies:- MTV: Think Locally Act Globally  
Goodyear: Think & Act Globally Globalization or Triadization

What we call globalization may actually be triadization as the vast majority of international trade, production, technology & investment flows occurs within North America, EU & Japan. To globalize and how to globalize have become two of the key strategy issues for managers worldwide. Yip (1989) argues that many forces drive companies to globalize by expanding into foreign markets. -Trade barriers are falling with NAFTA -EU's single market economy -The deregulation of the Japanese economy -Maturity in domestic markets pushes companies to expand internationally

There is a move from the traditional MNC where companies establish affiliates that catered for the needs of each foreign country- to where international corporate players are viewing the world as one market, and tailor corporate strategy accordingly The distinguishing feature of the worldwide competitor is the recognition of the need to find a balance between a flexible local approach and effective global coordination. The Multinational Corporation Porter (1986) identifies the two main tasks of an aspiring international firm as.. : 1. Configure: Where to locate value chain activities 2.

Coordinate: How to set up the organization's systems & structures How do MNCs configure & coordinate their strategies? Dunning's Eclectic Theorem Theoretical basis for the development of the MNC: OLI- Ownership, Location, and Internalization: justifies a corporation setting up outside its own country & setting up off-shore functions (FDI). – a corporation will engage in FDI if it

has ownership advantages (int'l brand name) -The country in which it intends to invest in must have location advantages (cheap labour) - Corporation feels the need to internalize for fear of losing trade secrets & other proprietary assets;

The Stage Models of Internationalization Vernon's Product Life Cycle Model ??? First- product developed & sold domestically (Introduction) ??? Second- Exported & FDI leads to production centers in countries where demand is high (Growth) ??? Third- Production moves to 3rd world countries or low-wage costs countries (Maturity) ??? Fourth- Product imported into country where it emerged (Decline) It assumes the firm is starting out from scratch with no international organization. It demonstrates how internationalization can cause production to move from the home country.

Johanson & Vahlne – similar to Vernon's model. -The firm gradually internationalizes through increased commitment to and knowledge of foreign markets. -In the beginning it sells to countries like itself -As uncertainty increases (& risk), it sells to unfamiliar countries -The problem with this model is that there are many companies who went straight for the large markets (vs familiar ones) and many markets at once. -Contrast between waterfall model (one company at a time) and sprinkler (many countries at once)

Chandler “ structure follows strategy”- Chandler wrote a book describing how US companies adopt the Multi-divisional form of organization as to better cope with coordinating activities around the globe. Stopford & Wells created a model based off Chandler's work- – their model suggested international

divisions were set up at the early stages of internationalization; if companies expanded overseas without increasing product diversity- they would implement a geographical area structure.

But if they expanded and it led to increased product diversity then they would adopt a worldwide product division structure. Critics have been unable to connect the structure with performance Recent Models: -Emphasize control through socialization & creation of a corporate culture that transcends national boundaries. -Bartlett & Ghoshal -Emphasizes the global integration, local responsiveness framework-with the individual manager as the basic unit of analysis -Emphasis on the MNC and NOT the organization structure GLOBAL RESOURCING

MNC Organization Structures Ghoshal & Nohria (1993) identified 4 types of MNCs: 1. Global ??? eg. Construction, mining 2. International- industries low on global scale economies & national responsiveness eg, machinery, paper, textiles 3. Multi-domestic- high on the need for local adaptation; eg, food & beverage, household appliances 4. Trans-national- high on both national adaptation & global scale; eg. Drugs, computers, cars -When process environment and organizational form are correctly aligned, performance is higher than when there is a misfit between them. Structural uniformity is best suited to global environments -Differentiated structures fit multi-domestic environments -Integrated varieties fit with the transnational form - Ad hoc environments fit with international environments In International Business, there is always a tension between the production efficiency needs for low cost of making a standard product and shipping it around the world, with as little variation as possible, and the marketing need to offer a product

<https://assignbuster.com/globalization-and-the-mnc-assignment/>



that takes into consideration local culture/preferences. i. e. ) global standardization vs localization

Bartlett & Ghoshal names our Multi-Domestic as their Multi-National- a company with strong overseas companies & portfolio mentality. They treat overseas operations as ' delivery pipelines' Multi-National-should be an umbrella term that describes all companies that trade internationally & are present in a number of countries. Examples of global companies: little adaptation if any to meet the needs of international markets: Coca Cola, Gillette; Band-Aid International Exporter Organizational Form -Domestic customers are the lifeblood -Will sell abroad if approached by international customer Home-based exports of home based production Low (as is foreign sales) -This may be a transitional form as the firm internationalizes Somewhere in between multinational and global enterprises; some strategic areas centralized, some decentralized Multi-Domestic Organizational Form As described by Bartlett & Ghoshal is : " A decentralized federation of assets & responsibilities, a management process defined by simple financial control systems overlaid on formal personal coordination, and a dominant strategic mentality that views the company's worldwide operations as a portfolio of national businesses". They claimed that the multi-domestic form was the earliest form of MNC. ? It followed a pattern ? The center was largely a resource allocator & coordinator ? Systems were informal ? Authority delegated to known & trusted appointees Bartlett & Ghoshal called this the traditional form of Multinational organization model (UoL calls it the Multi-Domestic Enterprise) There are 2 types of M-D enterprises: 1. Pure Multi-domestic form 2. Modern Multi-domestic form PURE MULTI-DOMESTIC FORM

The historically 'early' one most common before globalization & when economies of scale & scope weren't key in determining competitive advantage Power & Control- -The centre responsible for the selection of businesses (tho as it developed, each country subsidiary had control over its own resource allocation) -Acquisitions & alliances may need approval from the center, depending on the size of the deal -Center is responsible for financial control but power to act in relation to them limited -Human Resource control in the hands of the country subsidiary Organizational Structure & Strategy- -Characteristics are those of a federation of companies. I.e. Each operating in different countries but under same brand. -The center's role is like that of a holding company-with limited purpose of monitoring financial performance in foreign subsidiaries -(when to increase/decrease portfolio of companies) Maintains informal contact with subsidiaries in a political way -Porter- the multi-domestic corporation can choose where to compete internationally as its strategies are a series of domestic strategies - Communication Pattern- as described by Bartlett & Ghoshal- runs from the country Strategic Business Units / each foreign subsidy into the center (home country/headquarter -The pure multi-domestic corporation develops responsiveness internationally on a country-by-country basis through distributed resources & dispersed authority. Market shares in one country is independent of those in another country -R & capital intensity are usually low so that duplication in other countries are not costly -Production plants are usually small and will serve only the local market -Product and process standardization low as each country has high autonomy ( & cause its catering only for local needs) Standardization-differentiation Continuum

(Douglas & Wind)- The Multi-domestic corporation is at the Differentiation extreme of the s-d continuum -Each country demands & receives a different product specific to its needs even though brand is the same. This differentiation applies to marketing. Segmentation, advertising, distribution, etc International Independence (Ellis & Williams) -Country managers are the most powerful group of executives within the corporation as they allocate resources etc. -Profits excepting dividends stay within each country and is not repatriated to the center International Structure & Culture Vertical differentiation- decentralized; Horizontal differentiation- worldwide area structure -The need for internal coordination is low -Few integrating mechanisms if any -little need for cultural control Set of separate companies linked together only by use of common corporate names and symbols; formal reporting to head office ??? Dimensions of Multinational Organization Forms (Ellis & Williams) There are 4 dimensions by which they are distinguished: 1.

Product/ Service Offering ??? developed for local market 2. Resources, Responsibilities & Control- local autonomy & control of resources 3. Dominant Power Group & Culture- country managers; local culture 4. Location of R & source of innovation- supporting national R facilities & local sources. Strengths ??? Good at sensing future trends in global products by identifying on local level ??? Provide good placement for foreign nationals within the whole corporation

The pure form was appropriate when there are high trade barriers & high global transport costs as a percentage of total costs- when coupled with moderate scale economies, high motivational characteristics of local

<https://assignbuster.com/globalization-and-the-mnc-assignment/>

managers is obvious. To survive in the modern world however, it needs to evolve/ adapt to a less-pure form taking into consideration merging markets & technologies. Etc. Eg. Case Study- Phillips: when Japanese companies came into their markets with lower costs they experienced severe problems.

It was difficult for them to develop a global strategy as there had always been a culture of self sufficiency & individual markets working on their own.

THE MODERN MULTI-DOMESTIC FORM Yip describes this as “ A corporate organization with dispersed national authority, no domestic-international split, and a strong geographical dimension relative to business & functional dimensions. ” ??? Transfer of technology from HQ outwards ??? Executives-professional expats; locals run the business ??? Culture varied and reflects strong autonomy of the subsidiaries Power & Control More power granted to the center where this seems likely to enhance competitive strength -The centre is likely to play a stronger role (than the pure form) in allocation of resources and market selection -Center is more likely to have a say in technology matters, R and in anything concerning alliances and acquisitions -The center not only receives financial information, but can take action as necessary -A corporation within which a strong culture of operational decentralization & product differentiation exist Strengths -Enables a fully local product to be designed & produced It retains the resources needed for product development -Develops local managers who are strongly committed to the company Limitations -Inability to exploit competitive interdependencies & global efficiency -Unnecessarily duplicates facilities rather than have a global or regional one which would be preferable (cost wise) -Not suitable for new product diffusion as subsidiaries act

independently The modern multinational, in order to survive in the modern world, must make organizational adjustments which can allow it to be preserved even when globalization is becoming increasingly prevalent.

Nestle is one such example! Nestle maintains its multi-domestic philosophy of local responsiveness whilst adapting to the needs of the forces of globalization. Subsidiaries are bonded to the center by close personal relationships- local responsiveness still quite important and autonomy is still considerable there. Corporate management is responsible for giving strategic directions; for managing major resource allocation decisions, selecting markets& initial management of acquisitions as well as R.

Competitive Advantage -Yetton et al- competitive advantage can be achieved by: i) although production scale economies may not be achieved, other economies can be achieved through multiple plant learning -ii) reduced costs of incremental changes; reduced risks of careful environment selection -iii) motivational benefits from decoupled global functions at the centre from local units Yetton et al believes that this form is not necessarily firms at an early stage of international evolution (which would later become transnational or global firms) but is a firm that in certain environmental circumstances is one that is competitive, even as it expands globally (if certain adjustments are made).

Firms that adopt the modern multi-domestic organizational form operate in industries where the plant scale is small to medium-sized and the existence of multiple plants in different locations do not destroy the possibility of achieving scale economies. This form is most appropriate in product areas with low tradability, low scale economies, low risk. A characteristic of this <https://assignbuster.com/globalization-and-the-mnc-assignment/>

type is flexibility, even though administrative heritage will remain; but will be flexible enough to deal with global changes/ circumstances that may have an impact on the firm.

With global turbulence in recent years, we have seen that ' entrepreneurship (as in traditional form) decline. Regional distribution hubs offer superior flexibility. The center needs to allocate resources efficiently, ensure optimal transfer of knowledge and skills through the group, ensure flexibility of operation (sometimes with hubs) Local responsiveness should not diminish the firm's ability to achieve global learning or to operate worldwide strategies.

A modern multi-domestic form is almost bound to have characteristics of other forms. As globalization develops, the multi-domestic form declines as tastes converge, particularly in modern products. THE GLOBAL MULTINATIONAL ORGANIZATION FORM -the antithesis of the Multi-domestic form -founded on the belief with THEODORE LEVITT, that if a product meets a need at an acceptable quality at a low price, local taste differences cease to matter. -Examples- consumer electronics, Gillette, Coca Cola, Band-Aid Same product, same production process, same advertising, same marketing, distribution in different countries (and different languages); one size fits all type of strategy Power & Control - The center plays a very hands on role, and is in control of pretty much everything ? -It decides which markets and businesses to be in, where functions are carried out: production, R, etc -It determines the configuration and method of coordinating all activities & corporate assets -Decides how assets are to be resourced- internally, acquisitions, alliances? It exercises control financially as well as through <https://assignbuster.com/globalization-and-the-mnc-assignment/>

centrally determined & administered HR policies. -Strategy & major operational decisions are taken by the center -A firm must develop and implement a strategy that integrates its activities in various countries if it is to be a leader with global products. International Market Interdependence - The most appropriate conditions- where a standard product is recognizable & acceptable in all or most markets worldwide (Gillette razors); where there are substantial cost economies to be achieved from large scale production - Advantages of scale & scope are critical to competitive advantage -Brand name important for sales, sells on price as last resort -Global firms operate in markets with a high level of interdependence, R expenditure and those that are capital intensive -Product & process standardization high -Activities directed & coordinated from centre (Home Country) Strengths Yip identifies four main strengths: 1.

Cost Reduction : economies of scale- purchasing bulk at discounted rates; minimized inventory; the greater the development cost, the greater the driver to market product worldwide 2. Improved Quality: the fewer products/ lines that need to be maintained- the more focus on them 3. Enhanced Customer preference: standardized global products preferred, eg. Louis Vuitton bags 4. Competitive Leverage: global low-cost products help firms to achieve entry into new markets easier, brand name recognition

Two types of global multi-nationals: traditional & the modern TRADITIONAL GLOBAL CORPORATION -Classic global form was the Japanese in the 1970s (lean production, Just-in-time inventory methods, low-priced reliable goods) - It is industrial rather than consumer goods that are the most appropriate for the global corporation- they meet a need rather than satisfying varying

<https://assignbuster.com/globalization-and-the-mnc-assignment/>

tastes. -Eg. Motorola, Intel, Texas Instruments Power & Control -Strategy & control -Strongly centralized -Overseas units sales outlets building global scale Mentality was to view the world as a single economic entity serviced through delivery pipelines -Culture set from the center Coordination & Production Strategy -Production was concentrated in the home country (traditionally) -R & new product development centralized Strengths -Low costs due to scales economies -Concentrated resources- new products developed and distributed quickly Weakness -Not able to reflect local tastes - Difficult to react in a timely fashion to new products first identified in foreign markets The need for standardization & low cost is the primary driver of a global strategy.

To have a global strategy, it is no longer necessary to have an organizational form with vast scale factories but must clearly emanate from the Home country. MODERN GLOBAL CORPORATION -With deregulation, global volatility of economic conditions etc, the rigidity of the global corporation has been transformed. -Kogut: succeeding globally comes from locating functional activities in countries with comparative advantage in order to give international advantage by creating a value added chain.

So then whereas certain functions were located in the home country traditionally, the countries where it would be most advantageous are now being used. The meaning of the global corporation is changing. Up to the 1980s it focused on operational integration from a home base founded on low costs, global scale and product standardization. It has since then focused on strategic coordination- integration of skills & knowledge worldwide. Scale and home country control has become less important. The culture no longer

<https://assignbuster.com/globalization-and-the-mnc-assignment/>



reflects a single country (home country)- it is one that involves global identity and strong interdependence -Yip describes the modern global corporation ??? the organization structure is based on a centralized global authority, no domestic-international split, strong business dimensions relative to geography and function. Employees have multi-country careers, foreign nationals operate in home & other countries and involved in extensive travelling -The growing volatility around the world led to dispersion of production around the globe... rather than just in the home country Multi-Divisional form Modern globalization likely based on the traditional form M form of organization, ie Multidivisional form -Less control from the center to accommodate key alliances etc in key markets & wherever it can help to achieve competitive advantage -Systems are strongly tied to the centre— Central strategic planning, monitoring & performance, executive career development, compensation, training and information TRANSNATIONAL ORGANIZATION FORM -Emerged in the late 1980s Developed first by Bartlett & Ghoshal -Transnational as an idea or mindset rather than organizational form -State of mind that is adaptable, sees efficiency across international borders as something firms achieve through responsiveness flexibility and openness to learn -Decisions are taken at whatever level in whichever country is most appropriate for the global objectives of the firm Characteristics -Achievement of goals is what influences decisions According to Bartlett & Ghoshal it is a modern form of MNC that is similar to that of a strategic alliance -There's a high percentage of home based exports but also a high foreign production percentage -Not strongly directed from the home (base) country -Managers are managing a network rather than controlling a hierarchy -It is a truly global enterprise- not owned in one country nor

<https://assignbuster.com/globalization-and-the-mnc-assignment/>

controlled from one unified corporate HQ -Optimal coordination processes should be based on this model to achieve global competitive advantage -Eg.

ABB, NEC The transnational form ??? 3 flows that must be integrated: 1. Coordinate the flow of parts and finished goods 2. Manage flow of funds, skills & other resources among units 3. Link the flow of intelligence, ideas and knowledge ??? central to innovation To be globally competitive it must - locally responsive -achieve economies of scale & scope efficiencies -use learning as a key to success

Competitive Advantage & Philosophy -it is held together by the decision-making process that depends upon information flows -Bartlett & Ghoshal believe it is not a new organizational form that is needed to meet the needs of the future, but a new philosophy that will achieve global competitive advantage, local differentiation & global learning -Emphasis on a network philosophy -Absence of domination by a home country HQ The philosophy embraces the enterprise based on a network of alliances as well as it can the integrated corporation – Transnational Strategy: -Reflects elements of a global and multi-domestic firm; in this form of corporation, strategic alliances are formed between customers, suppliers, business partners and competitors to save time and capital to produce a service or product.