The global competitive environment management essay

Nowadays, the global competitive environment requires organizations not only to compete in their ability to enter new markets and achieve economies of scale but also in their ability to effectively administrate knowledge flows in an information-based economy. Additionally, in order to increase competitiveness, challenges are faced in pursuing global efficiency, local responsiveness and at the same time effective knowledge and information transfer between subsidiaries (Hill, 2011).

Different strategies can be employed to achieve competitive advantages, Multinational Enterprises (MNEs) adopting international strategies seek to exploit worldwide innovations, but they lack of flexibility and efficiency preventing them from being locally responsive, such as General Electric (Barlett and Beamish, 2011). Firms like Philips, approaching a multi-domestic strategy comprise high local responsiveness but experienced difficulties in exploiting knowledge transfer and competencies of all the subsidiaries (Barlett and Beamish, 2011). Global strategy was adopted by MNEs who followed high centralization and tight control on its activities from Headquarters, which prevented product adaptation to satisfy local needs being the case of Matsushita (Hill, 2011) (Figure 1).

Nevertheless, to increasing the level of competitiveness is not sufficient to overcome the challenges arising in today's global environment (Hill, 2011). By focusing only on the home environment no organization can develop a world-class knowledge and expertise to strive in a competitive market (Barlett and Beamish, 2011). Thus, MNEs most recent dilemma is to develop and diffuse knowledge, but at the same time boost innovation and learning (Bartlett and Beamish, 2011). Therefore, to achieve these capabilities some enterprises are moving towards a transnational approach, however, the industry and administrative heritage that characterise each firm frequently prevents the successful implementation of the transnational structure.

Transnational model nature

Transnational companies are constantly pursuing a balance to centralize key activities that can raise value for the firms´ products and services and which can create competitive advantages; while at the same time decentralize others which need local adaptation or that can be outsourced, which is the global/local dilemma that will not disappear (Caves, 1998). Therefore, the need of coordinating its worldwide value chain and transferring core competencies across subsidiaries requires centralization of some activities, such as Research and Development (R&D), as it is necessary not only to achieve cost reductions but also to protect core competencies and core technologies from competitors (Barlett and Beamish, 2011). On the other hand, local responsiveness is sought by product adaptation, and thus decentralization of other operating activities, like marketing, is essential so that national subsidiaries can still have the flexibility to satisfy local needs.

In order to develop an innovation capability that fits a fast-moving environment, there is a need of an organization that is able to sense consumer preferences in one country, link it to the resources developed in another country, to then disseminate it to all the subsidiaries around the organization, namely a transnational organization solution, allowing locally leveraged and globally linked innovation (Barlett and Beamish, 2011). The decision making process must be balanced between global managers and national managers to develop a multidimensional organisation, where the capabilities and influences of national managers are taken into account. Each subsidiary must become responsible for a certain activity, which must share with the rest of the organization so that the whole company benefits from this expertise, therefore communication channels, administrative systems and information flows must be adapted to favour coordination, cooperation among subsidiaries and avoidance of duplication of efforts (Barlett and Beamish, 2011).

This organizational structure follows the N-form (network) as opposed to the M-form (multi-divisional) since it focuses on integration, combination, multiplication of resources and capabilities, and managing assets and core competencies as a network of alliances, as opposed to functional or geographical division (Segal-Horn and Faulkner, 1999). The ultimate objective is to have access and make efficient use of all the resources the company has at its disposal globally, including both globalized knowledge and localized tacit knowledge (Barlett and Ghoshal, 1989). By achieving this, a multidimensional and flexible organization will be built, with higher interdependence between subsidiaries that will raise the competitive advantage.

According to Barlett and Ghosal (2002) a company should assess the nature and strength of the forces shaping the industry and competitive environment in which it operates. For example: Unilever analyzed the market of the packed goods and managed to build competitive advantage by supplementing the company’s well-developed ability to sense and respond to local marker with new strategic capabilities. Therefore, it is not only the environment that should be considered, but also the company’s ability to create and most importantly manage such capabilities. Another option to adopt the transnational model is when the industry in which the company operates becomes transnational. Companies should build sensitivity and responsiveness to worldwide markets quickly and control the cost by starting offshore operations. Lastly, before the implementation of the transnational model every aspect should be assessed to facilitate the change in the mindset, creating the “ matrix in the minds of managers” (Barlett and Ghosal, 2002).

Accomplishing the transnational model is not a simple task, as the structure and organizational strategy is complex and challenging for managers, due to the organizational problems it can create, the enormous control systems that are needed to coordinate all activities and to promote cooperation between subsidiaries to benefit from interdependence and increase performance (Hill, 2011). However, this strategy is still primarily considered an idealistic framework, or idea rather than an organization structure (Segal-Horn and Faulkner, 1999).

Challenges

“ In various MNEs three assumptions have blocked the organizational capability necessary for managing such transnational operations. 1) An assumption that the roles of units are uniform and symmetrical allowing them to manage different businesses functions and national operations in the same way. 2) An assumption that headquarter-subsidiary relationships should be based on clear and unambiguous patterns of dependence and interdependence. 3) Management has the responsibility to exercise decision making and control uniformly” (Bartlett and Beamish, 2011 pages).

To overcome these setbacks the following is needed: differentiation between subsidiaries (by product, function and geography), building interdependence among company units, i. e. not having a centralized or decentralized resource structure, but a dispersed and specialized one, and finally changing centralized control for coordination and cooperation among units with a shared vision of the organizational objectives.

Challenges in Knowledge Transfer

As one of the main competitive advantages of a firm employing a transnational structure is identification and transfer of strategic knowledge, setbacks and obstacles in knowledge transfer can pose great challenges for the company. On the other hand, the complications in knowledge transfer can also benefit the company, as it is unlikely that the external knowledge transfer mechanisms will be more efficient than the internal ones. The increasing number of transnationals' calls for more efficient knowledge transfer arrangements (Bartlett, 1986). Intellectual knowledge generated within the company can be subdivided further into human, structural and relational capital. Knowledge can be idiosyncratic (low value, high uniqueness), ancillary (low value, low uniqueness), core (high value, high uniqueness) and compulsory (high value, low uniqueness). Out of the above it is the core knowledge that is vital to be shared within a transnational company; however, it is also the hardest to transfer, normally due to its tacitness. But even harder to transfer is the collective tacit knowledge (Ordonez de Pablos, 2006), i. e. knowledge that only exists when certain people cooperate, for example a marketing department in a certain subsidiary can possess important knowledge, but each individual will only contribute some part of it. Extensive communication and coordination is required to share this type of knowledge.

A number of reasons why intellectual knowledge transfer fails were identified by Sluzanski (1996), which include the features, the source, the recipient and the context of the knowledge. This involves problems such as the unwillingness to accept change by the local managers, complexity of knowledge, and low absorptive capacity of the units and the unsuitability of knowledge to the local conditions. An example of difficulty to accept changes was faced by Philips subsidiaries following a multi-domestic structure, where country managers were too powerful and the firm was highly decentralized to efficiently implement changes. Many of the best managers spent most of their career in national operations this negatively influenced managerial attitudes and organisational relationships, further hindering the communication links between subsidiaries.

The Role of the Regional Headquarters

A way to simplify the knowledge transfer process and also to remove other types of problems is to make use of the regional headquarters (RHQ). The majority of large MNEs have regional subunits, normally divided by geographical principle into Europe, Asia, etc. Some companies, for example Toshiba, Sony, Samsung and other high-tech companies, have restructured their organisations to give more responsibility and power to the RHQs which in turn brought the company closer to realising the transnational structure and striking a balance between local responsiveness and global integration. According to this structure, the RHQ is located between the local oriented national operating units and the global oriented home headquarters (HQ), which gives the RHQ the power to develop long-term strategies for the region, control the operations of individual units within the region and evaluate the performance of local units (Yongsun and Sohn, 2004). Some managerial activities are transferred to the RHQs along with the above authority, these managerial functions allow to concentrate the efforts of managers on the region as a whole, rather than spreading them out between individual local units, as mentioned above in the case of Philips. Furthermore, the RHQs can work as a filter between the local subsidiaries and the HQ, hence helping to simplify the matrix-like structure of the transnational model and set and communicate clear, well defined goals to different parts of the company (Doz and Prahalad, 1990). Any conflicting situations that arise in the local subsidiaries can also be filtered at a RHQ level, which will then relay a more concise and understandable set of demands to the HQ. This will prevent confusion that can arise when the HQ get overwhelmed with conflicting demands in situations where the HQ might lack the knowledge. Therefore, RHQ acts as a facilitator to the effective knowledge flow within the company, hence simplifying the implementation of the transnational strategy and helping to find the perfect combination of globalisation and localisation. Furthermore, concentrating functions with RHQ that would normally be present in each local unit allow the company to reduce the bureaucracy levels which also results in higher efficiency (Yongsun and Sohn, 2004).

Developing additional knowledge in Emerging economies

Large successful companies operating across multiple borders can rarely do so without accessing the world’s largest markets, such as China and India.

However, due to the specific features and challenges of such markets, strategies that are effective in the developed world frequently fail there. One of the reasons is the structure of the society in these countries, where that the majority of the population is spread between the lower and the upper class, with a much smaller middle class, unlike the Western world, where the middle class dominates. This can lead to companies looking to develop a number of strategies for the same country to be able to tap into the majority of the customer base. For a company adopting a transnational mode of operation, could mean the tactics of global efficiency, national responsiveness and knowledge transfer might not be enough to thrive in the market. A new capability, defined as social embeddedness has to be developed (London and Hart, 2004), that will allow the MNE to leverage the strength and knowledge gained by operating in the base of the pyramid markets (Prahald and Hart, 2002). This capability allows developing new knowledge, rather than seeking for existing knowledge within the firm, as proposed by the worldwide learning capability.

Empirical Evidence

In the literature various authors have designed different models to measure whether or not the transnational corporation exists. With the research carried out on the relationship of headquarters-subsidiaries, there has been a realisation that each subsidiary plays a different role and this will lead to a different control mechanism across them. Two principal conclusions can be drawn from the Leong & Chin (1993) cross-sectional data analysis on the Bartlett and Ghoshals' (1989) typology. Firstly, managers who categorised their organizations as being transnational did not completely meet the characteristics describing the typology. This implies a misclassification of their organization as being transnational and may suggest that even though managers reckon themselves as having a transnational organization that does not necessarily mean they meet the criteria prescribed to such an entity. Secondly, in the sample revised, multi-domestic corporations were the most popular encountered, followed by the international and global forms and the least evident organization structure were found to be the transnational form.

According to Harzing and Noorderhaven (2006), MNEs are getting closer to the ideal type of the transnational company as their empirical test suggested an improved differentiation between subsidiaries, as well as, an enhanced importance of knowledge and product flows between subsidiaries. The research undertaken by Marin and Bell (2010) claims that subsidiaries integrated to both the local economy and their HQ are more innovative. However, they represent just a minimum part of all subsidiaries connected to the local economy and their HQ. Furthermore, for industrialized countries, research revealed that subsidiaries strongly integrated into the HQ, encompass more innovative activity than the ones integrated into the host economy (Marin and Bell, 2010). These findings let us conclude that in different environments and conditions there are special needs regarding communication and knowledge transfer. In addition, there is lack of subsidiaries integration failing to stimulate innovation.

To sum up, it can be seen that although in the most recent studies authors are suggesting that firms are getting closer to the transnational model. Few companies can meet all the criteria that characterize a pure organizational form. Indeed the decision where to locate and how to manage each functions will be dependent on manager’s decisions. If they are not clear with the model’s definition and their underlying characteristics, as it is suggested in the Leong & Chin (1993) cross-sectional analysis, they could develop a hybrid model that adapts better to their own circumstances and specific cost-benefits tradeoffs, rather than to adopt a pure organizational form.

Managerial Implications

Companies have to design strategies to deal with the changing business environment in the market. Due to globalization, the management of increasing complexity and diversity is a challenging task. The need of global competitiveness, national responsiveness and worldwide innovation increases; the need for the corporations to compete successfully becomes essential. Mechanisms like task forces, committees, and project teams if implemented effectively can manage the allocation of responsibility and authority. The flow of information which is called the organizational physiology can be maintained by keeping the formal and informal relationships among managers, communication channels in shape (Barlett and Ghosal, 2002). Informal socialization of the members of transnational organization is more influential than the formal meetings which simplify the decision and negotiation process. Large volume of information exchange should take place in a well planned way in order to flow through the integrated network of transnational model and reach the diverse locations (Figure 2). This can be done by keeping the information exchange forum up to date to meet the ever increasing demand of planning and control systems. Barlett and Ghosal (2002) state that the informal tools used to develop the physiology of the transnational organization can create a network of tributaries, feeder streams, linking canals and temporary channels for information that shapes the decision-making process and influences its outcomes in more subtle and flexible ways. As the work force is diverse in transnational corporation; shared management understanding is often a much more forceful coordinating tool than either structure or systems (Barlett and Ghosal 2002). Top management’s role should be played with great responsibility, as it has the most powerful influence on the company’s culture and behaviour of the employees. National managers, should sense local needs, while global and worldwide managers should be aware of competitor advancements and coordinate information and knowledge transfer within the organization. (Barlett and Beamish, 2011) A strong culture inside the firm is indispensable to achieve an integrated network (Hill, 2011), as well as a deep understanding by all employees of the vision and mission of the firm (Barlett and Beamish, 2011). Top management in transnational must retain the clarity of line authority and should pay a greater deal of attention to the allocation of responsibilities (Barlett and Ghosal, 2002). All levels of managers should have the right to raise their point of view; company must make sure that there is no overlapping in responsibilities to reduce the probability of conflicts. Decision making responsibilities vary on the basis of their perspective and scope and should be handled by appropriate levels of management or sometimes combined in order to reach the ideal decision which is beneficial for the corporation. Barlett and Ghosal (2002) state the example of Unilever where the personnel policies were used not only to facilitate personal development and encourage teamwork, but to shape the organization’s decision and processes and to influence corporate culture and values. This flexible management process increased coordination across units and dispersed differentiated capabilities enabled Unilever to deal with the conflicting yet interdependent interests.

Managers that develop a global mindset, which means interpreting criteria independently from the assumptions of a single country and applying those in other contexts, will be key in building long-term relationships. To achieve global mindset, managers must build a multidimensional capability to include cultural and strategic decisions in local and global markets; this will help achieve a highly differentiated and integrated firm (Beechler, et al. 2007). However, managers must bear in mind that there is no panacea for all the businesses, no matter how well developed the framework is, due to the specific administrative heritage of each firm and the conditions it operates in.

Conclusions

There is no specific structural fit model that should be used by the corporation to respond to the growing complexity of the market environment. The real task is to build the organizational capability to deal with the emerging environment, and no simple, static structural should create the capability. Appropriate capabilities building and management of worldwide company by sensing and responding to the changes is most needed. Therefore, firms must redefine their objectives in order to achieve the aims.

Even though many companies claim to have implemented the transnational model, very few exhibit all the features of a true transnational defined by Barlett and Ghosal, due to its specifics, each company would implement the most suitable aspects of the framework. The examples of Philips, Unilever and a number of Japanese high-tech corporations, show different paths of reorganisation towards an integrated network structure. However, the perfect transnational still remains desirable, as companies strive to overcome the challenges of knowledge transfer and complexity, market conditions and administrative heritage in order to come closer to realizing this idealistic model.

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