
UNIT 6 STRATEGIC CONSIDERATIONS

Objectives

After reading this unit, you should be able to:

- understand the basis of ownership strategies adopted by MNEs,
- identify the critical factors when the MNEs go for strategic alliances,
- understand various methods adopted by the MNEs to integrate subsidiaries' roll,
- appreciate the multi-dimensional nature of the MNE management,
- understand the various tasks confronting the MNEs and how they resolve them.

Structure

- 6.1 Introduction
- 6.2 Ownership Strategy
- 6.3 Choice of Strategy
- 6.4 Strategic Alliances
- 6.5 Integration and Responsiveness
- 6.6 Managing a Multifocal Strategy
- 6.7 Building New Perspectives
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6.1 INTRODUCTION

There are various entry strategies available to an MNE in its international operations. The central issue is ownership of its subsidiaries. This may vary, depending on both internal and external factors. Sometimes the MNEs enter into strategic alliances to take advantage of their market access and the R&D capabilities. Once the decision to enter a foreign market, for instance, by setting up the subsidiaries is made, the next question is to integrate the activities of the subsidiaries to the overall operations. There are different roles played by the MNEs and subsidiaries.

The MNEs have raced many barriers while managing in a diverse environment. Developing new perspectives and maintaining a dynamic balance become important. A flexible coordination is required. The MNEs of different nationalities have evolved their own distinct characteristics, and are using different tools to build understanding, identification and commitment of individual managers to the overall corporate goals. In the previous units of this block we discussed the structural forms and issues relating to strategic planning in a multinational enterprise. In this unit, we shall focus on some aspects of strategic management in a multinational organisation. We shall also consider integration and responsiveness, and the crucial question of maintaining a dynamic balance within the organisation.



6.2 OWNERSHIP STRATEGY

There is a continuous debate regarding the relative advantages of the MNEs having 100% ownership subsidiaries vs. joint ventures vs. contracting. MNEs usually have the synergistic advantages from an integrated operation system. These advantages arise from operating on an international scale, exploitation of comparative advantages of different countries on account of differences in cost of capital, labour, resources, etc. and capability to provide consumer satisfaction. The MNEs have the capacity to exploit all these differences with their massive resources. This may perhaps imply that the MNEs would like to have central control and 100% ownership of the overseas operations. However, the MNEs are becoming increasingly aware of the advantages of doing international business through joint ventures or contracting.

The question of ownership depends on mutual negotiation between an MNE and a local firm regarding obligations and assets of each other. The obligations may consist of transfer of assets by lease or sale, personnel, knowledge or investments, lease or sale, from one firm to another. The transfer may be based, on a contract or participation in equity. The contract mode would often be used if the contracting firm has valuable transferable assets, e.g. copyrights, trademarks, patents, skills, machinery or access to information. The intangible properties may be transferred either through sale or license or lease. The equity mode involves transfer of funds in the company abroad. In a sense, every overseas firm is a joint enterprise.

MNEs can be judged on the basis of their choice of the project, nature or relationship (varying ownership or contract) and operating policies. These three have to remain within tolerable limits among the parties involved which are an MNE, foreign associated firm, host government and home government. If the parties concerned perceive each others contribution having a positive or at least neutral impact on their interests arising from MNE's nature of project, relationship and operating policies, then there would be no conflict of interests.

The relationship between an MNE and foreign associated firm can vary from 100% owned subsidiary through zero % ownership to negative ownership. Similarly, the contractual relationship can vary in either direction. The negative ownership is possible, e.g., Iran's investment of 25.1% in Krupp GmbH, the German Steel firm or Libya's purchase of 10% of Fiat, Italian auto firm.

Various combinations of contract and equity are possible. The technology contracting (licensing) as an alternative to Foreign Direct Investment (FDI) may be due to various reasons, such as:

- Shortage of funds for investment
- Lack of management
- Lack of knowledge of the market or the market being too small
- Strong competition and entry difficulty
- Political risk or pressure for licensing

In some joint ventures, there may be tendency of conflict between the two parties. Normally the ownership strategy is directly related to various functional strategies such as sales, production, finance and management. The selection of an optimum strategy depends on a set of circumstances. As such MNEs try to retain ownership of those rights and assets which are of continuing value. These may not be available from competitors or local firms. It is necessary for the Foreign associated firm and the host governments particularly in the developing countries to have 'continuous value' for survival of MNEs. This means continuous inflow of assets or services. The case of Kennecott's Copper Mine in Chile illustrates. The Chileans perceived that the value of American Capital inflows is not commensurate with the returns received by American companies. They felt that copper mines were manned by Chileans and 90% of products were sold to Europe and Japan. So, in 1970s it was nationalized. Similar fear was expressed in Europe against the U.S. in 1960s; and in Europe and U.S. against Japan in 1980s.



The ownership across an international frontier is different from the purely uninationaional situation. There are four major differences.

- 1) National priorities with respect to allocation of resources may be different
- 2) Legal concepts may vary with regard to ownership
- 3) The levels of national wealth may vary in different countries
- 4) There may be differences in monetary systems and per capita GNP.

Many developing countries have introduces some 'entry agreements' such as, non-expropriation, phasing out of foreign personnel, increased local value added over time and limit on ownership. Even developed countries, in recent years, have introduced 'local content' in the value added (a la EEC). However, the relative power of an MNE may shift downward once it invests in a country. This can be checked if MNEs participation is kept low and earnings are derived from externally bought inputs in a foreign associated firm.

6.3 CHOICE OF STRATEGY

The ownership strategy depends on three factors viz., rights and assets owned by MNEs, rights and assets owned by local firms and the type of foreign associate.

MNE

The reasons usually given for 100% ownership of foreign ventures by MNEs are:

- bad experience with joint ventures,
- lack of confidence in foreign business groups,
- uncertainty of identity for local equity holders,
- difficulty in maintaining quality,
- conflict of interests in functional policies,
- strong desire to integrate foreign units in the total corporate system.

The optimum ownership strategy depends on five factors:

- competitive position
- availability of acceptable associates
- legal constraints
- control requirement, and
- benefit/cost relationship

Most of the MNEs are in between a pure monopoly and a perfect competitive situation. The monopoly situation may arise from a unique product, unique process, unique access to market and relevant skills or capital. The competitive situation arises when there are other MNEs who are equally willing to enter into ownership or contractual relationships.

The acceptable associates may or may not be available in foreign country. If the associates are not readily available, the parent MNE considers the cost of finding and developing appropriate local nationals. This depends on the benefit/cost associated with the contribution expected from the associate.

The legal factors have a direct bearing on the ownership and contracting policy of the MNE. There may be restrictions imposed by host governments on foreign ownership, foreign tax credit and repatriation, ownership sharing (many such as France, Sweden, Netherlands, European countries require partial employee ownership), and on access to local resources etc.

Another critical factor relates to control requirements as equity ownership means control. The assumptions is that an MNE's total control from headquarters should not be disturbed. Adequate control is possible with equity ownership and total



control is legally possible with 100% ownership. The adequate or total control is felt necessary for implementing MNEs functional strategies among the foreign associates. The leverage enjoyed by MNEs depends on continuation of ownership (control over Board and financial policies), market access (brand names, trade markets, channels), technology (patents and R&D), finance, personnel, supply, physical assets, etc.

Finally, it depends an analysis of the general benefits/costs of various ownership relationships. One may differentiate between one time contribution and that which continues over time. It also depends on the perceived mutual benefits/costs of both the MNE and the foreign associates. If there are substantial difference's in the partners' concept of their own benefit/cost ratio, there will be conflict. Some of the differences can be overcome through better communication between partners.

Local Firm

The local firm, particularly in a joint venture, would like to have meaningful control over the operators, whether through equity ownership or otherwise. Thus, its case is the reverse of what has been said about MNEs above. As MNEs move toward transnational ownership, some of these conflicting interests may diminish.

Foreign Associates

In selecting a foreign associate an MNE may be confronted with three types of options: regarding sector (public or private), option regarding dispersion (Private Ltd. Company or Public Ltd. Company) and option regarding nationality (local firm, parent country entity or a multinational from other country).

It is difficult to generalise as to which ownership strategy equity or contractual ownership is superior. However, any strategy chosen should be appropriate in the context of the circumstances prevailing at the time of entry decision by the MNE.

Activity 1

Identify the key factors of the ownership strategy of an MNE (with which you are familiar) in entering India. Take the case of one such subsidiary.

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6.4 STRATEGIC ALLIANCES

Before 1980s, MNEs were interested in having 100% ownership in their international operations. Some of the other contractual arrangements were initiated as a response to host government interventions. During 1980s, many competing MNEs from different nations started having joint ventures and collaborative arrangements among themselves.

Alliances like General Motors with Toyota (1983), IBM with Nippon Telephone and Telegraphs (1985) showed the new trend of strategic alliances among MNEs to strengthen their competitiveness. Joint ventures were traditionally associated with MNEs for entry into the developing countries. Now this has become a global phenomenon with long-term consequences.

Having lost \$39 million in 1990, Texas Instruments plans to invest \$ 1 bill. in next few years in Asia in the new facilities for computer chips. TI is forging alliances with Asian partners to supply capital for new factories. TI has joint venture with Kobe Steel of Japan to make custom logic chips. It has \$350 million advanced memory chip plant in Taiwan financed by Acer, a good customer of TI.

TI has displayed its skill at using O.P.M. (Other People's Money) in Singapore for its \$330 million wafer plant for memory chips. 24% of the equity shares are held by Hawlett-Packard, 24% by Canon of Japan, 26% by Singapore's Economic



Development Board (TI has option to buy it out in five years), and rest by TI. The winning strategies focus on what the company can do best. The practices of American players in Asia can be summed up this way: invest steadily, rely on local managers, forego alliances for capital, adapt western products and services to Asian tastes.

The major reasons for strategic alliances are scale economies, technology development, market opportunities and neoprotectionism.

For many industries the scale economies have become critical to survival in the market, for instance auto manufacture in Europe. Many companies, though competitive in domestic market, are not so in the global market e.g. Citreon in Germany, BMW in Sweden, Volvo in Italy, Fiat in U.K. The scale of operations of these companies with niche marketing pricing tactics may be sufficient in their domestic market but has been felt inadequate vis-à-vis General Motors or Toyota in the global context.

The high technology industries have difficulty in having control over all the critical technological elements in a single company. The example of large MNEs like NTT (Japan) and IBM (U.S.) have technological patent exchanges between them in telecommunications and computers.

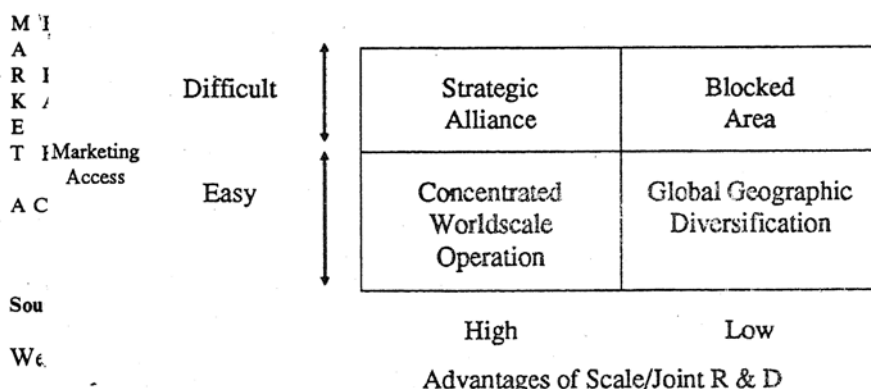
Barring a few ones, MNEs do not have the strength to exploit global market opportunities. To overcome this deficiency, they use the device of alliances e.g. Toshiba's high-speed facsimiles are distributed by Pitney Bowey in U.S. and by ITT in Europe.

Many countries experienced slowdown in their economies which resulted in neoprotectionism in 1980s. Besides, regional integrations were taking shape. The concerned countries tried to discriminate between 'insider' and 'outsider' companies. Strategic alliances overcame these problems.

There are marked differences in strategic options adopted by MNEs in different industries. Two factors are playing important role: market access and R&D. A combination of these two gives four types of strategic alliances as shown in Figure 6.1.

The strategic alliances provide market access with cost advantages regarding scale or joint R&D. This is more prevalent in aircraft construction, computers, bioengineering and automobiles. The concentrated world scale operation requires scale economies and high R&D, but market should not be a problem. This is true in pharmaceuticals, fine chemicals, medical equipment and knowledge products. In industries where the market access and R&D are not problems, MNEs go for global geographic diversification such as processed foods, steel and synthetic fibres. There are industries where multinational operations are limited, such as telephone networks, armaments etc. These are blocked for MNE operations.

Fig. 6.1 : Determinants of Strategic Alliance



Source : Subhash C. Jain (1987) p. 107



Table 6.2
Strategic Alliances: Cost/Benefits

Costs	Benefits
A. Mutual Dependence	A. Complementary Resources
B. Outcome uncertainty	B. Risk Sharing
C. Division of Authority	C. Reduce Competition
D. Top Management Time and Money	D. Market Access

There are two sides in strategic alliances. There may be costs involved in mutual dependence among partners. The same aspect may help in proper utilization of existing capabilities e.g. Airbus venture. The alliance may lead to an uncertain outcome as it is a long-term agreement, but it can reduce the risk of a venture by sharing risks among partners. Some of the R&D investments may be beyond the capacity of a single company, e.g. the wide body jets: the 767 and A320. When these large aircrafts were in the final stages of production, the demand for smaller planes increased. The uncertainties led the companies to enter into alliances.

The alliances create problem relating to locus of decision making power and division of authority among partners which may lead to conflict. However, it may also reduce competition due to cooperation. For smaller MNEs, cooperation is more attractive than competition. The alliances may demand more time and energy in meetings, research and planning. But the joint efforts of the partners can help in having market access in several countries and in overcoming the constraints of government policies.

The successful strategic alliances have four characteristics: they fulfil complementary needs, they supplement each others' strengths, they enable sharing of power and balance the benefits.

Activity 2

Meet the executive of any company which has entered into strategic alliance with another company. Discuss with him the main features of alliance. Then attempt to place the company in the Strategic Alliance matrix and give reasons for your choice.

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6.5 INTEGRATION AND RESPONSIVENESS

There are three major motives which prompted MNEs to invest overseas. The earliest one was to secure key supplies like minerals, energy and scarce raw materials-e.g. oil, mineral and metals. Secondly, the development of technology or brand recognition led to internationalisation in industries like chemicals and beverages. Third, there were factor cost-differences and unnatural tariff barriers which again led to internationalisation.

Integration

Different MNEs try to integrate their subsidiaries differently. There are three types of 'mental maps' which bias the structure and the interrelationships between parent and subsidiaries. They are: the UN Model Assumption, Headquarters Hierarchy Syndrome and Multi-Centre System.

The U.N. Model Assumption attempts a flexible approach to overseas markets. It emphasises the modification of products, strategies and management practices country by country. The worldwide strategy is the sum total of the multiple national subsidiaries' strategies. However, there is an attempt to apply uniform information and control systems. The subsidiaries are evaluated on a standardized criteria with role and responsibilities expressed in general terms. So MNEs assume a homogenous



role for the subsidiaries and expect them to implement standardised global strategies. For instance, Unilever identified its different **business areas** based on the need for global coordination and the need for national responsiveness. **Functional needs** for each business area are identified on the same basis which were further classified into various tasks within a particular functional area. The tasks/functions which were supposed to be critical for global integration were centralized, while others were localised.

The Headquarters Hierarchy Syndrome focuses on products for a world market and global scale of manufacturing. It assumes that the national tastes and preferences are similar e.g. Coca Cola. The decision making and resources are concentrated in the Headquarters. The Headquarters assign different roles to subsidiaries.

The Headquarters have the responsibility of coordinating and controlling the key decisions. The subsidiaries have to implement and adapt the global strategy to the local environments. This approach creates several problems such as underestimating differences in different national environments, underutilization of assets and negative effect on motivation of subsidiaries.

Multi-Centre System views the several centres of gravity as a network. The hierarchy model, you must have noted, depends on position-based power. The authority and decisions flow downwards unidirectionally. In the multi-centre system, the control of critical resources is multi-directional and can flow upwards, downwards or horizontally. A unit within the group may have the responsibility for product development and for selling it world wide. The unit thus may have the distinction of being a centre of gravity for a product line. The management of Atlas Copco's Air Power division located in Belgium accounts for half of its total turnover. Similarly, several Swedish MNEs have large divisions with foreign based managements. Electrolux has seven divisions and Sandvik Co. six divisions which are managed outside the headquarters. These centres of gravity are created not only through proprietary links but also through exchange relationships. This envisages a change from centre-periphery systems to multi-centre systems.

Activity 3

In the context of international business, three types of managerial attitudes were discussed in unit 4: Ethnocentric, Polycentric and Geocentric. Do you find any similarities between these approaches and the three models of parent-sub-subsidiary relationships described in the above section. Analyse.

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Activity 4

Arrange a meeting with a knowledgeable executive of a multinational subsidiary and discuss with him how integration is brought about by the parent company with the subsidiary operations.

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RESPONSIVENESS : SUBSIDIARY ROLE

The national subsidiaries may have competence enough to influence the MNE's global strategy. The competence may be in technology, production or marketing. This will determine the role of subsidiaries. They may function as **strategic leaders, contributors, implementers or simply as black holes.**

The strategic leader tries to develop strong leadership in certain business areas. For instance, Philip's U.K. subsidiary played a key role in developing the leadership



position in the teletext TV business. In spite of lack of interest by Philips headquarters, the subsidiary continued to develop and introduced teletext in 1976. By 1985, the product spread rapidly and Philips could reach a dominant position in this market. U.K. subsidiary is identified as company's centre of competence for teletext TV sets.

The **Contributors** try to benefit the worldwide operations through their local capabilities. For instance, Ericsson's Australian subsidiary made a significant contribution in the development of AXE system. Australian Government forced Ericsson to cross-licence its technology to two other local firms and insisted on local R&D team to service. In addition, there was strong local managerial leadership. This helped subsidiaries to take up global tasks in addition to local tasks. Ericsson has provided information and resources to the subsidiary to take up worldwide development tasks.

The **Implementers** have enough competence to maintain their local operations. The majority of subsidiaries of MNEs play this role. They have neither access to critical information nor control over scarce resources. Their role is to capture economies of scale and scope with respect to global strategies. For example, Proctor & Gamble created inter-subsidiary teams to develop Eurobrands for coordinating various subsidiaries in Europe to achieve efficiency and competitive advantage.

The **Black Hole** means that the subsidiary has only minimum capability of the subsidiary. For example, Philips in Japan, Ericsson in the U.S. and Matsushita in Europe have only local presence for maintaining global position of the firm. Sometimes, this situation may lead the MNEs to have strategic alliances with other dominant local companies. For instance, Fujitsu entered into alliances with ICL in the U.K. and Amdahl in the U.S.

6.6 MANAGING A MULTIFOCAL STRATEGY

MNEs have either a strong geographically management or a functionally based management. The former is meant to respond to various opportunities, country by country. This helps in manufacturing rationalisation, product standardisation and low cost global sourcing. The latter tries to spread the knowledge and skills throughout the company, wherever it has its presence.

With the changing environmental forces, the competitive viability of an MNE depends on flexibility. In this context, the primary task is to convert the organisation from unidimensional to multidimensional one. The barriers and the tasks to overcome these barriers have to be identified. This has to be followed by using some tools to change the management perspectives. There are three barriers in overcoming organisational biases. They are: strategic, organisational and cultural.

Barriers

The **strategic** barrier arises when the core group of an MNE perceives a threat to its power or role. Kao company became MNE through building its technology (licensing overseas), marketing and, recently, manufacturing efficiency. In this transformation, the core groups dominating in Kao belonged to technical and marketing functions. When Kao tried to introduce geographic orientation in the early 1990s, the functional groups were directly involved in the globalisation strategy. The attempt at localisation move did not succeed. This was primarily due to the dominance of functional groups who still played dominant role in the geographic divisions. Thus, building the need for appreciating diversity of management views is required. The **Key tasks** are: build internal understanding for the need to broaden competitive capability and recognise that any change in the organisation need not be zero-sum game to the earlier core groups.

The **Organisational Barriers** may result from historical reasons. Kao had functional unit groups which had line responsibilities. In 1970's Kao introduced medium term planning system. The plans were reviewed by functional managers at the Headquarters. In 1980s Kao introduced on-line information system linking



headquarters directly with the data systems of the overseas units. The institutionalised the central group's dominance.

The **key tasks** to overcome this kind of barrier are: challenging the former structure and adopting the formal control systems. The former involves giving decision making power to the new groups ensuring at the same time it is not vetoed by former line authority. The formal informational control system should provide access to the information and legitimacy in relevant decision-making forums.

The **Cultural** barriers are manifested in management mentalities and informal relationships. The dominance of the technical and marketing groups in Kao which was an established credo and was reinforced by the informal relationships that the senior managers had with these groups. A similar background influenced the decision for recruitment and promotion within the company.

The key **tasks** are to modify the norms and attitudes of the top management. Kao undertook the formal education of management personnel and emphasised that international operations were not merely an appendage of the domestic organisation. Top management was able to bring the necessary changes in attitudes to implement the new organisational perspectives.

Activity 5

Discuss with a knowledgeable and experienced executive of a subsidiary of an MNE about the barriers it faced in its relationship with the parent company at any point in its history. What tasks were undertaken to overcome these barriers.

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6.7 BUILDING NEW PERSPECTIVES

Mere structural change is not enough to build the new perspectives in the organisation. In the previous section, we discussed the barriers which give an indication of tasks required. All those tasks can be grouped under three headings: Legitimacy, Access to Information and Influence in decision making. The tools/means adopted to accomplish these tasks can be illustrated with the experience of P&G who created the **legitimacy** at its European headquarters. During the late 1970s, the economic crisis which P&G faced made them think, at some point of time, in terms of transferring its R&D facilities from Europe to the U.S. However, instead of doing this, the company appointed an R&D man of the status of Vice-President to head the European headquarters. Euro-teams were created to rationalise product lines and integrate development activities. The teams developed several new products. With this the credibility of European headquarters was established. The **tools** adopted for legitimacy are: transferring high status managers from the dominant group to the new team and aligning its activities to the needs of the dominant group.

P&G created a new forum of 'communication to form linkages. This encouraged **sharing of information** and joint decision making. With the success of Euro Teams in technical fields, P&G established Euro Brand Team. This included brand and advertising managers from country subsidiaries, key functional manager from Headquarters with general manager of the lead country subsidiary as chairman of the Team. This team introduced first Euro Brand Vizir (liquid laundry detergent) in Germany.

In addition to legitimacy and access to important information **influence in critical decisions** has to be ensured. P&G transferred back the head of European headquarters to the MNE headquarters at Cincinnati in 1981. He was made Senior Vice-President. He reorganized corporate R&D as he did in Europe. The link between R&D and business strategies of product and geographic line managers was established. The technology group became a viable unit in P&G Organisation. The



tools adopted were in providing the new management team to have influence over allocation of resources and **distribution of responsibilities**. The latter enabled the new group to negotiate with the established groups.

6.8 MAINTAINING A DYNAMIC BALANCE

Some MNEs are able to respond to the changes in the environment by their ability to shift management responsibilities and organisational relationships. Any fluidity in the organisation can create internal tensions and conflicts. Ericsson has been successful in maintaining management diversity. These tools adopted were : (a) a good foundation, (b) managing misfits and ambiguity, and (c) means to resolve the conflicts. These tools are explained in the following paragraphs.

Ericsson established product divisions in 1940 in place of functional departments. In the 1950s the cross divisional coordination was emphasised, which led to heightened importance of functional specialists. Many subsidiaries had the skill to produce and assemble AXE switch. The flexibility of the organisation enabled the company to

redeploy employees in subsidiaries to concentrate on software and peripheral development. The new challenges were met with new organisational adaptations which had their foundation in handling flexibility and maintaining diversity.

Ericsson created ambiguity, fluidity and overlapping among its subsidiaries. This helped in developing R&D capability in its Australian subsidiary and in encouraging entrepreneurial spirit. This had the effect of shifting division headquarters from parent company to the subsidiaries.

However, the fluidity may create tensions. For the resolution of such conflicts, Ericsson used several "off-line" forums like project teams, task forces and committees. This tool has been effective in isolating and resolving specific issues through discussion. Resort may be had to one management group to resolve the conflicts between others, like area and business managers. The functional managers act like brokers between central product divisions and national subsidiaries. The formal authority still lay with the product and area managers.

6.9 FLEXIBLE COORDINATION

MNEs had traditionally developed either autonomous national units to respond to the local environment or had the decision making centralised at the headquarters for strategic direction and operational support. In recent years, due to increased complexity. MNEs have adopted several mechanisms.

Mechanisms

Three mechanisms originating in different countries have emerged among MNEs:

- **Centralisation (Japanese)**
- **Formalisation (American)**
- **Socialisation (Europe)**

As the Japanese MNEs expanded overseas, the managers of parent company managed the subsidiaries. The centralisation, by leveraging corporate resources, led to rapid decision making. With the growth in size and complexity of overseas business, the centralized coordination however became difficult. The subsidiaries started sending information, asking for guidance, support and decisions. This led to increased dependence of subsidiaries and overloading of the central process.

American MNEs adopted **formalised** system for coordination purposes. This process reduced costs. The authority is distributed between headquarters and subsidiaries. Most of the decisions are routinized. The company's established 'way' of doing/accomplishing a certain task is considered the best. P&G had 'Proctor way' of marketing. This involved exhaustive product and market testing before launching a



product. The prelaunching activities sometimes helped the competitors in launching imitative products. Further the attention of managers may be focused in meeting the requirements of the systems rather than meeting the consumer needs.

The system enacted by European MNEs was influenced by founding families. The coordination relied on close personal relationships. This involved careful recruitment, development and acculturation of key managers which essentially meant **socialisation**. This system overcame the headquarters' overload problem arising from centralisation and inflexibility formalisation. The system relied on shared values and objectives. Unilever had internalised this system from the beginning. The system work effective till it started facing problems by 1980s due to environmental changes.

Integrating Multiple Tools

As many existing coordination mechanisms proved inadequate to meet the environmental changes, MNEs started integrating different tools. This involved building coordination capabilities^s and allocating responsibilities.

Firstly, the issue of coordination relates to the value and intensity of task due to diffused assets and resources. Secondly, the need for using diverse tools was felt because it was believed that flexibility was necessary in the face of fast changes taking place.

The move of MNEs from different countries in this respect seems as follows Table 6.1 :

Table 6.1: MNE Moves

MNEs	Move From	To (additional)
Japanese	Centralisation	+ Formalisation
American	Formalisation	+ Socialisation
European	Socialisation	+ Centralisation

Matsushita tried to introduce new systems such as medium and long-term planning for international operations, While Americans tried to revive the informal processes and value systems in their firms, European firms tried to centralize some functions such as Philips which created product divisions to coordinate the worldwide policy. In all these the **tools** used to change are self-regulating and managed. The self regulatory means are adopted, e.g. P&G in creating Euro Brand Teams, and Matsushita to internal 'bidding' by product divisions for R&D allocations, In addition to the self-regulation, some systems are managed by integration.

Allocating Responsibilities

There are two issues involved in coordination: the flows between units and the strategic roles of units. The flows are of three kinds: goods, resources and information. The flow of goods involves integrating the network. of interdependence of units with respect to components, sub-assemblies and finished goods. The second flow relates to resources-financial, technical and human. Many of these were managed centrally. The third flow is that of information. Information flows are mostly achieved through the socialisation mechanism. Matsushita used the socialisation as a leveraged learning in its foreign units by arranging. 'block meetings' of subsidiaries in regions to highlight the 'best practices.'

MNEs use differentiate approach in the coordination processes so as to match the roles of different units. The matching may be as follows Table 6.2:

Table 6.2: MNE Matching Tools

Role of Subsidiary	Tools
Implementer	Formalisation
Contributor	Centralisation
Leaders	Socialisation + Formalisation
Black Holes	Socialisation + Centralisation

Thus, different tools are used by MNEs for its various subsidiaries.



Activity 6

Identify the major mechanisms adopted by MNEs for achieving flexible coordination among the various units all over the globe. What mechanisms are being adopted by an MNE with which you are familiar.

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The behaviour of individual managers within the organisation is an important concern of top management of MNEs. MNEs try to build understanding, identification and commitment of individual managers to the overall corporate agenda. There are three *tasks* involved in changing the mentality of managers towards global perspective. They are:

- a shared vision
- understanding and acceptance and
- the binding commitment

These tasks are achieved through various tools adopted by MNEs.

A Shared Vision: This is achieved through a clarity of the objectives, continuity in pursuing and consistency in interpreting them across all the organisational unit. The company's purpose should be expressed in a simple way, it should be relevant to the activities and should reinforce the core vision. For instance, NEC's commitment is to "computers and communications". This can be designated as "C&C" compared to AT&T's 'C&C' and IBM's 'C&C'. This symbolism a simple way of conveying complex strategic thrust of the company. These have to be converted into action plans of managers which gives more clarity of meaning. The reinforcement of the core vision is done effectively by Matsushita which translates grand visions to specific objectives and priorities.

The successful MNEs have the continuity of purpose for a longer time. *The strategic changes of GE in Brazil* resulted in losing its dominance in the market. The GE changed its thrust from radio, TV and audio (1930x) to refrigeration and airconditioning (1950-70), to housewares market (1980s). The subsidiary management was not sure of the overall corporate strategy. On the other hand, Unilever had consistent objectives in Brazil and could keep its dominance in the market. This is mostly due to enduring commitments of Unilever in Brazil.

Besides clarity and enduring commitment, the consistency of purpose is necessary to make all to share the corporate vision. Philips had difficulty with its North American unit in its worldwide strategies. The latter refused to introduce V2000 in video cassette recording system. Instead it went for sourcing of Japanese products which led to the dominance of Japanese in the VCR business in America.

Acceptance: The success of the vision of the company depends on the acceptance of the goals and objectives by individual members of the organisation. This leads to the emphasis on human resource management. The important components of HRD are: the recruiting and selection process, training and development, and the career path management.

Many MNEs had home country bias in their recruitment policies. As they started facing problems in getting sufficient personnel, they changed their practices. Philips and Ericsson have broken the relationship between specialisation and centralisation. They have now wider sourcing for recruitment than just restricting it to the home country basis. This is similar to the success of Unilever which was recruiting on worldwide basis since 1930s. American and Japanese MNEs are trying to localize managers from host countries instead of depending on expatriates to manage



subsidiaries. By this, MNEs are able to enlarge, internal pool of candidates and are able to develop criteria for selection of potential international managers.

Once the selection is made, MNEs have tried to train and develop these managers with three aims: to inculcate a common vision, to broaden the perspectives and capabilities and to develop management inter-relationships. Many MNEs are involved in concentrating on development. For instance, Matsushita established Overseas Training Centre in early 1970s, NEC set up International Studies in 1980 and Unilever set up International Management Training College. These training and development centres also enable in building informal contacts and personal relationships among the managers.

Besides training, the personal experience of managers in their career path gives a boost to commitment. Philips in 1973 introduced in 1973 a Career Path Management System. This focused on the development of individuals. Unilever has nearly 10% of central staff drawn from overseas managers. As there is constant rotation of managers, Unilever was able to appreciate the global as well as local needs of the company's activities. This also helps in informal information exchange.

Binding Commitment: There are two means/tools adopted to increase the level of involvement of the various subsidiaries: structure and cooption. The structure institutionalises the manager's participation in the key strategic decisions of the corporation. The cooption involves giving specific responsibilities to implement key decisions. For instance, P&G's creation of Euro Brand Teams.

6.11 SUMMARY

The ownership strategy of MNEs has responded to the nature of environment in different countries. Attempt is made to minimise risk by opting for 100% ownership. Since this may not be a feasible solution always, ownership strategy is suitably altered. During the sixties through Eighties when host government interventions were a usual phenomenon, MNEs entered into strategic alliances in joint ventures or other types of collaborative managements depending upon nature of the situation. Different MNEs attempt integration of their subsidiaries differently. There are three types of 'mental maps' which determine the interrelationship between the parent and the subsidiary units: The UN Model, the Hierarchy Syndrome, and Multi-centre system. Four role patterns of subsidiaries can be identified: strategic leader, contributor, implementer or black hole. Managing the diverse roles, MNEs face three barriers: strategic, organisational and cultural. MNEs have tried to tackle these barriers through different mechanisms. MNEs attempt to maintain a dynamic balance in response to environmental changes by adopting various tools. One of the major tasks that MNEs face is coordination. MNEs from different countries have traditionally relied on either centralization, or formalisation or socialisation. In recent years, there is a move towards multiple tools being used instead of a single mechanism. The commitment of the individual managers to the total perspective of the MNE is important. This has been achieved through shared vision, understanding and commitment of individual managers.

6.12 KEY WORDS

Ownership Strategy: The strategy with regard to nature and magnitude of ownership of activities in a foreign country. The relationship of an MNE and foreign associated firm may be based purely on equity or some other contractual obligation.

Strategic Alliances: Any alliance of strategic nature with a local firm under which, for instance, less than 100% equity ownership may be accepted depending on market accessibility and R&D efforts.

Integration: The organisational processes adopted by an MNE under which activities of the subsidiaries fall in line to its overall strategy.

Subsidiary Roles: There may be variations in the role of subsidiaries. The role of a



subsidiary may vary from strategic leader to just implementer of parent company's policies.

Flexible Coordination: Adoption of multiple mechanism by an MNE to coordinate different units. Instead of a single traditional mechanism of centralisation, or formalisation or socialisation, a combination of these mechanisms may be followed.

Commitment: Developing identification among managers through various ways to the overall corporate agenda.

Centre Periphery system: A system in which business centres (units) have peripheral importance because they do not have control over full range of activities.

Multi Centre system: A system in which there is a network of multiple centres of gravity. These centres have control over full range of activities (both input and output decisions.)

6.13 SELF-ASSESSMENT QUESTIONS

- 1) What is ownership strategy? Why is a particular strategy chosen?
- 2) What are the four types of strategic alliances?
- 3) How do MNEs integrate their subsidiaries?
- 4) What are different types of subsidiary roles? Discuss by citing examples that you know of.
- 5) What is a multi-focal strategy? What are the major barriers in managing a multi-focal strategy?
- 6) What traditional mechanisms in different countries have been adopted by MNEs for achieving flexible coordination?
- 7) How do MNEs try to develop and maintain commitment of the individual managers?

6.14 FURTHER READINGS

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