

Second Edition

Managing Across Borders

THE TRANSNATIONAL SOLUTION

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To Barbara and Susmita

With love and appreciation

PREFACE TO THE SECOND EDITION

Almost a decade after we completed the research that resulted in the publication of *Managing Across Borders: The Transnational Solution*, it has been a strange experience to find ourselves revisiting the manuscript. So much has occurred in the intervening years that we approached the possibility of the new edition of the book with some trepidation.

As we reviewed the concepts and frameworks, and reacquainted ourselves with some old familiar companies, we experienced a variety of emotions. At one extreme was a glow of nostalgia for the wonderful experiences we had in researching and writing this book; at the other was a sense of embarrassment about sections of awkward prose or inappropriate predictions. But the overwhelming feeling we had was one of contentment and even pride. This was not so much a contentment born of self-satisfaction—the manuscript's numerous errors and revealed blind spots prevented that—but a contentment born of a recognition of how fortunate we had been to be in the right place at the right time. Through the generous cooperation of some 236 managers in nine core companies, we were able to see an emerging transnational management model supported by an integrated network organization form that has proven robust and powerful in the years that have followed the publication of the book.

As we look around at the international business environment in the closing years of this century, it gives us a great deal of satisfaction to see companies developing the kind of multidimensional strategic competencies and the flexible organizational capabilities that we described as the transnational model. In today's environment, this is no longer simply an idealized model. It is the corporate form that companies around the world are building and managing in an ongoing routine fashion.

As we noted in the original preface and acknowledgments, we count ourselves extraordinarily privileged to have had the opportunity to learn from so many knowledgeable and experienced managers. Throughout the seemingly endless process of researching this book, whenever we became discouraged that we would never be able to make sense of the vast amounts of data we were collecting, we simply reminded ourselves that ours was the easy task. With access to leading-edge companies and generous managers willing to share their views, we had the luxury of being able to step back and look for patterns and trends across the very diverse organizations we were studying. Our simple goal was to reduce the large and complicated world that the managers were wrestling with into some simpler concepts and frameworks that could capture the essence of the emerging strategic imperatives and organizational forms without destroying either the subtlety or the complexity. In fact, we found this experience such an exhilarating one that within months of the publication of *Managing Across Borders*, we were already engaging in the design of a follow-on project. That project has provided the material for the update of this book.

Although our research for this book focused on the ways in which the forces of globalization were creating new strategic and organizational imperatives for companies worldwide, by the time we had finished the study, we were acutely aware that we were examining only one part of a much more profound revolution. Globalization was only one of several important and urgent forces of change that were simultaneously reconfiguring the corporate model in a way that had not been seen in more than three quarters of a century. In the closing decades of the twentieth century, the forces of deregulation and privatization were also sweeping the world. Meanwhile, the information age and knowledge revolution were reconfiguring the strategic characteristics of whole industries and providing new impetus to the growth of the service sector of the economy. At the same time, waves of mergers and acquisitions and the proliferation of alliances and partnerships confirmed the need to capture scale and scope economies and forced companies to develop the ability to manage in more flexible networked organizations. And a social, political, and economic revolution was opening up whole regions of the world for the first time and was creating political blocs and economic alliances that were radically changing the context for companies' operations.

In this faster-paced, more competitive, knowledge-intensive, service-based world, the modern corporation was forced to undergo a transformation unlike any it had seen since the 1920s, when the birth of the diversification strategy led to the creation of the divisionalized organization structure and its accompanying professional management model. The past decade's barrage of management fads and initiatives, from restructuring and reengineering to empowerment and organizational learning, were simply symptoms of companies in transformation to a new corporate model that we described as the "individualized corporation." (For a summary of our findings, see *The Individualized Corporation*, Harper Business, 1997.)

Since the new research built on the work done in the *Managing Across Borders* study, it was not surprising that some of the findings extended and illuminated our earlier work. With the hindsight and enrichment of our latest research, we have incorporated some of our later findings into the revised edition of this book. This has resulted in the addition of a fourth part to the book. In Part IV, entitled "Transformation to the Transnational," we use the perspective we have gained since the original publication to chart how several companies have implemented the concepts we described in our original work. As a result, while we do track the original nine companies, we also introduce some additional examples of companies that were building and implementing transnational models into their organization in the 1990s.

The two new chapters in Part IV reflect some of the new insights we gained in researching *The Individualized Corporation* project. Chapter 11 reflects our finding that while companies were gradually building the new complex organizational forms to implement the new strategic imperatives, many managers were having difficulty understanding their new multidimensional roles and interacting in the required flexible, networked manner. The problem was, as one manager so aptly put it, "We were trying to implement third-generation strategies through second-generation organizations run by first-generation managers." This chapter focuses on the roles and tasks of "third-generation" managers required in a transnational company. It highlights how this new networked organization depends on the integration and effectiveness of individuals with multiple perspectives and capabilities. In brief, the transnational organization cannot work effectively until

the company develops business, geographic, and country managers whose intersecting roles and relationships produce the kind of multidimensional and flexible capability such an organization demands.

In Chapter 12, we document the transition process toward developing a transnational organization that was not yet visible in the late 1980s, when the original research was completed. Building on insights we first developed in our observations of Jack Welch's transformation of General Electric, we had the privilege of occupying a ringside seat as Percy Barnevik explicitly undertook the task of creating a transnational company out of the merger of an archetypal multinational company (Brown Boveri) with an old-line international organization (Asea). Today, ABB is truly what Barnevik set out to create—"a company that is big and small, global and local, decentralized but with central control"—and, in our view, one of the best examples of a transnational company. We describe in that chapter the path he and others took in creating the organization, not only emphasizing the structural and process changes (in the organization's anatomy and physiology, as we describe it in Chapter 13), but most importantly, by changing the behavioral norms and cultural values (the organization's *psychology*, in our terminology).

Finally, we have included at the end of this new edition some notes and frameworks that we have developed in our subsequent work with companies that were striving to build the kinds of capabilities we described in the book. As we worked with managers of companies around the world, their interest was to take the concepts and models that we had described and make them concrete and actionable within their organizations. The application handbook that is included as an appendix is the output of some of those interactions.

Our broad objective in adding this appendix is to help managers to think through the notions presented in the book chapters and to create some questions and exercises that can be applied to a specific business situation. In our experience with various companies, we have found that there are multiple benefits to be gained in undertaking such activities. First, the exercises can provide management with a similar world view and the language system to describe it; furthermore, they can give managers a framework through which to analyze their business and communicate its key

characteristics to one another; and, finally, such exercises can create a consensus on action required and even a framework for implementation. We hope that the new appendix will provide a practical set of tools for managers in those companies wanting to move beyond the ideas and into implementation.

The publication of *Managing Across Borders* was one of the most satisfying events in both our professional lives. Beyond the excitement of the research project and the satisfaction of seeing our findings in print, we also were blessed with an enormously helpful and supportive publisher in Harvard Business School Press. In the original acknowledgments, we recognized the editors and staff who were particularly helpful in the original publication, but our relationship with the Press has only deepened over time. The unfailing support and good friendship of their first-rate professional staff has meant a lot for both of us. In particular, we would like to recognize Carol Franco, the Press's extraordinarily capable director, and Kirsten Sandberg, the senior editor, who was the driving force behind this revised edition. To both of you and to all of our friends at HBS Press, thanks for your continued support and friendship

PREFACE TO THE PAPERBACK EDITION



In the two years since the publication of *Managing Across Borders*, the complexity of the international business environment has continued to increase. We have witnessed the beginning of an intricate transformation process within Eastern Europe, a broadening of the regionalization of trading blocs, an acceleration in the development and the diffusion of new technologies and innovative products worldwide, and an intensification of the battle among global competitors across a wide variety of industries.

Such developments have reinforced many of the imperatives for change we described. As their operating environment becomes more complex and multidimensional, managers around the world are concluding that they need to recognize and respond to that complexity, not minimize or deny it. To overcome the limitations of their historical strategic postures and structural configurations, they are striving to develop new organizational capabilities that will help them succeed in the charged competitive environment of the twenty-first century.

In this context, there are constantly reports in the business press of companies developing integrated worldwide structures linked by flexible management processes. The concept of transnational organization seems to be gaining a good deal of currency. IBM's announcement that it was transferring its important telecommunications business headquarters to London is only the latest in a long series of changes that confirm its objective of building an integrated worldwide network; Asea Brown Boveri, the European-based electrical engineering company, is deliberately and consciously trying to build a transnational organization through acquisition and integration of national companies around the globe; and Akio Morita, Sony's high-profile CEO, is

committed to the transnational concept, describing it to his own organization as “glocalization”—the combination of global integration and local responsiveness.

Yet, as more and more companies make the transition to become transnationals, one conclusion has become crystal clear: it represents a major managerial challenge. Our hope is that by describing the new transnational model and a framework for thinking about it, we can give managers and students of management the tools to help them through the complex strategic and organizational tasks they face. But it is a framework, not a formula. Individual managers still must undertake the hard work of analyzing their company’s particular environmental situation, understanding its unique administrative heritage, and developing the specific plan of action necessary to create the desired organizational capabilities. Those who succeed will have built a powerful and durable source of competitive advantage.

PREFACE TO THE FIRST EDITION



The 1980s have been a watershed for most large corporations worldwide. The era of “globalization” left most managers scrambling to understand the nature of the forces of change in their particular businesses, what responses were most appropriate, and, above all, how they could manage the more complex strategies and operations on an ongoing basis. This is the broad agenda we address in this book. Our objective is not only to report the core findings from a five-year study of nine of the world’s largest corporations, but also to provide practicing managers with specific guidance and recommendations to help them prepare for the challenges that will confront them as they prepare for the twenty-first century.

Many of the findings presented here have their roots in research begun a decade ago in Christopher Bartlett’s doctoral dissertation, and owe a great deal to the nurturing environment in which that effort began. The germination and initial nourishment of the ideas drew heavily on three important streams of research undertaken at the Harvard Business School in the 1970s—the strong business policy traditions pioneered by Kenneth Andrews and C. Roland Christensen, the major international business project led by Ray Vernon, and the influential organizational behavior research of Paul Lawrence and Jay Lorsch. Indeed, the gradual intersection of these streams of research influenced many of us who passed through the doctoral program in the 1970s, and the thesis findings and subsequent research of John Stopford, C. K. Prahalad, Yves Doz, and many others bear witness to the richness of the intellectual environment to which we were exposed during our training.

Although the roots of our current research were nourished in this intellectual soil, the real inspiration came from practicing

managers. In developing case material for an MBA course in management of the multinational enterprise, we realized that managers in a wide variety of industries and from all parts of the world were having enormous difficulty responding to the transformation taking place in the international business environment. But the in-depth case studies of more than twenty large worldwide companies—as diverse as Corning Glass Works, EMI, Dominion Engineering Works, Komatsu, Merloni, and Kentucky Fried Chicken—led to an unexpected finding. Most managers seemed to understand very clearly the nature of the *strategic task* they faced; their main problem was developing and managing the *organizational capability* to implement the new and more complex global strategies.

In order to study this issue more systematically, we decided to undertake a clinical study of a group of leading companies that were trying to adapt to the changes we had observed. The research methodology, described in detail in the Appendix, centered on a study of a diverse group of companies in three distinctly different industries. During two and a half years of field work, we interviewed 236 managers in the worldwide operations of Procter & Gamble, Unilever, and Kao in the branded packaged goods business, General Electric, Philips, and Matsushita in consumer electronics, and ITT, Ericsson, and NEC in the telecommunications switching industry.

Our objective was to gain a rich understanding of the organizational and administrative tasks facing managers in companies with worldwide operations in a time of major environmental change. At the most basic level, we wanted to identify and conceptualize the forces of change and the strategic challenges they presented. More specifically, we hoped to reach some understanding of the organizational characteristics required to manage in the emerging environment. And, finally, we wanted to extract some guidance on how companies might develop and manage such characteristics.

As the project continued, the issues we were researching took on even greater urgency and importance. The signing of the historic U.S.-Canadian Trade Agreement, the growing effectiveness of the ASEAN trading bloc, and the evolution toward an integrated Europe in 1992 forced managers in many companies to reevaluate how they were managing their international operations.

Even companies that were not seeking to expand abroad were confronted by the emerging challenges as the forces of internationalization reached out to embrace them. It became increasingly clear that the issues we were studying and the conclusions we were drawing were much broader than our original intention. The management of worldwide operations was the management of complexity, diversity, and change, and the same challenges faced all managers everywhere as the world's increasingly linked economies sped toward the twenty-first century. The transnational organization we describe, and the process we propose for building and managing it have lessons for managers in all large complex organizations.

While the book is written primarily for these managers, we hope that it will also be of value to our academic colleagues. In analyzing the clinical data and in developing conclusions, we have drawn on a diverse range of literature in the fields of organization theory, business policy, and international management. The Notes identify this literature and suggest how our arguments and findings relate to it.

While case research in nine companies constituted the core of our study and formed the basis of our observations and conclusions, we were also concerned with the broader validity and generality of these findings. Therefore, we carried out some intensive and extensive questionnaire surveys to complement the clinical studies. The detailed Appendix on research methodology describes the different approaches we adopted and also presents some of the more quantitative data and analysis that support the case study-based findings reported in the book.

ACKNOWLEDGMENTS

A major endeavor such as this would never have been completed without the support and guidance of many people and organizations. Our first and greatest debt of gratitude must be to the companies that cooperated in our study, and particularly to the 236 managers around the world who gave so generously of their time to us. It was through their patience and helpfulness that we gained whatever insights this book may contain, and the evidence of their direct contribution is scattered throughout the following pages in the form of quotes and references to their actions.

Next, we must thank the Harvard Business School for the funding and support it provided for our research. Under the successive guidance of Professors E. Raymond Corey and Jay Lorsch, the School's Division of Research has been unstinting in its belief in and commitment to the project. In addition, INSEAD's Research Department also backed the project and provided constant encouragement to our efforts.

A generous grant from the Rokkodai Foundation at Kobe University sponsored Christopher Bartlett during a one-month stay in Japan as a visiting professor at the university's Research Institute for Economics and Business. This extended visit provided an excellent opportunity to test and refine many of the ideas and concepts developed during the field work stage, and the foundation's support is gratefully acknowledged.

Among the many colleagues who contributed to this undertaking, two must be separated out for special recognition. Professors Hideki Yoshihara and Tadao Kogono of Kobe University were major collaborators from the earliest stages, and their counsel and advice added significantly to our understanding. Professor Yoshihara, in particular, spent many hours, not only

educating us on the subtleties of Japanese management, but also in acting as translator in many meetings and interviews. To both, we offer our heartfelt thanks, and are delighted that they have become not just respected colleagues, but good friends.

Nitin Nohria, now on the faculty at Harvard Business School, also contributed significantly as a research associate, both in his analysis of questionnaire data, and his contribution to the overall conclusions. In particular, his broad knowledge of relevant literature was of enormous help in preparing the endnotes. We are pleased to count him as a valuable colleague in our ongoing research.

Many other colleagues also contributed to the project by challenging our ideas and critiquing our draft manuscript. Among them were Professors Kenneth Andrews, Joseph Bower, Jay Lorsch, Malcolm Salter, and Michael Yoshino, all of Harvard Business School, Yves Doz and Dominique Heau of INSEAD, Donald Lessard of MIT, John Stopford of London Business School, and Gunnar Hedlund of Stockholm School of Economics. Many others have provided valuable input at various stages by their criticism of papers, articles, and conference presentations. Specifically, we would like to thank the editors and reviewers at *Harvard Business Review*, *Sloan Management Review*, *California Management Review*, *Human Resource Management*, and *Journal of International Business Studies*, where earlier drafts of many of our ideas were refined with their help and critical challenge. Despite all the advice, guidance, and support, however, we must bear final responsibility for the conclusions, including the errors and omissions.

We would also like to express our thanks to the editors and staff at Harvard Business School Press—particularly Barbara Ankeny, Natalie Greenberg, and Nancy Jackson—for their most helpful suggestions and comments; the wonderfully supportive staff of the School's Word Processing Department, who remained remarkably cheerful and patient through an interminable succession of drafts; and our secretaries, Cathyjean Gustafson and Jill Huret, who somehow managed to hold the whole project together by constantly juggling travel schedules and deadlines. To all of you, we offer our warmest thanks.

We reserve the last acknowledgment for those who really made our research possible—our wives and families. To Barbara,

Nicholas, Elizabeth, and Andrew, and to Susmita, Ananda, and Siddhartha, we owe the greatest debt. By providing a “safe haven” to which we could retreat after long field trips or tiring days of writing, they gave us the strength to see the project through. Their constant support and encouragement made it all worthwhile. To all of you, our thanks and our love.

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