

Christopher A. Bartlett | Paul W. Beamish

TRANSNATIONAL MANAGEMENT

Text, Cases, and Readings in Cross-Border Management



Sixth Edition



Transnational Management

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SIXTH EDITION

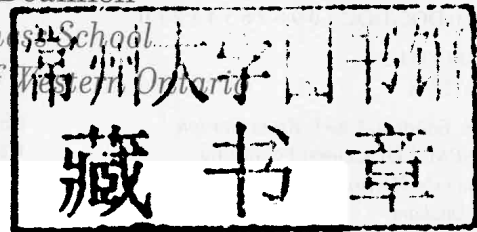
Christopher A. Bartlett

Harvard Business School

Paul W. Beamish

Ivey Business School

The University of Western Ontario



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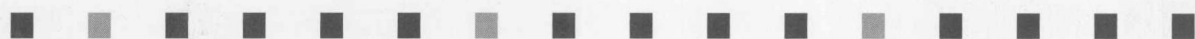
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Transnational Management



About the Authors

Christopher Bartlett is the Thomas D. Casserly, Jr., Professor Emeritus of Business Administration at Harvard Graduate School of Business Administration. He received an economics degree from the University of Queensland, Australia, and both masters and doctorate degrees in business administration from Harvard University. Prior to his academic career, he was a marketing manager with Alcoa in Australia, a management consultant in McKinsey and Company's London office, and country general manager of Baxter Laboratories' subsidiary company in France.

He joined the faculty of Harvard Business School in 1979, and over the following 30 years his interests focused on strategic and organizational challenges confronting managers in multinational corporations and on the process of managing transformational change. While at HBS, he served as faculty chair of the International Senior Management Program, area head of the School's General Management Unit, faculty chairman of the Program for Global Leadership, and as chair of the Humanitarian Leadership Program.

He is the author or co-author of nine books, including *Managing Across Borders: The Transnational Solution* (coauthored with Sumantra Ghoshal), named by *Financial Times* as one of the 50 most influential business books of the century. *The Individualized Corporation*, his subsequent major research book with Ghoshal, was the winner of the Igor Ansoff Award for the best new work in strategic management and was named one of the Best Business Books for the Millennium by *Strategy+Business* magazine. Both books have been translated into over 10 foreign languages. His articles have appeared in journals such as *Harvard Business Review*, *Sloan Management Review*, *Strategic Management Journal*, *Academy of Management Review*, and *Journal of International Business Studies*. He has also researched and written over 100 case studies and teaching notes, and their sales of over 3 1/2 million copies make him the best-selling case author ever. He has been elected by his colleagues as a fellow of the Academy of Management, the Academy of International Business, the Strategic Management Society, and the World Economic Forum.

Paul Beamish is the Donald Triggs Canada Research Chair in International Business at the Ivey Business School, University of Western Ontario. He is the author or coauthor of numerous books, articles, contributed chapters, and teaching cases. His articles have appeared in *Academy of Management Review*, *Academy of Management Journal*, *Strategic Management Journal*, *Journal of International Business Studies (JIBS)*, *Organization Science*, and elsewhere. He has received best research awards from the Academy of Management and the Academy of International Business (AIB). In 1997 and 2003, he was recognized in the *Journal of International Management* as one of the top three contributors worldwide to the international strategic management literature in the previous decade. He served as Editor-in-Chief of *JIBS* from 1993–97. He worked for Procter & Gamble and Wilfrid Laurier University before joining Ivey's faculty in 1987.

He has supervised 25 doctoral dissertations, many involving international joint ventures and alliances. His consulting, management training, and joint venture facilitation activities have been in both the public and private sector.

At Ivey, he has taught in a variety of school programs, including the Executive MBA offered at its campus in Hong Kong. From 1999–2004, he served as Associate Dean of Research. He currently serves as Director of Ivey Publishing, the distributor of Ivey's collection of over 2,400 current cases; Ivey's Asian Management Institute (AMI); and the cross-enterprise center, Engaging Emerging Markets.

He is a Fellow of the Academy of International Business, Royal Society of Canada, and Asia Pacific Foundation of Canada.

Preface

This book grew out of the authors' strongly held belief that the best international business research did more than capture the challenges, activities, perceptions, and best practices from the field. It also translated those findings into practical and relevant lessons for managers and students of management. Although one of the original authors, our late friend and colleague Sumantra Ghoshal, passed away six years ago, that founding philosophy fits very comfortably with his successor co-author on this volume, Paul Beamish, and lives on in this sixth edition.

In preparing this new edition, we have done all we can to ensure that the frameworks, concepts, and practical examples we have included are topical, relevant, and of importance to practitioners working in today's global business environment. We believe that those are the issues that are described in the case studies, illuminated by the articles, and embedded in the conceptual chapters that provide the framework for this course-long voyage in transnational management.

In the 20 years since the first edition of *Transnational Management* appeared, much has changed in the field of cross-border business management—new external demands have emerged, new strategic responses have been developed, new organizational capabilities have evolved, and new managerial competencies have become necessary. But old international hands will insist that these differences are largely superficial, and beyond such ongoing adjustments at the margin, the basics of managing a worldwide operation remain much as they have always been—understanding one's host country environment, being sensitive to cross-cultural differences, seeing the world as an integrated strategic reality, and being able to deal with the complexities of managing operations separated by the barriers of distance, language, time, and culture.

In many ways, both views are correct, and we are reminded of this with each revision of this volume, as we deal with conflicting pressures and demands that we must resolve with every new edition. On one hand we receive passionate input from teaching faculty anxious to keep up with the latest developments to keep the material fresh, reflecting the vibrancy of the field. But we also hear from those who recognize the importance of teaching the timeless international management issues that are often best captured in classic favorites. Based on input we received from the users of this text who are represented on our Editorial Advisory Board, we have sought to maintain this balance, retaining the most powerful existing cases and articles, while adding new material that captures the emerging issues that will keep courses fresh and students challenged. The end result is that, as in all previous editions, around half the cases and readings included in the sixth edition have been retained, and about half are new.

■ Distinguishing Characteristics of the MNE

What makes the study of the multinational enterprise (MNE) unique? The most fundamental distinction between a domestic company and an MNE derives from the social,

political, and economic context in which each exists. The former operates in a single national environment where social and cultural norms, government regulations, customer tastes and preferences, and the economic and competitive context of a business tend to be fairly consistent. Although within-country local variations do exist for most of these factors, they are nowhere near as diverse or as conflicting as the differences in demands and pressures the MNE faces in its multiple host countries.

The one feature that categorically distinguishes these intercountry differences from the intracountry ones, however, is *sovereignty*.¹ Unlike the local or regional bodies, the nation-state generally represents the ultimate rule-making authority against whom no appeal is feasible. Consequently, the MNE faces an additional and unique element of risk: the political risk of operating in countries with different legal systems, social attitudes, and political philosophies regarding private property, corporate responsibility, and free enterprise.

A second major difference relates to competitive strategy. The purely domestic company can respond to competitive challenges only within the context of its single market; the MNE can, and often must, play a much more complex competitive game. Global-scale or cross-border sourcing may be necessary to achieve a competitive position, implying the need for complex international logistical coordination. Furthermore, on the global chessboard, effective competitive strategy might require that a competitive challenge in one country might call for a response in a different country—perhaps the competitor's home market. These are options and complexities a purely domestic company does not face.

Third, a purely domestic company can measure its performance in a single comparable unit—the local currency. Because currency values fluctuate against each other, however, the MNE is required to measure results with a flexible measuring stick. In addition, it is exposed to the economic risks associated with shifts in both nominal and real exchange rates.

Finally, the purely domestic company must manage an organizational structure and management systems that reflect its product and functional variety; the MNE organization is intrinsically more complex because it must provide for management control over its product, functional, and geographic diversity. Furthermore, the resolution of this three-way tension must be accomplished in an organization that is divided by barriers of distance and time and impeded by differences in language and culture.

■ The Management Challenge

Historically, the study of international business focused on the environmental forces, structures, and institutions that provided the context within which MNE managers had to operate. In such a macro approach, countries or industries rather than companies were the primary units of analysis. Reflecting the environment of its time, this traditional approach directed most attention to trade flows and the capital transfers that defined the foreign investment patterns.

■ ¹This difference is elaborated in J. N. Behrman and R. E. Gross, *International Business and Governments: Issues and Institutions* (Columbia: University of South Carolina Press, 1990). See also J. J. Boddewyn, "Political Aspects of MNE Theory," *Journal of International Business Studies* 19, no. 3 (1988), pp. 341–63.

During the 1970s and 1980s, a new perspective on the study of international management began to emerge, with a far greater emphasis on the MNE and management behavior rather than on global economic forces and international institutions. With the firms as the primary unit of analysis and management decisions as the key variables, these studies both highlighted and provided new insights into the management challenges associated with international operations.

This book builds on the company- and management-level perspective. More specifically, in order to make sense of the practice of managing the MNE, we tend to adopt a management perspective that views the world through the eyes of the executive who is in the thick of it—whether that is the CEO of the corporation, the global account manager, the country subsidiary manager, or the frontline business manager. The most powerful way to do this is to employ cases that require decisions to be made, and most of those in this book provide the reader not only with data on the business context but also with detailed information about the key actors, their roles, their responsibilities, and their personal motivations. In many instances, videos and follow-up cases lead to further insight.

It would be easy to build our structure around the traditional functions of the company—R&D, manufacturing, marketing, etc.—and many texts have done so. But we find such an approach limiting because almost all real-world problems cut across these functional boundaries. They require executives to understand all the disparate parts of the organization, and they demand integrative solutions that bring together, rather than divide, the people working in their traditional functional silos. So we have also chosen to focus on the core *organizational processes* that executives must create and manage—the entrepreneurial process (identifying and acting on new opportunities), the integrative learning process (linking and leveraging those pockets of entrepreneurial initiative), and the leadership process (articulating a vision and inspiring others to follow). This process perspective is sometimes more difficult to grasp than the compartmentalized functional view, but ultimately it provides a more fulfilling and realistic approach to the management of today's MNE.

By adopting the perspective of the MNE manager, however, we do not ignore the important and legitimate perspectives, interests, and influences of other key actors in the international operating environment. However, we do view the effects of these other key actors from the perspective of the company and focus on understanding how the various forces they influence shape the strategic, organizational, and operational tasks of MNE managers.

■ The Structure of the Book

The book is divided into three parts (see figure on page xiii). **Part 1** consists of three chapters that examine the development of strategy in the MNE. In Chapter 1, we focus on the motivations that draw—or drive—companies abroad, the means by which they expand across borders, and the mind-sets of those who built the worldwide operations. Understanding what we call a company's "administrative heritage" is important because it shapes both the current configuration of assets and capabilities and the cognitive orientations of managers toward future growth—attitudes that can either enable or constrain such growth.

In Chapter 2, we examine the political, economic, and social forces that shape the business environment in which the MNE operates. In particular, the chapter explores the

tension created by the political demands to be responsive to national differences, the economic pressures to be globally integrated, and the growing competitive need to develop and diffuse worldwide innovation and learning.

In Chapter 3, the focus shifts from the global business environment to MNEs' competitive responses to those external pressures. Building on the themes developed in Chapter 2, we examine the various approaches an MNE can use to generate competitive advantage in its international context. We identify three traditional strategic approaches—global, international, and multinational—each of which focuses on a different source of competitive advantage. We then go on to describe the transnational strategy, which combines the benefits of the other three models.

Part 2 changes the focus from the MNE's strategic imperatives to the organizational capabilities required to deliver them. Chapter 4 examines the organizational structures and systems that need to be put in place to be effective in a complex and dynamic world. Mirroring the three traditional strategic approaches, we explore three organizational models that all appear to be evolving toward the integrated network form required to manage transnational strategies.

Chapter 5 focuses on one of the most important processes to be developed in a transnational organization. The need to manage effective cross-border knowledge transfer and worldwide learning is creating additional organizational demands, and in this chapter, we explore how such processes are built and managed.

Then, in Chapter 6, we lift our organizational analysis up a level to examine the boundary-spanning structures and processes needed to create joint ventures, alliances, and interfirm networks in a global context. In this chapter, we explore how such partnerships can be built and managed to develop strategic capabilities that may not be available inside any single MNE.

Part 3 focuses on the management challenges of operating a successful MNE. In Chapter 7, the focus is on those who must implement the transnational strategies, operate within the integrated network organizations, and above all, deliver the results. This chapter allows us to look at the world through the eyes of frontline country subsidiary managers, and shows how their actions can have important implications for the competitiveness of the entire corporation.

Finally in Chapter 8, we ask some broad questions about the present and future role of the multinational enterprise in the global economy. The powerful forces unleashed by globalization have had a largely positive impact on economic and social development worldwide. But like all revolutions, the forces of changes have acted unevenly, and there have been casualties. As the divide between the "haves" and "have nots" expands, the challenge facing MNEs is to determine what role they can and should play in mitigating some of the unintended consequences of the globalization revolution. It is a challenge that should confront every current executive and be central to the task of the next generation of leadership in transnational companies.

■ Acknowledgments

Transnational Management has also benefited from the comments, suggestions, and insights provided by colleagues at the hundreds of institutions around the world that have adopted this book. In particular, we would like to acknowledge the role played by the Editorial Advisory Board (listed on page xii) who committed significant effort to providing a detailed critique of the fifth edition that helped us make decisions about what to include in this edition. We have also had extraordinary support from our colleagues in other institutions who have provided valuable feedback and suggestions for improvement. In particular, we would like to acknowledge Shih-Fen Chen, Jean-Louis Schaan and Charles Dhanaraj.

Next, we are extraordinarily grateful to the researchers and colleagues who have contributed new materials to this edition. In addition to our own case materials, new case studies have been provided by Rod White, Hari Bapuji, Bo Nielsen, Torben Pedersen, Jacob Pyndt, Jean-Louis Schaan, Andreas Schotter, Harry Lane, Jordan Siegel, John Quelch, Stefan Thomke, and Ashok Nimgade. Articles new to this edition and focused on important research have been contributed by Marcus Alexander, Harry Korine, Arindam K. Bhattacharya, David C. Michael, Pankaj Ghemawat, Jeanne Brett, Kristin Behfar, Mary C. Kern, Julian Birkinshaw, Cyril Bouquet, Tina C. Ambos, John Bessant, Rick Delbridge, and Thomas Donaldson.

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Despite the best efforts of all the contributors, however, we must accept responsibility for the shortcomings of the book that remain. Our only hope is that they are outweighed by the value you find in these pages and the exciting challenges they represent in the constantly changing field of transnational management.

Christopher A. Bartlett
Paul W. Beamish

■ Editorial Advisory Board

Our sincere thanks to the following faculty who provided detailed feedback and suggestions on the materials for this edition.

Name	School
Andrew H. Hageman, PhD	American InterContinental University
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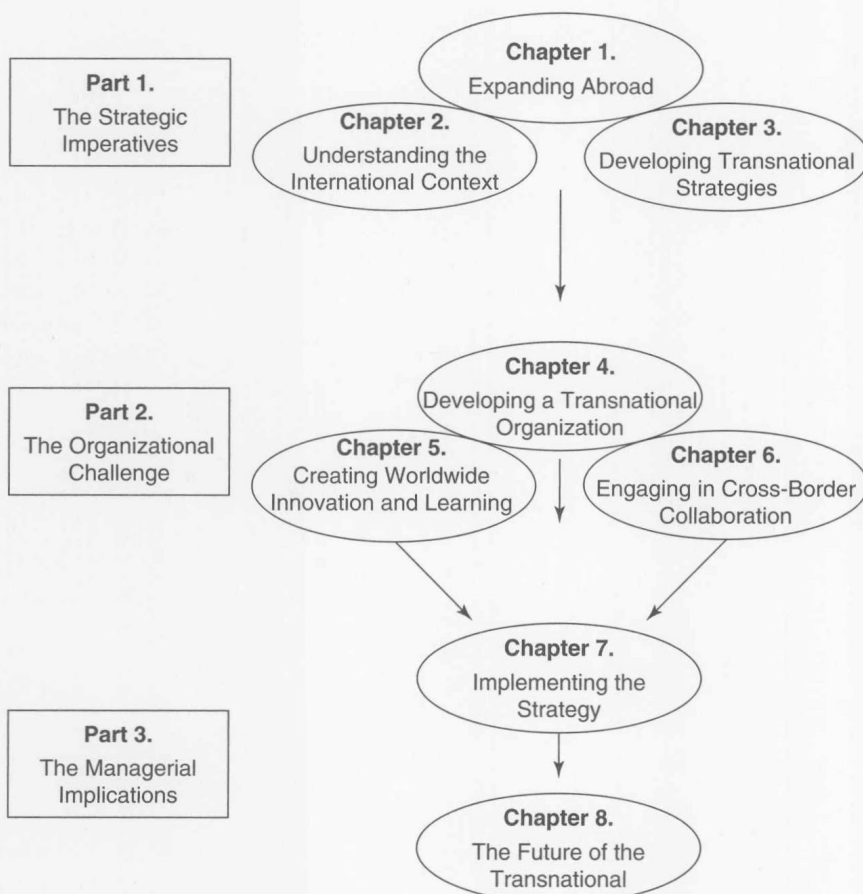


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Expanding Abroad: Motivations, Means, and Mentalities

In this chapter, we look at a number of important questions that companies must resolve before taking the leap to operate outside their home environment. What market opportunities, sourcing advantages, or strategic imperatives drive their international expansion? By what means will they expand their overseas presence—through exports, licensing, joint ventures, wholly owned subsidiaries, or some other means? How will the attitudes, assumptions, and beliefs that they bring to their international ventures affect their chances of success? Before exploring these important questions, however, we first need to develop a definition of this entity—the multinational enterprise (MNE)—that we plan to study and develop some sense of its size and importance in the global economy.

This book focuses on the management challenges associated with developing the strategies, building the organizations, and managing the operations of companies whose activities stretch across national boundaries. Clearly, operating in an international rather than a domestic arena presents managers with many new opportunities. Having worldwide operations not only gives a company access to new markets and low-cost resources, but also opens up new sources of information and knowledge and broadens the options for strategic moves the company might make in competing with its domestic and international rivals. However, with all these new opportunities come the challenges of managing strategy, organization, and operations that are innately more complex, diverse, and uncertain.

Our starting point is to focus on the dominant vehicle of internationalization, the multinational enterprise (MNE), and briefly review its role and influence in the global economy.¹ Only after understanding the origins, interests, and objectives of this key actor will we be in a position to explore the strategies it pursues and the organization it develops to achieve them.

■ ¹Such entities are referred to variously—and often interchangeably—as *multinational*, *international*, and *global enterprises*. (Note that we use the term “enterprise” rather than “corporation” because some of the cross-border entities we will examine are nonprofit organizations whose strategies and operations are every bit as complex as their corporate brethren’s.) At the end of this chapter, we assign each of those terms—*multinational*, *international*, and *global*—specific meanings, but throughout the book, we adopt the widely used MNE abbreviation in a broader, more general sense to refer to all enterprises whose operations extend across national borders.