Managing the Global Firm
Strategy and Structure

Professor Mauro Guillén
Organization of the Firm

- Strategy → Organizational structure
- Product and geography
- The matrix structure
- Human resource management
- Corporate governance
- Managing the local subsidiary
- Managing political risk
Strategy and Structure

• Classic approach
  • The firm chooses its strategy first and then designs the most appropriate organizational structure
  • Prevailing structure may hinder a needed change in strategy
Organizational Structure

- Essential aspect of all relatively complex firms
- May be a competitive weapon or an obstacle to competing effectively
Structural Elements

- Components:
  - Work teams
  - Functional departments
  - Product divisions
  - Business units
  - Profit centers

- Relationships among the components:
  - Line and staff
  - Communication and coordination:
    - Vertical
    - Horizontal
Other Structural Aspects

- Compensation
- Incentives
- Careers
- Prestige
- Status
- Responsibility
- Attributions of responsibility
Basic Functional Structure

- Top Management
  - Staff
    - R&D
    - Purchasing
    - Production
    - Sales
    - Service
Basic Functional Structure with Export Department

Top Management

Staff

R&D  Purchasing  Production  Sales  Service

Export Department
Basic Functional Structure with International Department

Top Management

Staff

R&D  Purchasing  Production  Sales  Service

International Department
Managing the Global Firm
Structures by Product and Geography

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Complexity

• What’s the best structure when the firm has a presence in multiple countries and multiple product lines?
• How can priorities be established?
• Which is more important? Efficiency or the ability to adapt to the local market
Opposing Forces

Place vs. Product: It’s Tough to Choose
A Management Model

One System Is Based on What A Firm Makes, the Other On Where It Operates
## Two Styles of Innovation

<table>
<thead>
<tr>
<th>PHILIPS</th>
<th>Panasonic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907 Tungsten-filament lamp</td>
<td>1950s: Quality control circles</td>
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<tr>
<td>1963 Compact Audio Cassette</td>
<td>1960s: Corporate culture</td>
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<tr>
<td>1972 VCR</td>
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<tr>
<td>1983 Compact disc</td>
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<tr>
<td>1983 GSM system</td>
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<tr>
<td>1998 DVD (first to market in ‘01)</td>
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</tbody>
</table>
Detailed Value Chain Analysis

**PHILIPS** Innovator

- **R&D:** centralized "Ivory Tower"
- **Product Divisions**
- **National Organizations**
- **Research**
- **Development**
- **Manufacturing**
- **Sales**
- **Service**

**Panasonic** Implementer

- **25,000 shops**
- **METC**

- **Strong link**
- **Weak link**

Engineers move down value chain with project
Divisional Structure by Product Line
Divisional Structure by Product Line

• Separate product lines

• Appropriate when:
  • There are economies of scale or synergies within each product line
  • There is a steep learning or experience curve within each product line
  • Price-elasticity of demand is high
The Role of the Product Division Manager

- Develop competitive products
- Meet delivery deadlines
- Provide uniform quality
- Keep costs under control
- Provide after-sales service
Geographical Structure

Top Management

Staff

Country 1

Country 2

Country 3

Country 4

R&D

Inputs

Production

Sales

Service

R&D

Inputs

Production

Sales

Service
Geographical Structure

• When local adaptation needs are very strong
• When there are legal requirements
• When there is trade protectionism
• When transportation costs are very high
The Role of the Country Manager

- He or she is the visible head of the company
- Coordinates all of the relationships with stakeholders in the country
- Coordinates all functional and product-line activities in the country
- Reports to the head office
Bidimensional Structure (function × product line)

- Top Management
  - R&D
  - Inputs
  - Production
  - Sales
  - Service

- Line 1
- Line 2
- Line 3
Global Matrix Structure (country × product line)
3-Dimensional Structure (function × country × product line)
The Matrix Structure’s Benefits

• Allows to simultaneously reduce costs and adapt locally
• Facilitates the diffusion of information across the firm worldwide
• Identify and exploit cost, quality, and innovation synergies
Examples

• Consulting firms
• Firms that work on a project-based basis
• Companies that have grown internationally through acquisitions of firms with a local presence, but that wish to coordinate or integrate activities across borders
Challenges of the Matrix Structure

• Above a certain level, each manager has two bosses, one divisional and the other geographical
  • May lead to frictions and conflicts
• Normally 200-1500 managers operate in the matrix, depending on the firm’s size
• Before the matrix was created, each had a trajectory in either a product or a geography
Possible Solutions

- Determine beforehand who has the authority to solve a conflict or dispute
- Establish mechanisms of arbitration or mediation
- Organize project teams, committees or ad-hoc groups
- Promote cooperation through incentives, shared culture, or repeated games
Managing the Global Firm
Human Resources at the Multinational Firm

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Human Resources and Internationalization

- All international firms or firms in the process of internationalizing need managers that a local firm may not need.
- Ideal characteristics of those managers depend on the strategy and the structure of the firm.
- The firm needs to develop a coherent policy of international human resources.
Exporting Firms

- An exporting firm needs international managers who know:
  - The firm’s products
  - The international markets targeted by the firm
  - The relevant operational, logistical, and legal procedures
Firms with Foreign Operations

• Multi-local firms with geographical structures
  • Need managers who understand the local context and can adapt quickly to the local environment

• Global firms with divisional structures
  • Need managers that understand the products and the technical details

• Global firms with matrix structures
  • Need managers with diverse skills
Expatriate Managers

• This is one of the most complex and problematic topics in multinational management

• There are multiple considerations
  • Individual: remuneration, promotion, training, adventure element, etc.
  • Local subsidiary: access to knowledge, access to HQs, dispute resolution, etc.
  • HQs: coordination, control, managerial development, etc.
Challenges

• Normally expatriate managers rotate every 5 years
• The cost of an expatriate is much higher than that of a local manager (as much as 3 times)
• A very high proportion of expatriates fail in their assignment or leave the position early
When to Use Expatriates

- The expat is the person with the best experience and knowledge for the position
- The expat has the best experience and technical knowledge in general
- The firm wishes to develop international human resources
- The firm wishes to launch a new and unique project
- The firm wishes to transfer technology or knowledge
Most Frequent Destinations

- China
- UK
- USA
- Singapore
- Switzerland
- Germany
- Japan
- India
- Brazil
Considerations

• Cost relative to local manager
• Position requirements versus overall managerial development policies
• Need to develop a global corporate culture
• Fairness, non-discrimination, symbolism
• Relocating an existing manager versus hiring a manager from the outside
Expatriates: ROI

- Difficult to define
  - How cost relates to goals
  - Impact on the manager’s career
  - Benefits to the firm
- Few firms calculate it
The Expatriate is Not Alone

- Spouse
- Partner
- Children
- Dependent parents
- Other dependents
Conditions

• Salary
• Expatriate bonus
• Moving costs
• Cost of living
• Spouse/partner: job, lost income, etc.
• Insurance
• Tax treatment
• Linguistic and cultural training
Most Frequent Problems

- High cost
- Identifying the right candidate
- Avoid exceptions and preferential treatment
- Managing the expatriate’s career
- Expatriate retention
- Difficulty in benefiting from the acquired experience when redeploying the manager to another position
Managing Global Teams

DISTRIBUTED
- Geographically (across the world)
- Structurally (across the organization)

DIVERSE
- Nationally (origin, culture, language)
- Demographically (race, gender, age)

DYNAMIC
- Members move in and out of team
- Members work on multiple teams

DIGITAL
- Rely on communication technologies and on collecting & using data to get their work done

For more details, see Haas & Mortensen (2016), “Building a High Flying Team”
Local Subsidiaries

- Subject to the host country’s laws
- Ownership structure
- Local stock market listing
Corporate Governance

• Set of rules, incentives and safeguards aimed at making the rights and aspirations of different stakeholders compatible with each other.
Stakeholders

- Shareholders
- Bondholders
- Employees
- Suppliers
- Customers
- Corporate HQs
- Local government
- NGOs
- Political parties
- Labor unions
Good Corporate Governance

• Transparency
• Reduced conflicts of interest
  • Shareholders / managers
  • Large / small shareholders
  • Shareholders, employees, managers, etc.
• Efficient resource allocation
• Promotion of innovation
• Allocation of responsibility
Main Dimensions

- Shareholders
  - Types: large/small, families, banks, state, institutional, sovereign wealth funds, etc.
  - Protection of minority rights: one share, one vote; proxy by mail; non-blocking of shares before a meeting; low threshold for calling a meeting, etc.

- CEOs
  - Background: production/marketing/finance; law/business/engineering.
  - Autonomy in decision making
  - Remuneration and incentives
  - Role on the board

- Board
  - Structure & size
  - Functions
  - Composition: executives, shareholder blocks, independents

- Roles given to creditors, suppliers, and workers.
- Market for corporate control
Legal Systems

Source: University of Ottawa.

- Civil law
- Common law
- Customary law
- Fiqh (Islamic)
- Common & civil law

Source: University of Ottawa.
Civil Law vs. Common Law

• Lower protection of minority shareholders, and as a result
  • More concentration of ownership
  • Greater benefits to private control
  • Lower dividend payouts
  • Lower valuations
  • Lower development of financial markets (lower market capitalization, lower turnover)
Stock Market Cap (%GDP) at different levels of shareholder protection
Example: Post M&A Dynamics

• Analysis based on questionnaires sent to 190 acquirers from 14 countries that undertook 253 acquisitions in 27 countries
• Findings:
  • If shareholder rights are better protected in the country of the acquirer than in the country of the target, there is more post-acquisition restructuring (R&D, manufacturing, sales networks)
  • If labor rights are better protected in the country of the target, there is: (1) less post-acquisition restructuring (R&D, manufacturing, sales networks); and (2) less post-acquisition redeployment of resources (technology, marketing, management) from the acquirer to the target and vice versa
  • If the acquirer is experienced at making M&As, the negative effect of labor rights in the country of the target is smaller

Board of Directors

- Board independence relative to executive managers
- Independence of board committees
- Interlocking directors
- Homophily and diversity
Multinational Enterprise and Corporate Governance

• It’s very important to plan the ownership structure of the foreign subsidiaries of the firm

• In particular, it is very important to ponder the advantages and disadvantages of listing the subsidiary in the host country’s stock market
Stakeholder Management

• The local subsidiary may play a very different role for the company and for local stakeholders

• It’s important to understand that dynamic and the extent to which the preferences and goals of the various parties overlap or are in conflict
Practical Considerations

- Local shareholders and stakeholders prefer to report greater profits in the subsidiary than at the corporate level.
- Local suppliers and employees prefer long-term investments.
- The local government prefers investments that include an export element or that involve technology transfers.
Managing Stakeholders

- Engagement and involvement
- Consider the impact of each stakeholder’s opposition on profits
- Active management of the firm’s opportunity set:
  - Define areas of interest
  - Create real options by minimizing and structuring investment until uncertainties disappear
  - Create a portfolio of opportunities
Best Practices of Corporate DIPLOMacy

- **DUE DILIGENCE**: Stakeholder mapping & analysis
- **INTEGRATION**: Integrating stakeholder data into core business systems
- **PERSONAL**: Earning stakeholder trust & the social license to operate
- **LEARNING**: Adapting to negative feedback in a necessarily imperfect system
- **OPENNESS**: Strategically communicating to reinforce trust & reputation
- **MINDSET**: Cultivating an externally-facing organizational mindset

Analytical  Behavioral-External  Behavioral-Internal

For more detail, see [http://www.corporatediplomacy.com](http://www.corporatediplomacy.com) or join [LinkedIn Group](http://www.linkedin.com) or follow [@whenisz](https://twitter.com/whenisz)

See also summaries at [Brunswick Review](http://www.brunswickreview.com), [K@W](http://www.kaw.com), [Network for Business Sustainability](http://www.networkbusinesssustainability.com) and the [Penn Gazette](http://www.penngazette.com)
Cross-Sector Partnerships & Emerging Market Strategy

= Long-term, voluntary sharing of resources between private, public and/or non-profit sector organizations

**OPPORTUNITIES**

Tackle large-scale socio-political & economic challenges of mutual concern

- Learn how to operate and reach new customers in emerging markets
- Enhance employee engagement

**CHALLENGES**

- During joint projects: Foster collaboration by building trust between partners w/ radically different organizational identities
- After joint projects: (Re)integrate employees and their new knowledge / skills into partners’ core strategy and operations

Definition of Country Risk

• The possibility that a future event or trend might affect the firm’s interests in an adverse fashion

• Components:
  • Administrative
  • Regulatory
  • Political
  • Economic
  • Social
  • Cultural
Risk vs. Uncertainty

• Risk is quantifiable
  • One may calculate the probability of an event or a trend
  • The probability can be incorporated into the calculation of the rate of return

• Uncertainty cannot be quantified. The best protection against it is to:
  • Avoid situations in which other actors (especially political actors) enjoy discretionary decision-making powers
  • Avoid embarking on a path that is irreversible
Administrative Factors

- The firm operates in an environment in which the government’s bureaucracy can increase country risk.
- Example: a delay in an administrative decision.
Regulatory Factors

• The government or the bureaucracy may change or not apply uniformly operational conditions affecting the firm in terms of:
  • Entry requirements
  • Taxation (including amortization rules)
  • Applicable exchange rates
  • Export requirements
  • Profit repatriation rules
  • Regulated prices
Political Factors

• The legislative, executive or judicial branches may change operational conditions for internal, external or bilateral reasons

• A change in the composition of any of the branches may make such changes more likely

• A change in the political regime or constitutional frame, though less frequent, may bring about important changes
Economic Factors

- Macro: Unexpected changes in the business cycle
- Micro: Unforeseen entry of new competitors or mergers that might alter the competitive structure in the host country
Social and Cultural Factors

• Unexpected changes of a social or cultural nature that might affect the structure or characteristics of demand in the host country

• The occurrence of boycotts or other kinds of adverse reactions to the goods or services sold by the firm
What Does the Firm Prefer?

- Stability: Legal, administrative, regulatory, political, economic, social, and cultural
- The firm must carefully examine the nature of local subsidies because they may become a double-edged sword
The Basic Dilemma

• During the negotiation phase, the firm prefers:
  • Direct access to politicians, regulators or administrators
  • Negotiate with them if they enjoy decision-making discretion

• During the operational phase, the firm prefers:
  • Continued direct access
  • Politicians, regulators or administrators with no decision-making discretion so that they cannot unilaterally change negotiated conditions

• That constitutes a dilemma, and a temptation
The Obsolescent Bargain

• The firm must accept that every negotiation with the government may become obsolete if the government changes its position or if the government itself changes.

• As a result, the firm must:
  • Analyze the government’s intentions
  • Estimate the probability of a change
  • Examine its own negotiation power before and after making the investment
  • Keep its options open
Transactional Risk

- Transactional risk may exacerbate or mitigate country risk
- Two aspects to consider:
  - Transactional risk related to the type of investment
  - Transactional risk related to the presence of a local partner
## Transactional Risk by Type of Investment

<table>
<thead>
<tr>
<th>Type of investment:</th>
<th>Before investing:</th>
<th>After investing:</th>
</tr>
</thead>
<tbody>
<tr>
<td>In search of natural resources</td>
<td>Large &amp; long-term investment helps the MNE extract commitments from host government, unless there is competition to invest.</td>
<td>Balance of power shifts to host government as it learns about the production process and investment cost is sunk.</td>
</tr>
<tr>
<td>In search of markets</td>
<td>MNE is weak because host government can decide who can establish operations inside the protected market.</td>
<td>Balance of power shifts to MNE as it develops links to suppliers, buyers, and joint-venture partners.</td>
</tr>
<tr>
<td>Export-oriented investments</td>
<td>Host government is weak if labor cost is the locational advantage; somewhat stronger if investment is capital-intensive.</td>
<td>Balance of power does not shift so long as locational advantages do not change, and assets are mobile (e.g. machinery).</td>
</tr>
</tbody>
</table>

## Transactional Risk & Local Partners

<table>
<thead>
<tr>
<th>Transactional Risk:</th>
<th>Political Risk:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HIGH</strong></td>
<td>LOW</td>
<td>Collaboration with a local partner is neither necessary nor advisable.</td>
</tr>
<tr>
<td></td>
<td>HIGH</td>
<td>Collaboration with a local partner is useful but is risky.</td>
</tr>
<tr>
<td><strong>LOW</strong></td>
<td>LOW</td>
<td>Collaboration with a local partner is not necessary.</td>
</tr>
<tr>
<td></td>
<td>HIGH</td>
<td>Collaboration with a local partner is the optimal solution.</td>
</tr>
</tbody>
</table>
Conclusion

• The firm must choose an organizational structure that is congruent with its competitive strategy
• Managing the firm internationally involves many decisions and many tradeoffs
• There are many ways in which the firm can protect itself against risks in foreign locations