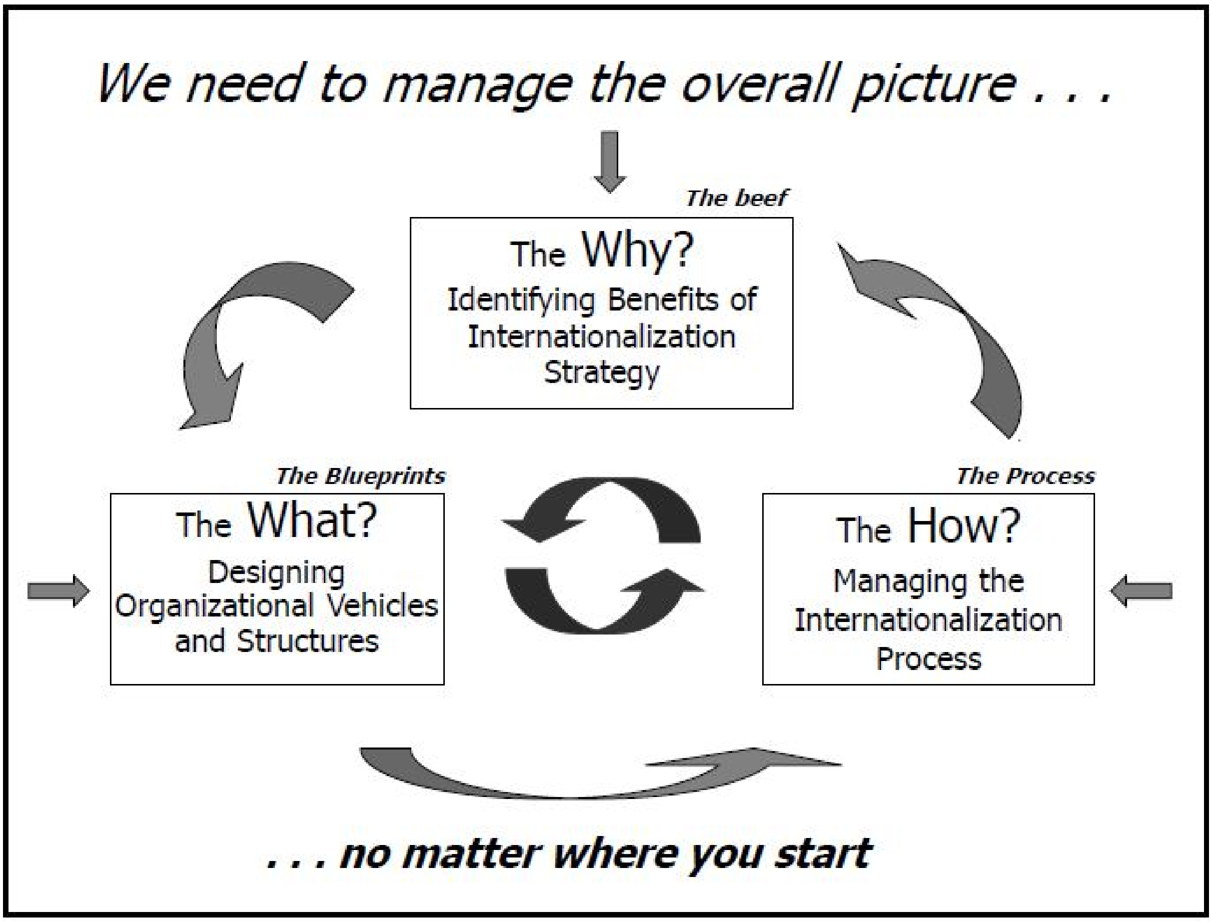
International Management



Section 1 : On the Benefits of Internationalization (WHY)

Chapter 1: Internationalization: The only Way to Go?

See book and p 56

Chapter 2 : The Conelearn Framework

The aim of this chapter is to understand in what way(s) one can expect to realize real benefits when you internationalize. It is important for detailing the underlying reasons and benefits of internationalization for 3 reasons:

- Better understand what type of benefit to go after (cost, turnover, value proposition,…)
- Assess the importance of the advantage (how important is it for your business and your clients)
- Get an idea of the urgency or priority (the importance of timing) (the real dividends will show up only after a significant time span)

A. Cost advantages

Refer to the efficiency aspect of the business: how can you build a superior cost position from being an international company? These can come from 5 different ways:

1. *Economies of scale*

   Refers to the assumption that companies may be able to lower their costs, more specifically the cost per unit produced or delivered, by working on a larger scale. They are subsumed in a production environment, but also in technology intensive businesses that require considerable investments in fixed assets.

   Scale economies could represent an imperative for developing international coverage, when the domestic market is too small to reap the advantages. However, important limitations seem to impede reaping scale economies to their full extent (taste, regulations, local prerequisites, …). Therefore they are most easily achieved in the domestic market so it is better to realize them first closer to home.

2. *Capacity utilization*

   It stipulates to what extent the fixed costs of the capacity have been exploited. By conquering international markets, you may find a market for the remaining capacity that your firm can produce. But here too, external limitations can make it hard to fill up capacity with production for foreign markets (product requirements).
   However, you must ask yourself why you started with unused capacity in the first place.

3. *Access to input factors*

   Access to cheap labour (since it is not perfectly mobile) has become a major drive in the internationalization of many companies. However, a decision on relocation should be made on a **broader set of relevant cost factors** (productivity, transport, input factors, increasing costs in other parts of the business system) , and over a **longer time frame** (sources of cheap labour dry up)

   ⇨ The net benefits of relocation are questionable and cannot be a source of sustainable advantage as these lower costs are equally available to competitors.

4. *Learning curve*

   The decline in costs as a company gets more accumulated units produced or delivered. It makes you master your technology and systems, and improve them as to become more cost efficient. Internationalization can increase your output and as a consequence make you move faster on the learning curve. This is especially translated into the need to have the highest market share.

5. *Applying concepts across borders*

   The ability to copy or leverage an existing concept, formula or system to other markets. It allows you to write the expenses off over a bigger total market. There are also limits here, but it seems that especially in service businesses, this has been a key bonus of internationalization.

B. Network benefits

Cover the advantages to clients of having an international supplier → be where the client is (ex: credit card business, service business, telecom, hotels, …).
These kind of benefits are situated more on the income side than on the cost side. They are *pulling* you towards foreign markets, while cost advantages are *pushing* you.
Network benefits mostly entail a standardize product or service across the different countries, so it often goes hand in hand with a cost benefit for the supplier.

However, network benefits should not be taken for granted. A precondition for network benefits to materialize is that clients appropriate value to an international offering from suppliers. Will your offer to the client be more attractive, better or cheaper because of your international network? Be clear about what clients are expecting and what they are really getting from it. Be also sure that you can actually deliver a network benefit to the client (ex: Saachi & Saachi).

Cone and international strategies

The unique feature of the cost advantages and network benefits (Cone) is that their presence and relative level should allow you to evaluate the added value of international presence, and provide guidance on the appropriate international strategy and level of coordination and integration between the international activities.

There is a spectrum of available international strategies in which you will have to find an equilibrium:

- You can follow a single standardized, *global* strategy,
- Others have a more international coverage, but still adapt their products to the local preferences and follow a *multi-local or multinational* strategy

GLOBALIZATION	⟷	LOCALIZATION
Global strategy		**(multi-)local or (multi)national strategy**

Assessing costs and network pressures in what we will call the international playing field and their changing nature should help us in the process of finding the appropriate equilibrium.

- *The international playing field*

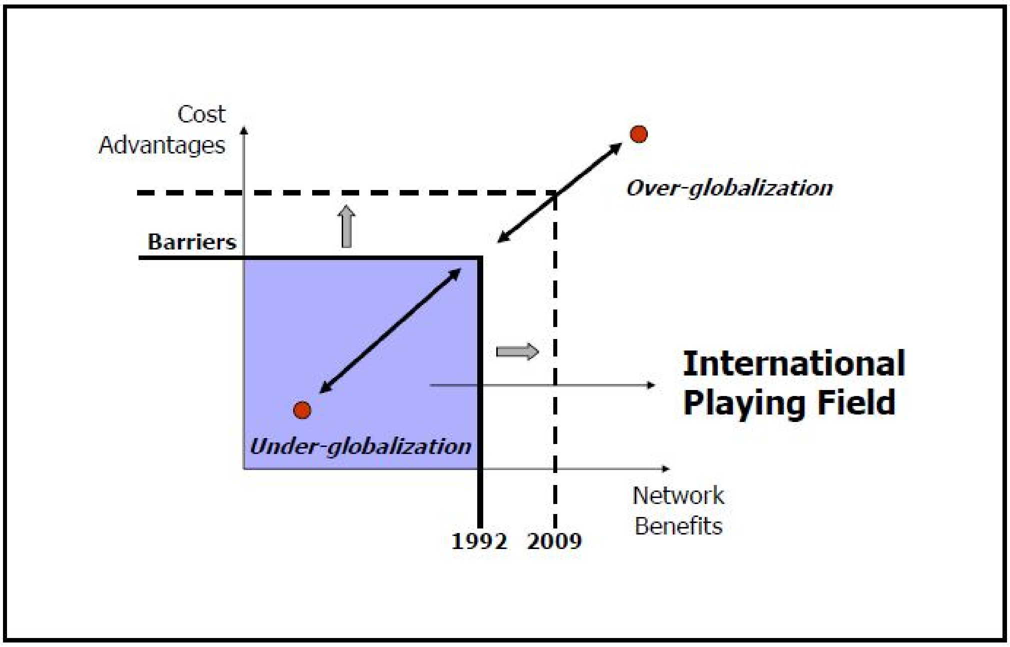
The balancing act heeds on the one hand

- **Globalization potential:** It is the opportunity space defined by the amount of cost advantages and network benefits as identified in the Cone framework. These are pressures for more standardization and coordination in the different geographies.

And on the other hand:

- **Limitations on globalization**: different national cultures, diverse regulations and languages. These are very significant.

The potential for globalization can intrinsically be tremendous because of the significant cost advantages and network benefits from standardization, but simply be unrealizable because of the differences in regulations, customer needs, language and so on.

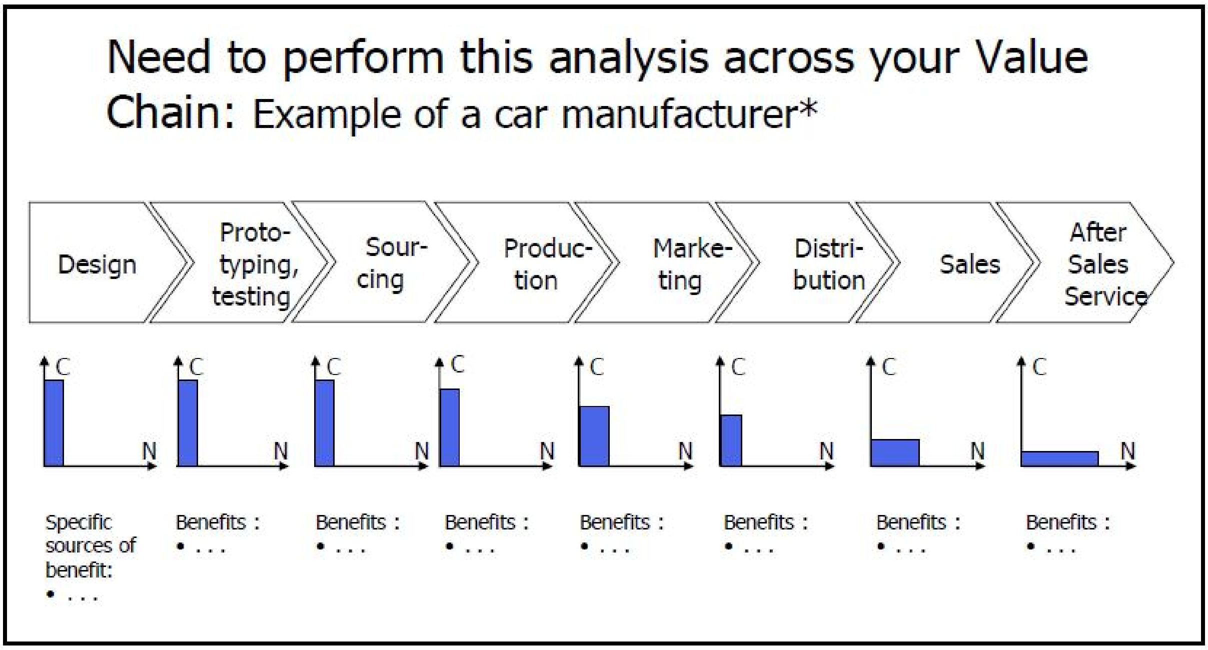


The optimal international strategy is on the edge of the international playing field where network benefits and cost advantages are maximized within the barriers.

o *Analysis to a fine level of detail*

Some industries have different global presence than others and the Cone benefits and the size of the international playing field in that business explain why (ex: car industry vs. catering services).

However, potential cost drivers and network benefits may also differ by functions and activities



within the value chain, representing the different value adding activities that a company performs. Cost advantages are typically more important in the upstream activities – such as R&D and production, while network benefits are more prevalent in the downstream activities. This explains why companies typically standardize "what the customer cannot see".

It shows that a detailed Cone analysis at activity level can be much more powerful than the simple general conclusion that there are cost and network benefits in the domestic appliances business or car industry. One should even go further and perform this analysis at the level of individual tasks, activities and processes within each function.

- *Regional strategies: a third or a middle way for multinationals*

We increasingly see that companies balance the advantages of globalization (efficiency) and localization (responsiveness) through *regional* strategies and organizations (ex P&G, 3M). This is explained by:

- Economies of scale that can be partly or even wholly captured with a regional approach and not necessarily require full blown globalization.
- Market convergence that already seems to be taking place at a more regional level.
- Easier to manage than global organizations and less costly
- Allow for a more flexible attitude towards local requirement in the market
  - ⇨ **Cone benefits may be realizable at the regional level!**

But: Building the regional strategy and organization is hard enough on itself, and the key challenges remain the same:

- How to overcome the national interests
- Align the strategies across countries

Companies have different reasons for operating regionally

- They "overglobalized" and had to take a step back. Global strategies become multi-national
- Use regionalization as a transitory stage for future globalization. But there is a risk of getting stuck there.

- *The dynamics in the international playing field*

The playing field expands because:

- ✓ The globalizations limitations are falling: regulations are changing, transportation costs decreasing, new technology,…
- ✓ The localization pressures start waning: consumer habits converting, international mobility of people is increasing, …
- ✓ An international network is increasingly beneficial for a growing number of clients

➔No matter what the exact source of the changing international playing field is, it would be dangerous to expect the global-local balance to remain unchanged for a long period.

- *Over- and underglobalization: the critical role of timing*

  2 timing mistakes:
  - *Overglobalization:* too much internationalization, too soon. (Saachi & Saachi)
  - *Underglobalization:* too little internationalization, too late. (DAF trucks)

- *Analysis and vision*

  Some companies overglobalize on purpose because they realize that anticipating market evolutions or overdoing globalization may prepare them for further developments in the market. However, this requires a thorough understanding of the industry dynamics, of the globalization potential, and the pressures for cost and network advantages.
  Sometimes the belief that markets are standardizing acts as a self-fulfilling prophecy.

  Other companies are willing to take the consequences of ignoring local differences and cash on the cost and network advantages. But they remain vulnerable to local competitors.

Cone in the European landscape

2 events: Europe 1992 programme, and Euro introduction converged the market and reduced the amalgam of national markets.

- *Europe is no longer Europe*

  The European single market programme has eliminated significant barriers and limitations all over the EU For most companies the international playing field has extended on both axes since 1992. The danger is that one starts believing that countries no longer matter. There still remain significant barriers.

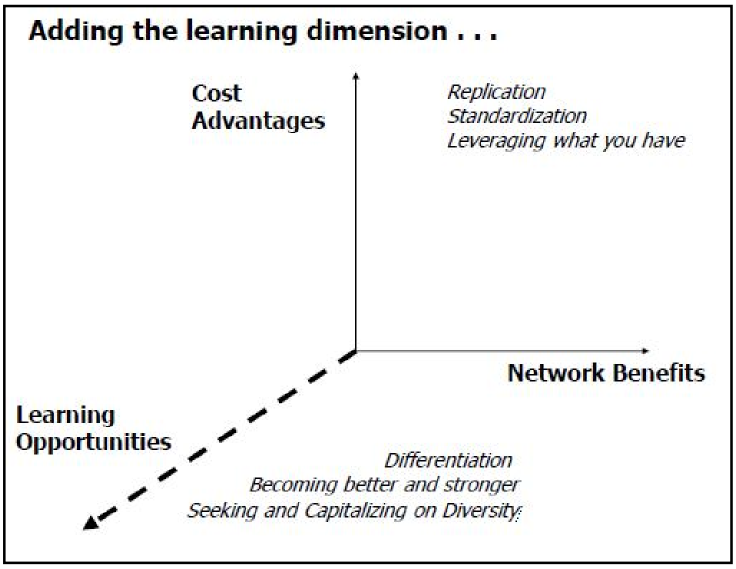
- *Europe is not Europe yet*

  The European market was not really as uniform as anticipated, and only limited Cone benefits could actually be gained from integration. 1992 and the common currency were not only overestimated in terms their its total effect, but also in terms of the timing. Changes in the business and market take a lot more time to realize.
  What is key is that companies realize that the tendency towards homogenization is an ongoing process that they should carefully monitor and adapt their approaches to. They should be very aware of the "too much, too soon" trap in the European context.
  - Still fare from a single euro price
  - Purchasing habits of consumers have not changed
  - Different costs and market structures

  The smartest way to deal with European convergence and dissimilarities is to see it as an opportunity for value creation.

C. Learning opportunities

Our CONE frame misses a more dynamic, interactive perspective on managing international activities.



Learn is a different type of benefit : The power of diversity, ability to learn and upgrade the know-how and knowledge from operating in many different places and environments, and ultimately to become a more competitive company at home and elsewhere.

- Learn from the diversity of clients, competitors, markets and regulations under the assumption that you can benefit
- Implies that you manage diversity rather than avoid it.
- Use the learning to improve, upgrade and even fundamentally change your business concept.

In contrast to the cost and network benefits, the question here is not how we can recoup some of the investments or sunk costs in concepts and formulas, but how to leverage and build more know-how and expertise for the future, and upgrade the company resources by being exposed to international markets. In this sense, all companies should internationalize.

- Cost axis: about efficiency and *bottom line* management (*need* to be international)
- Network axis: improved proposition to the client involving *top line* management (*need* to be international)
- Learning axis: learn from experience (create longer term *opportunities*)

Difficulty of leaning aspect: Problem of quantification, operationalization and managing.

It is already difficult to see the learning, but you also have to build It up, apply it, and use it through different locations. Learning does not happen automatically and requires a much longer term perspective. It will require intrinsically different organizations and management practices.

The Conelearn framework: beyond the internationalization slogans

The only way to benefit from internationalization is through an improved **cost** position; a **network** that allows delivery of products and services to international clients who value and benefit from it, and the **learning** that can be created and captured and which stimulates accompany to become a more competitive player.

No matter what the impulse is for your company to act, you should be able to specify clearly what cost advantages, network benefits and learning opportunities you are after.

TEXT: The triple AAA

- Adaptation : Boost revenu and market share by maximizing a firm's local relevance
  It is all about adjusting to the constraints imposed by differences
  (change merchandising policies)
- Aggregation : Deliver economies of scale by creating regional or sometimes global operations. Overcoming some of the constraints imposed by differences to achieve more scale economies than country by country adaptation (cross country IT system).
- Arbitrage: Exploitation of differences between national and regional markets. Exploiting differences to achieve absolute economies (China sourcing for US)

Three fundamental questions have to be asked when considering the AAA dimensions:

1. How does the cross border strategy plan to make progress on the AAA dimension?
2. Which AA tension are you trying to manage particularly well?
3. What is going to be your **FUNDAMENTAL** source of cross-border advantage relatice to the competition?

Section 2: On organizing for internationalization (WHAT)

What organizational vehicle will be most appropriate or what management approach should be followed?

In this section the attention is shifted to the organizational aspects of internationalization and how the specification of the benefits impact the appropriate entry mode and organizational blueprint.

The organizational side of internationalizing and globalizing has 2 aspects:

- Finding a suitable organizational mode for developing foreign activities (ch3).
- Establishing the mechanisms for the coordination and cooperation of these foreign activities (ch4).

Chapter 3: On Entry Modes into Foreign Markets

not

Chapter 4: On Organizational Structures and Blueprints

Since division of labour and responsibilities will no longer be an option but a requirement for international companies they need an organizational structure. The organizational structure should allow the company to manage and control its people, products and other assets as effectively and efficiently as possible, wherever they are located.

If this structure is not good it will constrain or slow down the appropriate strategic and management decisions or lock out the possible cost, network or learning benefits. => The operating structure often adds additional **INTERNAL barriers**.

International strategy and organization go hand in hand => the organization should or can bolster the implementation of the international strategy.

Show me your organization chart, and I will tell you what strategy you have

The organizational structure should relate to the benefit you are seeking in your international strategy => so you first got to have a clear view of your current and future strategy. The organization chart should deliver the desired strategy and objectives (not just on paper, but also in reality).

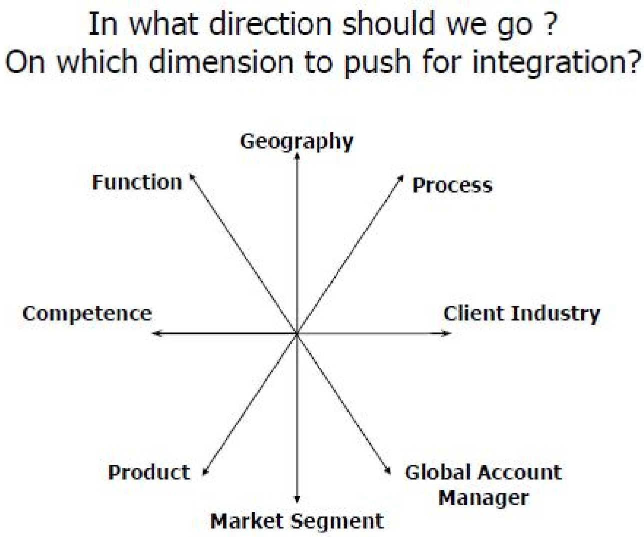
- Know where the benefits and priorities are
- Align the organization's view and perception on these benefits.

The globalization potential and strategic priorities undoubtedly should affect the type of organization that you are trying to build. The challenge is mostly to get the organization and its people to "work" that way.

Risk of structure after strategy: reduces the structure to a passive translation of yesterday's strategy, lagging behind the developments in the company

⇨ Organizational design, therefore should become a strategic tool and an exercise of *change* management, and a reflection of the strategy.

Which dimension to push?



Multi-local or multinational organizations: Are an assembly of independent national or local organizations, with little or no coordination between them. The key organizational dimension in these organizations is geographical. Even if this kind of organization offers less network or cost advantages the diversity of the markets offers a lot of learning opportunities. Besides that it also gives a platform for future globalization *offering* a quicker transition.

⇨ A multinational organization should be designed and managed according to the learning objectives and stimulate cross-border learning.

Some multinational companies set up an **International division** which divides the activities between the domestic and foreign or international market (geographic dimension). However, this separation can counter the learning benefits. Thus it has no real benefit to use such a division except for a transitional purpose.

Global organizations: Are intended to transcend country borders, with no division on the basis of geographies. Units and managers in the units rather have a global responsibility for, for example: customer segments, processes, product line or function.

A more globally oriented strategy and organization may be required in cases where there are cost and network benefits. Which dimension to choose in coordinating activities across borders will depend initially on where the globalization potential is and at what level: *products, functions, competence, client industry or key accounts?*

Usually organizations use more than one of these dimensions and combine them also with a geographical dimension.

❖ *What really matters is reality*
It is important to know which dimension rules in reality. How do different parts and units really interact (ex: strength of personalities) => grey zone between the "official" organization and "informal culture".

If there are differences either:

your chart runs behind → should be adapted

your chart is running ahead → can be used as a leverage for change

- *The danger of the ever-returning silos*

  Organisations must avoid getting stuck with a given dimension. The paradox of international organizational development implies that once the appropriate divisionalization has been put in place, on the relevant criteria, as much effort and energy will be needed for implementing mechanisms and systems to transcend the divisions. (ex in functional organization: risk of dissecting the value chain into isolated activities).

- *What will fall between the cracks?*

  What and how much will fall between the cracks, and between which cracks? The purpose is to limit the loss of the Conelearn benefits. Ex: often the lost opportunities to learn and share within and across organizational units are underestimated. This is especially the case for multi-local businesses.

  Effective international knowledge management requires the systems, processes and organizational culture for people to give to and take from their international colleagues, within or between units. Next to technology platforms, the management attitude and awareness, and appropriate incentives are usually the hardest to develop.

<u>Beyond the centralization-decentralization dilemma</u>

There is often a tendency to constrain the debate on organizational structures to a choice between centralization or decentralization. However, it runs the risk of overlooking alternative coordination and integration mechanisms.

The range of possible coordinating mechanisms is rather wide:

- Structural and formal mechanisms: organization structure, formal authority, formalization, planning and control

  They only work to the extent they are run by people who understand and share the purpose and are willing to cooperate. If your company initially works well there is no need for such a structure.

- Less formal mechanisms: lateral relations, informal communication and socialization through culture and incentive mechanisms.

  Here the challenge is also that they fall back on the willingness of management to participate and the voluntary cooperation of people which makes them hard to control and offer fewer guarantees for effective coordination.

Often, a mix of formal and informal mechanisms will be necessary. ➔ The optimal degree of formal coordination probably declines as you move from cost, over network, to learning benefits.

Implications for headquarters and subsidiaries

How should the centre rule and what role should the subsidiaries play?

4 potential types of roles for subsidiaries on the basis of the competence of the local subsidiary and the importance of the local market (p 131):

- Strategic leaders: highly competent subsidiaries covering an important local market
- Contributors: have an important capability, but do not control a substantial market
- Implementers: have no distinctive competence, and are in an important market, but offer the company the opportunity to capture economies of scale or scope that are crucial for the company's global strategy.
- Black holes: deliver an important market but offer no added value to the company

This classification should allow you to check to what extent the local organizations could be ready to take up the role you have defined for them in your international strategy and objectives.

Centres of Excellence : are based on the strength and expertise of different subsidiaries in various areas. They have a crucial role in managing the learning and know-how of the company across borders and leverage it in terms of efficiency and innovation.

The role of regional headquarters

Their role is to mediate between the global headquarters, perceived to be too far from the particular market to understand the local requirements, and the local subsidiaries.

It helps to:

- ✓ Regionalize the strategies
- ✓ Useful catalyst for coordination at a manageable level
- ✓ Allows the strategy to be tailored to the regional market needs

But:

- It confounds decision making
- Increases the complexity of strategy coordination
- It risks getting squeezed between global headquarters and the local subsidiaries, turning into a halfway solution that brings none of the benefits to their fullest extent.

However, they are useful organization units within multinationals, and increasingly so.

The added value from regional headquarters lies particularly in their ability to stimulate regional strategies and find a more creative and manageable solution for the globalization-localization tension. Its role also often changes over time, going from advisory to line responsibility.

Section 3: On Managing the Process of Internationalization (HOW)

Once the **why** (analysis of the benefits of internationalization that at strategy should be after) and the **what** question (specifying what organizational vehicle is best suited to realize these benefits) we can now turn to the **how** question (the implementation)

In the implementation phase we concentrate on reaping the benefits of globalization. At this point the management of the *process* becomes critical.

We believe that the management of the *overall agenda* as an integrated system, the interaction and integration of strategy, organization and implementation is even more critical.

Chapter 5: Managing the Implementation Process

This chapter highlights findings on how to move from theory to action, the "simple" implementation process. It discusses some of the strategy and organization implementation challenges in an international environment, indicating the common internal barriers and ways to overcome them.

However it is less common to dedicate sufficient time to the implementation challenges, and the required management tasks in getting it done, you should try to anticipate the barriers that you may encounter along the path. Many local managers seem reluctant to adapt. Once the principal decision is taken, there is still a lot that could go wrong once you leave the execution to others. → prepare explicitly for things to go "wrong" or be "difficult"

Identifying internal barriers

Bearing in mind that the market limitations on the cost and network side often strongly reduce the globalization potential and define the boundaries of the international playing field, now we must add a number of **internal** and company-specific aspects which complicate the implementation of an international strategy and organization. Internationalization and globalization imply change in and strategic transformation. Such a change in the organization tends to collide with structural counter forces and inertia, resistance and frustration.

There are 2 broad categories of internal barriers to internationalization: The organizational structure and he people working in the organization.

1. *Organizational structure*
   - Communication and reporting lines: you need people in the different locations to communicate effectively
   - The organizational structure: = the expression of how the organization really works and can be a great block, or a powerful enabler for change
   - Way of doing business: it's the result of years of experience and takes time to evolve the new international status.
   - Performance measurement and HR appraisal systems: Make sure you don't lack the accounting and reward systems necessary for accurately following up on internationalization.
   - Profit and loss responsibility: It is difficult for local managers, whose success are measured on their own bottom line, to accept decision taken on a European level. → make sure they can benefit directly from the change

In the early stages of internationalization, the organizational structure typically shows up as a barrier through the "international division" which was set up to differentiate home from foreign markets. However, its role in reaping the benefits in the longer time is debatable.

- *Circumventing the structure*

This can be done through "overlay" structures, or "ad hoc teams". These are coordination teams set up to cross the lines in the organization chart. These substructures often indicate what the current structure lacks and where the shortcomings are. The challenge is to convert this tension into a positive energy for more structural changes. The paradox is that these teams should work as hard as possible to make themselves redundant since they are only of a temporary nature.
The success of these teams depends on how they are used and managed and we must keep in mind that they are meant to serve the future strategic objectives.

2. *People*

Typically, internationalization gets pushed from the top of the organization, but its success depends as much on the people who have to implement it. A lack of involvement, sharing and communication quickly leads to people becoming the main internal barriers rather than drivers.
Ex: not-invented-here syndrome, local staff reluctant to change, they do it their own way,...

- ⇨ Difficult to let everybody experience intensive international training or expatriation to gather the international management skills required

<u>How to overcome the barriers</u>

- ⇨ **Preparation**!: The first thing to do is to think ahead and **anticipate** what the barriers could look like. Your strategy should include ways to deal with the barriers.
- ⇨ After identifying them, you will have to **work on them** to overcome them. This requires managing a complicated process, which should at least pay attention to the following conditions:

1) *Committing top management*

Internationalization will sooner or later require top management to stand up: it cannot be handled lower down in the organization alone as it will force a rethink of the strategy, organization and processes of the whole company.

2) *Developing a clear and shared rationale*

Making organizational structures and operational processes effective requires people to understand the changes and believe in the international mission. This implies an increase of communication and leadership in the internationalization process.

3) *Involving the relevant actors*

The wider and deeper the involvement of the entire organization in the reflection and formulation, the more "implementation" and or "action problem" will evaporate. Investing time in one, reduces time spent on the other. (ex: top-down and bottom-up approach)

4) *Supporting with systems and processes*
To motivate the managers in the multinational subsidiaries to execute the international strategy of the company incentives must be used. These can be under the form of: compensation, monitoring systems, rewards, and profit and loss responsibility.

5) *Securing the necessary resources and competencies*
To implement the international operations, you will need people with the right skills and competences, and the right organizational instruments.

6) *Building an international mindset*
There are 3 different mindsets:
   - Ethnocentric: focus on domestic market
   - Polycentric: host country orientation
   - Geocentric: orientated towards the global market.

Opening the mindset beyond the domestic market will support the international mission. One way to create this routine is through **experience.** But it has to go further until there is **no longer a distinction** between people, ideas, products and anything else coming from home or international markets.

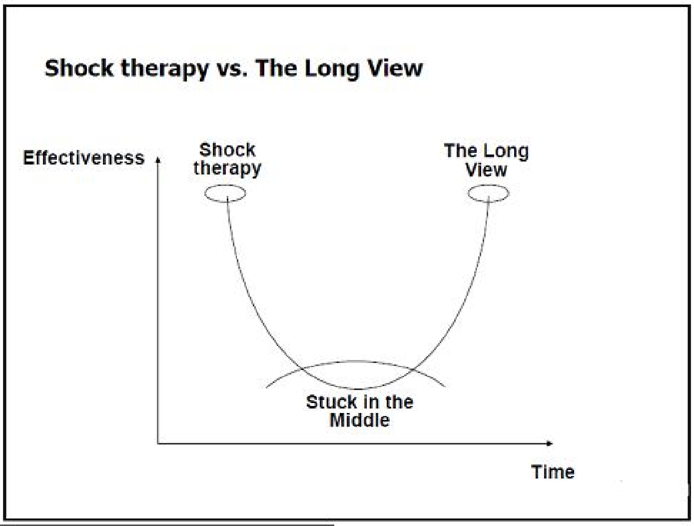
7) *Deciding on the time frame: Shock therapy or slow and steady?*
The pace of your initiatives in overcoming the barriers can have a significant impact on their success. The dimensions of the international playing field, and especially the relative positioning of your company in the playing field give important indications on how urgent the globalization agenda really is.

Quick transformation: yes, because corporate transformations affect all the fundamentals of an organization. Mostly the case because there is **external pressure** from the market or shareholders, often combined with a change in top management. → **internal crisis**
Changes are implemented rapidly which makes that any confusion and trauma is short lived

Slow transformation: yes, because it requires skill and it takes time to build and retain trust.
Since most changes occur following discussion, debate and experimentation, relatively little resistance is created and organization can take time to counter or bypass the resistance.
This approach is better when the organization is the main barrier and there is a natural inertia or resistance in the system.

Both ways have in common that they minimize the trauma and confusion associated with fundamental change. They also both have to be well prepared to avoid the first to become a quick and dirty process, and the second high cost for little result.

If companies opt for a medium pace of change, they have none of the benefits and have a greater tendency to retreat to the old structure. → **stuck in the middle**
These processes are often a sign of doubt, unclear strategic direction and lack of support for overcoming the barriers.



Shock therapy

Requirements	Risks
Often: • Mediocre efforts for quite some time • External pressure takes over • Change in Top Management Rare but probably better: • Create "Internal Crisis" before you are forced to • Corporate culture • Involvement and shared ambition	• One shot deal • High pain and strain • False expectations that it's all over at once • Jump to dimensions that are not the most relevant

Ex: 3M Europe

The Long View

Requirements	Risks
• Top level commitment • Long term vision • Keep the momentum going • Real benefits • Early wins • Push on several dimensions • Adjust structures • Resources, systems • Incentives	• Losing momentum • Getting stuck in the middle • Confusion during transition • Top management turnover

Ex: P&G

However, organizational change is difficult because it is severely constrained by the rather limited capacity for change in many organizations.