

Introduction

So What Is Transnational Management?

Few managers operating in today's international business environment would dispute that this is an extremely exciting time to be engaged in almost any aspect of cross-border management. Fast-changing global developments have created big challenges that appear unusually complex, but at the same time they have opened up new opportunities that seem almost limitless.

Around the world, managers are asking questions like the following: How does the unraveling of the long anticipated Trans-Pacific Partnership (TPP) trade agreement affect our business? What can we do to manage the political disruption and economic dislocation following Brexit? How can we take advantage of the continued rise in Asian markets? How should we deal with the threat of new competitors emerging from developing countries? Can we exploit the impending boom in big data to track and exploit new global trends? How might we harness fast-growing social networks to leverage our cross-border management connections and organizational processes?

Before we launch into these and the other such rich and engaging discussions, perhaps we should step back for a moment to review the broad territory we will be exploring on our voyage of discovery. A good place to start might be with the title of this book. What exactly does *Transnational Management* mean?

Transnational: What Does That Imply?

The first word on the cover of this book may not be familiar to some. While the terms “multinational,” “international,” and “global” are in widespread general use, it may not be entirely clear to you why we chose to use the less familiar description “transnational” in the title of this book.

Good question. And we promise to respond to it by the end of Chapter 1. By the end of that opening chapter it should be clear to you that we use those four terms quite specifically. Furthermore, you will find that our distinction between “multinational,” “international,” “global,” and “transnational” will become a strong theme that runs through this book in our discussion of strategy, organization, and management.

But more of that later. For the purpose of this introduction, let's just recognize that the “transnational” qualifier indicates that our focus will be on the management challenges that face companies whose operations extend across national boundaries. Indeed, the concepts we will be presenting in the text are grounded in extensive research published in a book titled *Managing Across Borders: The*

Transnational Solution. The challenging cross-border management issues identified in that five-year long, multicompany, worldwide research project supplemented with a large body of subsequent research frames our agenda.

So what is different about cross-border management? In what ways do the challenges facing a manager of a multinational enterprise (MNE) differ from those facing his or her counterpart in a purely domestic organization? There are many such differences, but let's begin by identifying half a dozen of the most important that will be reflected in the issues we explore throughout this book.

- The most obvious contrast derives from the fact that, by definition, MNEs have operations in multiple nation-states, a difference that has huge strategic, organizational, and management implications. Although domestic companies must take account of local and state governments, what distinguishes intercountry differences from the intracountry ones is the powerful force of national sovereignty. 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 legislative requirements, legal systems, and political philosophies regarding a host of issues including private property, free enterprise, human rights, and corporate responsibility – that a domestic company can simply take for granted.
- Cross-border management must also deal with a greater range of social and cultural differences. Again, domestic companies experience some regional cultural differences, but in cross-border operations the stakes are much higher. An MNE will quickly flounder unless management is not only embedded in the community and able to speak the local language, but also is both sensitive and responsive to local cultural norms, practices, preferences, and values.
- By having operations in foreign countries, an MNE is exposed to a wide range of economic systems and conditions that they must understand and to which they must adapt. The differences may be built into political systems ranging from unfettered free enterprise to highly regulated socialist economies; they may be reflected in various stages of economic development from advanced OECD countries to extremely poor less developed countries; and they may be facilitated or constrained by differences in national infrastructure ranging from subtle differences in technical standards to the quality of basic communications services. Each variation in the underlying standards or support systems demands significant modifications to an MNE's strategy and operations.
- Another major way in which cross-border management diverges from domestic management relates to differences in competitive strategy. The purely domestic company can respond to competitive challenges within the context of its single market; the MNE can, and often must, play a much more complex competitive game. Global-scale efficiencies 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

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- 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.
- In terms of metrics, a purely domestic company can measure its performance in a single comparable unit – the local currency. But because currency values fluctuate against each other, the MNE is required to measure results with a flexible and sometimes distorted measuring stick. In addition, its results are exposed to the economic risks associated with shifts in both nominal and real exchange rates.
 - Finally, the purely domestic company manages its activities through organizational structures 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. And the resolution of this three-way tension must be accomplished in an organization whose managers are divided by barriers of distance and time, and impeded by differences in language and culture.

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The *Transnational* in the title is simply a qualifier for *Management* and, in the final analysis, that is what this book is really about. In many ways, it is a focus that distinguishes this volume from many others in the field. For that reason, let’s take a moment to understand why.

The serious study of cross-border management is a relatively recent phenomenon. For many decades, international business research focused mainly on global environmental forces, international systems and structures, and powerful institutions like home- and host-country governments, all of which framed the context within which the MNE had to operate. In these studies, countries and industries rather than companies were the primary units of analysis, and most international policy attention (as well as academic research) focused on macro analysis of key indicators such as trade flows and foreign direct investment patterns.

During the 1960s and 1970s, this interest in global economic forces and international institutions began to be matched by an equal focus on the MNE as the primary driver of the rapidly expanding international economy. A decade later, as the task of running such companies became more complex, attention again expanded to encompass an understanding of the roles, responsibilities, and relationships of those running the MNEs.

And so there opened a field of management that had been largely neglected by both practitioners and researchers up to that point. Indeed, until the 1970s, many companies had staffed their international operations with aging or less competent managers, instructing them to simply take the most successful domestic products, strategies, and practices, and transfer them abroad. But in the closing decades of the twentieth century, as new offshore markets opened up, global competition intensified, and worldwide operations became more complex, it was clear that such an approach was doomed to failure. Only the most capable managers would be able to run the modern MNE.

This book builds on the lessons that came out of that burst of innovation in cross-border management that has continued into the first decades of the twenty-first century. So while we will reflect on the changes taking place in the macro global environment, and specifically on the way in which these forces affect MNEs, we will do so by adopting a management interpretation, viewing these fast-changing global forces through the eyes of the executives who operate in the thick of it.

It is this management perspective that has framed the design of this book and the pedagogy that supports it. But unlike many other courses in international management that have been constructed around the traditional functions of the company – R&D, manufacturing, marketing, etc. – we have rejected this conceptual approach. Our experience is that the most important issues facing today's business leaders rarely come packaged in such neatly defined and hermetically sealed bundles. Almost all real-world problems cut across functional boundaries and require executives to understand the issue in a broader and more systemic sense. Furthermore, they demand integrative solutions that bring together, rather than divide, the people working in their traditional functional silos. For that reason, our dominant perspective throughout this book will be that of a general manager – whether that is the CEO of the corporation, the global business vice-president, the national subsidiary manager, or the frontline country product manager.

By adopting the perspective of the transnational general manager, however, we do not ignore the important and legitimate perspectives, interests, and influences of other key actors both inside and outside the company. We view the effects of these other key players from the perspective of an MNE general manager, however, and focus on understanding how they shape or influence the strategic, organizational, and operational decisions that the general manager must take.

Text, Cases, and Readings: How Will We Learn?

If the title, *Transnational Management*, describes the field of study and the content of the book, the subtitle, *Text and Cases in Cross-Border Management*, provides clues to the teaching philosophy and materials that will be employed. Because this book may be different in structure and format from some others you have used, it's probably worth spending a little time describing the classroom materials you will find between these covers and the pedagogic philosophy we followed in assembling them.

As the previous paragraphs have suggested, taking on the responsibility of the general manager in a twenty-first century MNE may well represent the most complex task to which a manager could be assigned. So creating a course that prepares one for such a role requires some creativity. It's clear that the challenges cannot be reduced, for example, to a few global strategy recipes, a standardized international organization chart, or a simple check list of the six most important things a country manager must do to succeed.

But neither is it helpful to suggest that everything is too complex to reduce to specifics. In the chapters that follow, we will seek a middle way that presents some

broad concepts, frameworks, and principles that allow some generalization and conceptualization of the issues. But we will also provide material that allows students to take these generalized models for a “test drive” to apply, adapt, enhance, and embed the ideas in a practice-based, decision-oriented approach that is both grounded and flexible.

The Structure

The book is structured into three parts, which are divided into eight integrated text chapters, each representing a topic that builds on the chapters that precede it. The basic outline is shown in Figure 1.

Part I of the book consists of three chapters that focus on the strategic imperatives facing the MNE.

- In Chapter 1, we will examine the internal strategic motivations that drive, attract, or compel MNEs to expand offshore.
- Chapter 2 helps us understand the complex and often conflicting external environmental forces that shape the strategy of the MNE as it expands abroad.

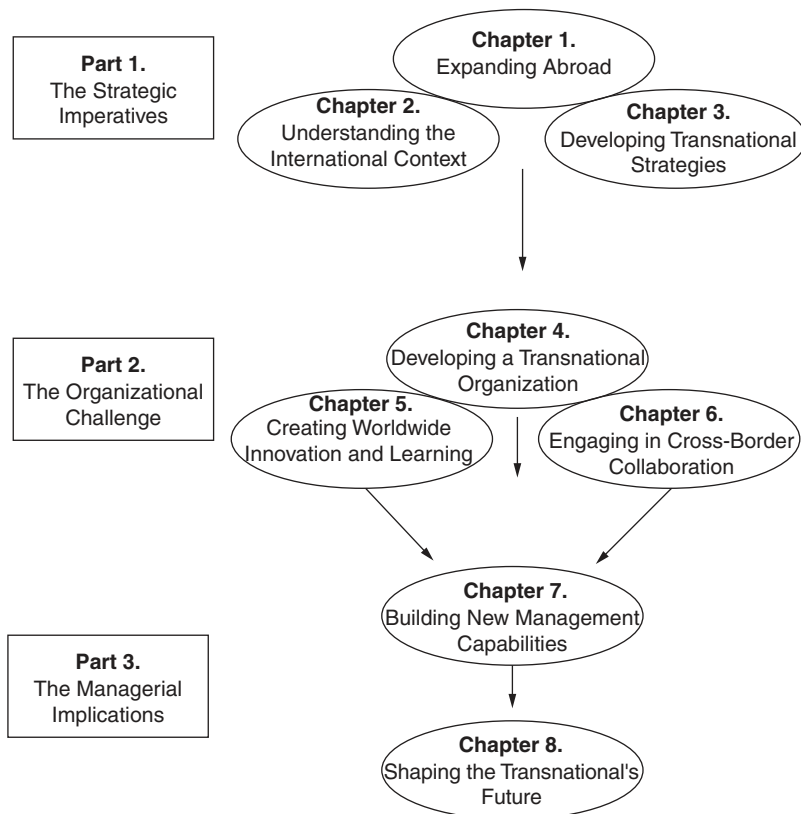


Figure 1 The structure of the book

- Chapter 3 explores how MNEs resolve the tension between their internal motivations and the external forces to develop a strategy based on building layers of competitive advantage.

Part II has three chapters that examine the organizational challenges flowing from the strategic imperatives.

- Chapter 4 examines the task of building an organization able to deliver the multilayered strategic capabilities required by a multidimensional transnational strategy.
- Chapter 5 focuses on the critical strategic task of developing the capability to advance and diffuse innovations on a worldwide platform.
- In Chapter 6, we explore the growing organizational challenge of managing collaborations across corporate boundaries.

Part III has two chapters focusing on the managerial implications of both the strategic imperatives and the organizational challenges we have identified.

- Chapter 7 allows us to explore the managerial roles and responsibilities required to build the capabilities MNEs need to successfully implement their strategies.
- Chapter 8 considers the evolving roles and responsibilities of transnational organizations that managers need to develop to negotiate the current and future global political economy.

The Learning Materials

To help us through this big agenda, the book is constructed around three major learning resources: the eight text chapters described above, 28 case studies relevant to the chapter topics, and a portfolio of recommended practitioner and academic supplemental readings. Let's briefly explain how each of these components contribute to the overall learning.

At the end of each chapter, there is a list of recommended readings drawn primarily from practitioner-oriented journals such as *Harvard Business Review* and the *McKinsey Quarterly*. These readings have been carefully selected to provide supplemental perspectives to those presented in the text chapters. Some are classic articles whose wisdom has endured over time, while others are contemporary and reflect the latest thinking on the topic being addressed. And for those interested in exploring the theoretical underpinnings of the arguments presented, the footnotes in each chapter provide a link to relevant academic articles. In all instances, the objective of these supplemental readings is to expand and enrich the mental maps being created as we progress on this voyage of discovery.

But, as we have emphasized, because the challenges facing the modern MNE represent perhaps the most complex environment in which a manager can operate, no amount of concepts, models, theories, or frameworks can capture the task. We believe that the most powerful way to allow students to enter this complexity is to employ real-life cases that require the complexity to be unraveled and decisions to be made. Most of those in this book provide the reader not only with data on the

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macro business and company context, but also with detailed information about the key actors and what they bring to the situation: their personal motivations, their strengths and weaknesses, their roles and responsibilities. In many instances, videos and follow-up cases lead to further insight.

Although a few of the cases have been disguised, all of them are real, and almost all have been prepared on the basis of detailed field research. While the vast majority of them document current best practice or illustrate managers facing contemporary challenges, we have also included a handful of classic cases, enduring favorites that have been shown to be effective in illustrating persistent issues in cross-border management.

For those who are less familiar with the use of cases in a classroom setting, it is worthwhile emphasizing that the purpose of this classroom material is to present you with the kinds of important challenges a manager might encounter only once a year, once in a decade, or even once in a career. They present you with an opportunity to go through the same process as the case protagonist – sorting through the information, analyzing the situation, evaluating the options, deciding on action, thinking through the implementation steps required to bring about the necessary change, and then convincing your colleagues of the wisdom of your approach. Repeating this process a couple of dozen times through the course can significantly increase one's ability to translate abstract concepts and general theories into real on-the-ground practice.

Getting Started

But enough overview, background, and analysis; it's time to launch headlong into this fascinating and exciting new world of transnational management. So let's begin our voyage to explore the challenges and opportunities of those who have the responsibility for the strategy and operations of organizations that stretch across the barriers of distance, language, and culture. It should be quite a trip.

Part I

The Strategic Imperatives

1 Expanding Abroad

Motivations, Means, and Mentalities

This chapter looks 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 provide the *motivation* for their international expansion? By what *means* will they expand their overseas presence – through modes such as exports, licensing, joint ventures, wholly owned subsidiaries, or some other means? And how will the management *mentalities* – their embedded 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, it 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 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.

¹ Such 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 non-profit 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.

In this chapter, we introduce the MNE by defining its key characteristics, discussing its origins, interests, and objectives, and reviewing its major role and influence in the global economy. We then describe the motivations that drive these companies abroad, the means they adopt to expand internationally, and the mentalities of management that shape the strategies MNEs pursue and the organizations they develop to achieve them.

The MNE: Definition, Scope, and Influence

An economic historian could trace the origins of international business back thousands of years to the sea-faring traders of Greece and Egypt,² through the merchant traders of medieval Venice, and the great British and Dutch trading companies of the seventeenth and eighteenth centuries. By the nineteenth century, the newly emerged capitalists in industrialized Europe began investing in the less developed areas of the world (including the United States) but particularly within the vast empires held by Britain, France, Holland, and Germany.

Definition

In terms of the working definition we use, few if any of these entities through history could be called true MNEs. Most early traders would be excluded by our first qualification, which requires that an MNE have *substantial direct investment* in foreign countries, not just the trading relationships of an import–export business. And even most of the companies that had established international operations in the nineteenth century would be excluded by our second criterion, which requires that they be engaged in the *active management* of these offshore assets rather than simply holding them in a passive investment portfolio.

Thus, though companies that source their raw materials offshore, license their technologies abroad, export their products into foreign markets, or even hold minor equity positions in overseas ventures without any management involvement may regard themselves as “international,” by our definition they are not true MNEs unless they have substantial direct investment in foreign countries *and* actively manage and regard those operations as integral parts of the company, both strategically and organizationally.

Scope

According to our definition, the MNE is a very recent phenomenon, with the vast majority developing only in the post–World War II years. However, the motivations for international expansion and the nature of MNEs’ offshore activities have evolved significantly over this relatively short period, and we will explore some of these changes later in this chapter.

² See Karl Moore and David Lewis, *The Origins of Globalization* (New York: Routledge, 2009).