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MANAGING STRATEGIC RESPONSIBILITY IN THE MULTINATIONAL CORPORATION

Working Paper No. 280

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INTRODUCTION

In recent years one of the most visible developments in the sphere of international business has been the emergence of global competition in a number of industries: chemicals, pharmaceuticals, electronics, ball bearings, automobiles, motorcycles, jet engines, construction machinery, etc. These industries have been increasingly dominated by the world's largest enterprises: Dow, Pfizer, Philips, SKF, Ford, Honda, General Electric, Caterpillar, and so on. These firms, and others competing in global businesses, have found it increasingly necessary to conceive and implement strategy on a global basis. Integration and coordination of worldwide activities has become a primary strategic task.

Yet there are other multinationals that have not faced pressures to integrate their worldwide activities. The businesses of these firms are foreign national, rather than global, in scope. One thinks of Nestle, Unilever, Beatrice Foods, General Foods, and CPC International. The strategic demands placed on these firms come from the need to respond to local diversity.

This paper argues that the strategic orientation of a multinational company's businesses, whether worldwide (global) or foreign national (local), is an extremely important dimension as it affects a variety of fundamental management tasks. Receiving particular attention here is the task of apportioning strategic responsibility between HQ and subsidiaries in the multinational.

The problem of assigning strategic responsibility is a perplexing one for all multinationals. Through an understanding of the different strategic imperatives imposed by globally- and locally-oriented businesses, the multinational firm can take a big step toward understanding the basis for an appropriate division of strategic responsibility between HQ and subsidiaries.

BACKGROUND

This paper is based on research conducted throughout the Summer of 1981. Intensive interviews were conducted with executives in five major U.S. multinationals: Beatrice Foods Company, CPC International, the Dow Chemical Company, the General Electric Company, and the Upjohn Company. Four of these firms are in the top 50 of Forbes listing of the 100 largest U.S. multinationals (Forbes, July 7, 1980). Sales volume (1980) ranges from $1.8 billion for Upjohn, to $25.0 billion for General Electric.

Typically, interviewees had corporate-wide line or staff responsibility for the firm's international activities. Representative job titles of respondents were: president of the international division, executive vice president for a worldwide business division, manager of international strategic planning, director of commercial development, etc. An average of four individuals were interviewed in each firm. Approximately 16 hours of interviewing was done at each company.

DEFINING TERMS

What is a Global Business

One might assume that any firm with worldwide commercial activities participates in global businesses. Such is not the case. A distinction may be drawn between a company that is in business globally, and a business that is global. At first glance the distinction may seem semantic. This paper will demonstrate that the difference is strategically crucial to the multinational company (MNC).

Two things characterize a global business: 1) potential economies of scale that transcend individual national markets; and, 2) interdependence among national competitive positions. First, in a global business, the sales volume achievable in any one country, even with a dominant market share, is less than that required to exhaust all possible economies of scale. In a global business the firm that expands abroad is able to gain scale economies beyond those available in the domestic market.

Second, the ability of a firm competing in a global business to acquire or defend a market position in one country depends on the extent to which extra-national scale economies have been captured through the establishment of market positions in other countries. In a global business the relative competitive positions of firms competing in one national market are strongly, though not solely, related to their competitive positions in other markets. The experience of the British motorcycle industry is illustrative. Failure to hold significant market positions outside the United Kingdom rendered British motorcycle firms powerless to resist the competitive challenge posed by Japanese producers whose prices and costs reflected scale economies achieveable only in the global marketplace.[1]

What is a Local Business

For purposes of this discussion, businesses that are not global or near-global will be termed local. In contrast to a global business, a local business is not characterized by extra-national economies of scale. And national market shares are not strongly related. In a local business the competitive balance is struck country-by-country, rather than globally. Yet, as was implied at the beginning, there are global companies whose businesses are not global. The multinational food processors are good examples of firms that compete globally in essentially local businesses.

Other Differences

Having made this fundamental distinction between global and local businesses, other differences may be noted. Global businesses tend to be capital intensive. Acquisition of global scale economies requires concentration of manufacturing activities. Manufacturing may be integrated forward and backward at a single site (e.g., The Dow Chemical Company's petrochemical facility at Terneuzen, Holland). Alternatively, there may be rationalization of product type or component manufacture among several national production locations (e.g., Ford Motor Company's rationalized system for production of its "world car"). In either case, minimum economic plant size is likely to be extremely large. For example, a world class petrochemical processing installation may represent a fixed investment of a half a billion dollars, and an annual capacity of 100 million pounds.

Global businesses may also be R&D intensive. To generate and commercialize a new therapeutic class of pharmaceuticals, for example, may require a $100 million investment.

Manufacturing activities in local businesses tend to be significantly less capital intensive. Because there is no potential for extra-national economies of scale, manufacturing is less likely to be concentrated. Minimum economic plant size is comparatively small.

In the global business, concentrated manufacturing facilities serve regional markets. There are significant export flows from countries of manufacture to other national markets. Manufacturing in a local business takes place primarily on a local-for-local basis.

Finally, the achievement of scale economies in a global business implies standardization of both processes and products. In the local business process and product standardization across national markets is less likely. Exhibit 1 identifies important dimensions on which local and global businesses differ.

Exhibit 1

COMPARING GLOBAL AND LOCAL BUSINESSES

Dimension	Local	Global
Extra-national economies of scale	No	Yes
Market share interdependence	Low	High
Capital intensity	Low	High
R & D intensity	Low	High
Minimum economic plant size	Small	Large
Local-for-local manufacturing	Likely	Unlikely
Product standardization	Unlikely	Likely
Process standardization	Unlikely	Likely

Different Strategic Imperatives

There are several prerequisites for the emergence of a global business:

- Uniform consumer expectations with respect to the performance of the product
- Homogeneous usage characteristics worldwide
- Few barriers to trade
- Low transportation costs relative to the value of the product
- Few government impediments to market entry.

Firms competing in businesses where these prerequisites have been met confront a strategic imperative demanding worldwide integration. Standardization of products across markets, coordination of component and finished product exports, transfers of product and process technologies, and management of the global competitive environment demand a worldwide strategic perspective.

A variety of factors may give a business a local orientation:

- National differences in consumer tastes
- Product usage characteristics that vary from country to country
- High tariffs
- Dissimilar national distribution systems
- Government policies requiring local production as a condition of market entry.

For the multinational operating in a local business, the need to adapt products to peculiar consumer preferences, to design customized selling approaches, to gain access to a variety of local distribution systems, to manufacture locally, and to form mutually-supportive coalitions with local governments, serves to shift the focal point of strategy to the national sphere. The MNC competing in a local business faces a strategic imperative which demands national responsiveness.

In the following pages, it will be seen that these two strategic imperatives--worldwide integration and national responsiveness--delimit alternate tactics for the management of strategic responsibility in the multinational enterprise.

Before going on, two points must be clarified. First, it must be noted that there are both global and local businesses in which MNCs do not compete. Using the traditional definition of a multinational company--a firm that pursues both manufacturing and sales activities in several countries--one finds that there are some global businesses (shipbuilding and aircraft assembly), and many local businesses (shoe repair, hair dressing, etc.) in which multinationals do not participate. Here interest is only in those local and global businesses in which MNCs do participate.

Second, it is apparent that few, if any, of the businesses in which multinationals compete are thoroughly global or absolutely local. A local business, no matter how strong the demand for national responsiveness, will offer some opportunities for integration. And a global business, no matter how compelling the arguments for worldwide integration, will still be subject to environmental diversity which demands unique managerial approaches to local problems. The classification of a business as local or global depends on the relative balance between pressures for worldwide integration and demands for national responsiveness. Businesses where pressures for worldwide integration appear to predominate will be termed global business. Businesses that are dominated by requirements for national responsiveness will be classified as local.

THE LOCUS OF STRATEGIC CONTROL

It will be seen that deriving an appropriate division of strategic responsibility between HQ and subsidiaries is largely a matter of recognizing the unique strategic imperative imposed by the global or local orientation of the MNC's businesses. While certain strategic tasks must be performed by all MNCs, the nature of those tasks varies markedly depending on whether the firm's businesses tend to be global or local. As the nature of the strategic tasks change, so must the respective roles played by headquarters (HQ) and national subsidiaries.

The roles of HQ and national subsidiaries in the global and local business cases will be illustrated by a discussion of four strategic tasks[2] faced by all MNCs:

1. Selection of foreign markets in which to compete
2. Management of the corporate manufacturing effort
3. Determination of product specifications
4. Pricing.

Selection of Foreign Markets

Perhaps the most fundamental strategic task faced by the MNC is the selection of foreign markets in which to compete. The firm must select, for each of its businesses, a portfolio of countries in which to offer products for sale.

When the Business is Global

For the MNC competing in a global business, this task is subject to one overriding exigency: the need to obtain a global market share of sufficient size to ensure the firm's competitive position in the business. When the MNC's competitive position in any single market is positively related to the global market share achieved by the firm, there is a strong incentive to exploit the business in as many foreign markets as possible. Once the company recognizes it is competing in a global, or emerging global, business, there is pressure to broaden the business' geographic scope in order that a worldwide market share supportive of a globally competitive position can be obtained. Such a situation propelled Dow Chemical into international markets. As one executive noted:

> The impetus for going to international markets was a feeling that to be number one in our chosen business in the U.S., or in any other country, we had to be doing business all over the world.

The forces impelling internationalization of the business may be cast in another light. As noted, global businesses tend to be both capital and R&D intensive. The volume of sales required to support a world class manufacturing facility or R&D effort may be attainable only in global markets. As the president of Upjohn International, Inc., noted:

> For the involved and costly research we have to do today, if we didn't have a larger market than the U.S., we'd have difficulty financing our research.

And a Westinghouse executive argued that:

> If Westinghouse does not hold its own worldwide, we will not be able to spread our costs and generate the necessary R&D. This worries us even in the nuclear field where we are number one.[3]

When the MNC competes in a global business, and faces the consequent necessity of gaining worldwide market share, HQ may be expected to play an assertive role in establishing the business as widely geographically as possible. And indeed, conversations with executives indicate this to be the HQ role.

Of course, every MNC transfers business or managerial expertise internationally. Yet, when the MNC's businesses are global, HQ assumes a more aggressive stance with respect to the international transfer of specific business competencies. In the case of a global business, HQ's enlarged role encompasses two particular activities: 1) HQ-directed dissemination of information on the nature of the business competence; and, 2) the involvement of HQ in decisions taken by subsidiaries to forego local participation in the business. The objectives are clear. First there is an effort to make sure that all subsidiaries understand the nature of the business and what is required to effect a match between the business and the local market. Second, there is a desire to review the decisions of subsidiaries that choose not to enter the business locally. (Market entry decisions taken by subsidiaries also undergo review at area and HQ levels, most often through the budgeting or capital appropriations process. However, it is HQ's participation in non-participation decisions that distinguishes HQ's role in the global business.)

The examples of Dow and Upjohn demonstrate how these objectives may be attained. At Dow, company-wide product group meetings, chaired by a corporate product director, provide a ready forum for the transmission of business knowledge. In addition, business and product teams, whose function-oriented members have strong cross-national ties, constitute an effective communication link for the transferal of business knowledge. At Upjohn, subsidiaries are kept well informed of all drug development activities. For several years prior to a drug's availability for registration, subsidiaries receive periodic updates on the science, probable indications, and expected competitive positioning of the drug. As the drug nears commercialization, a "Market Plan" is prepared that gives every subsidiary in the world the scientific and promotional materials necessary for introducing the drug.

Both companies require subsidiaries to do local market analyses for products still in early stages of development. This is another mechanism through which the subsidiaries gain an understanding of the business expertise. Not to be under-emphasized, personal travel and informal channels of communication play an important part in the dissemination of business knowledge in each company.

With respect to the second objective, protocols in each company provide for HQ review of a subsidiary's decision not to enter a particular business. According to an Upjohn executive:

> The decision to market a product in a country is automatic. It is a decision not to market a product that represents an exception. If a subsidiary manager decides not to introduce a product, the decision must be submitted all the way up through the international organization.

A similar review is invoked when a subsidiary decides to withdraw from a business.

Upjohn executives do not expect that all drugs will be marketable in all countries. They recognize that every disease is not universal, that the competitive situation varies from country to country, and that national health plan policies differ widely. Yet the cost of abdicating a market position demands HQ scrutiny of non-participation decisions.

The process of review is not as formalized at Dow. Nonetheless, the corporate product director, who has a global business perspective, is well-situated to question "gaps" in a product's geographic coverage. One product director, responsible for a $2 billion segment of Dow's business, put it this way:

> Once we have a plant in the ground, we're not going to give the country manager the leisure of saying, 'There's a market here, but I'm not interested in it.' The country manager understands our perspective. He understands incremental economics.

One other dimension of HQ's review of subsidiaries' no-go decisions must be mentioned. By definition a global business involves inter-subsidiary transfers of finished goods or components. When transfer prices are set by HQ, and not based on some strict cost-plus calculus, national companies do not possess the information necessary to determine if the multinational system can make money on a business locally. In such a situation, a subsidiary's decision that a business does not represent a profitable opportunity may be rescinded by HQ when the transfer price margin and the product's contribution margin combine to yield a profit to the multinational system.

When the business is global, the selection of markets in which to compete involves HQ in a proactive search for all exploitable market opportunities. In short, HQ's role is one of "pushing" the business around the world.

When the Business is Local

When the MNC's businesses have a local orientation, there is no imperative that they be exploited worldwide. Indeed, the degree of diversity among national markets that requires a local orientation in the first place, may make broad geographic coverage impossible. Here the strategic task is not to push a single business around the world, but to identify market opportunities, wherever they exist, for the kinds of businesses familiar to the firm. CPC's vice president of commercial development is very blunt on this point:

> I derive no great satisfaction from having mayonnaise, for instance, in every country of the world. The point is not to be in every country. To be the biggest mayonnaise producer is not important. What is important is finding opportunities for our kinds of products all over the world. I don't care what the product is, just so it is compatible with our knowledge.

In the local business, the search for foreign market opportunities requires the national subsidiary to play a major role. The affiliate president or country manager must be an entrepreneur, searching across a range of potential opportunities for those that represent a fit with broadly-defined corporate capabilities. This search may lead the subsidiary into businesses that have no direct counterpart in the home country, or in other foreign markets. Thus one finds CPC with a yogurt business only in Switzerland, a herring business unique to Scandanavia, and an insecticide business only in Brazil.

The need for sensitivity to local diversity demands that the MNC participating in local business delegate broad strategic responsibility to the subsidiary. The entrepreneurial prerogatives of subsidiary managers must be guaranteed by HQ. An executive at Beatrice Foods Company argued that:

> If we ran business development activity from headquarters, we'd take away the foreign profit center's initiative. If the local company has to wait until headquarters approves the product, the promotional program, and satisfies itself that the profit center knows the target market, it would take the profit center three times as long to get into a business. We'd miss lots of opportunities.

None of this is to argue that HQ has no interest in transferring a particular company expertise to new geographic markets. With varying degrees of success multinational consumer goods firms have extended national brands to international markets. In the process they have gained certain economies in the design of packaging, labeling, and advertising. Yet the initiative for transferring the business is still likely to rest with the local subsidiary. At CPC it is the country manager who decides whether or not to market mayonnaise locally. Only after the subsidiary decides to enter the business is HQ called upon to provide business technology and know-how. Even when consumer brands are extended internationally, HQ's role appears to be as much reactive as proactive. And the subsidiary still plays a vital role in adapting products, processes, and marketing approaches to local conditions.

In a local business, HQ direction of market entry decisions may be counterproductive. Interestingly, executives at both Beatrice and CPC mentioned Procter & Gamble as a company where overmuch HQ coordination has hindered the penetration of foreign markets. The point was made that P&G's penchant for transferring U.S. brands abroad and directing the market entry effort from HQ has led the company into untenable market situations. An executive at CPC offered this commentary:

> One reason P&G hasn't been successful in foreign countries is that all strings go back to Cincinnati. They have a plan that works for getting market share in the U.S., but it may not work for getting market share

> overseas. They wanted to get into the detergent business in Germany. They had a goal of a ten percent market share, but just totally under-estimated Henkle. The country manager had a mandate to get market share, so he just kept spending money, and Cincinnati told him to go on spending money until he got the market share they wanted. But finally they gave up.

Perhaps apocryphal, the story nonetheless illustrates the inappropriateness of a dominant HQ role in selecting which business to exploit in foreign markets.

To conclude, the international transfer of business knowledge in the locally-responsive MNC is more likely to come about with a "pull" from subsidiaries than with a push from HQ.

Managing Manufacturing

When the Business is Global

In a global business managing manufacturing on a worldwide basis is a fundamental strategic task. An appropriately rationalized or integrated worldwide production system is often the key to success in a global business. Specifically, HQ must accomplish three tasks: 1) allocation of production among national companies; 2) determination of national manufacturing capacity; and, 3) transfer of manufacturing technology. What is HQ's role in these tasks?

To rationalize production of components or product types among several national manufacturing locations requires a high degree of HQ involvement. HQ alone is in a position to effect an optimal allocation of components or product types among manufacturing locations.

When HQ fails to play this allocative role in a global business, the firm's competitive position is placed in jeopardy. Brown, Boveri, and Cie, the Swiss electrical giant, found itself in such a dilemma in the early 1970s.[4] At that time BBC's European small motors business was facing increased competition from

East European and East Asian producers. BBC's production of small motors was spread among its five major European subsidiaries, each of which produced a full product line. This lack of manufacturing specialization placed BBC at a grave competitive disadvantage.

In implementing rationalized production, HQ defines the product-market segment that each manufacturing location will serve--whether an intra-firm (component) market, or an end (final product) market. When rationalization requires a reassignment of product-market segments among subsidiaries, as it usually does, subsidiary opposition may be intense. To take the case of Brown, Boveri again, BBC's attempts to bring about rationalized manufacturing were sabotaged on several occasions by national companies unwilling to withdraw from profitable segments of the product line for the sake of inter-affiliate specialization. Diffusing national hostility to rationalization is another HQ responsibility.

HQ must also play a role in determining national manufacturing capacity--both in new production installations and in on-going operations. When production is not local-for-local, but local-for-regional, capacity calculations must take account of the regional or global supply and demand situation. National companies do not have the environment scanning capabilities necessary to put together this picture. With subsidiaries serving as local listening posts, HQ is called upon to coordinate the global scanning effort. Additionally, only HQ possesses comparative data on national manufacturing costs. This data is essential to a determination of national production capacity and operating rates.

In the context of a global business, management of national manufacturing capacity thus requires two things: 1) a HQ-directed supply and demand reporting and forecasting operation; and, 2) a worldwide cost accounting and reporting system. At Dow, operations managers, attached to each product director, monitored world consumption rates, plant operating rates, and manufacturing costs on a daily basis. As one Dow manager put it:

> The operations managers know what the business is doing day by day. They can put together the supply and demand mosaic and take effective action, because they are getting inputs from countries and areas constantly. Each country manager sees only his own market, but the operations managers can see the whole mosaic from here at HQ.

At Upjohn an "Origin and Supply" committee determines "who is going to supply what subsidiary with what product." At SKF, the Swedish ball bearing manufacturer, a "Global Forecasting and Supply System" gives HQ the information necessary to make factory loading decisions.[5]

Even with rationalization by component or product type, the MNC is likely to manufacture similar products in multiple locations. The prohibitive costs incurred when goods are transported half-way around the world, and the risks of supply interruption inherent in single-site manufacturing, typically demand that production be local-for-regional, rather than local-for-global.

As the multinational opens up new regional markets and establishes area-wide production facilities, there is a need to transfer manufacturing technology from existing production locations to new production sites. This inter-subsidiary transfer of process technology requires HQ coordination.

HQ must command not only an initial transfer of plant and process technology, but must guarantee a continued flow of manufacturing technology among all locations producing similar products or components. Only in this way do process innovations made in one location benefit the entire multinational system. Without a HQ mandate, national companies are often unwilling to expend the human and financial resources necessary to transfer process know-how.

At Dow, worldwide "technology centers" are responsible for assuring a free-flowing exchange of plant process technology. Attached to a "mother plant," each technology center serves as a repository for Dow's accumulated manufacturing expertise in a given product area. Linked to the process research function, each technology center is kept informed of new process developments. Technology centers are the primary conduit for transfers of plant and process knowledge to new production locations. In an equally important role, each profit center has a HQ-imposed obligation to respond within 24 hours to any process-related question that comes in from a Dow subsidiary anywhere in the world. Dow's executive vice president summarized this responsibility of the technology centers:

> There is not a plant manager in the world who won't call right in to the technology center he's attached to and say, 'I've got this problem, do you have any ideas?' And the technology center will tell him the state-of-the-art, as far as we know it. Very few companies have this ability to communicate on technology. Because of this system, our manufacturing guys have never had a failure transferring technology.

To conclude, managing the manufacturing effort in a global business demands that HQ assume a strategically central role. Now what of the task of managing manufacturing when businesses are local?

When the Business is Local

National demand for distinctive or adapted products, and the absence of extra-national scale economies, provide little incentive for rationalization of manufacturing activities in the local business. A high degree of international specialization in the manufacture of components or product line segments is unlikely. Each national company produces most of its product line locally.

With local-for-local production, HQ's role in determining national manufacturing capacity is likely to be minimal. Except where a major plant expansion requires capital budget approval, the subsidiary is able to adjust capacity and operating rates in a manner consistent with the local market situation. To the extent that national product lines have evolved in different directions, HQ's interest in transferring process technology is further diminished.

Again there is a relationship between the geographic orientation of the MNC's businesses, and the respective roles of HQ and subsidiaries. Where the business is global, HQ plays a greater role; where the business is local HQ takes a lesser share of strategic responsibility.

Determination of Product Specifications

A basic choice facing MNCs is whether to standardize or adapt products. The distinction between global and local businesses is important in determining the roles played by HQ and subsidiaries in this decision.

When the Business is Global

The benefits of product standardization in a global business may encourage HQ to reduce the number of product varieties in the multinational system.

Scale economies in manufacturing depend on achieving sufficient volume in the production of a product to take advantage of the most efficient manufacturing processes. One approach to manufacturing economies is to require manufacturing subsidiaries to specialize in particular segments of the product line. Implicit here is a degree of product standardization. Where collectively subsidiaries may have produced a great number of product varieties in a product line segment, the allocation of manufacturing responsibility to a single subsidiary results in a diminished number of product offerings. Standardized region-wide products replace national varieties. Illustrating this objective, SKF's rationalization program had as its goal a reduction in international product line width from 50,000 to 20,000 types and size of bearings.

Subsidiaries may resist manufacturing rationalization and concomitant product standardization with arguments that nationally distinctive products are essential to the firm's local market position. Both Brown, Boveri, and Corning Glass Works[6] faced such arguments in their attempts to effect regional product standardization. Once more, HQ's role in overcoming such resistance is crucial.

Where production is local-for-regional, and similar but not identical products are manufactured in different regions, benefits may accrue when products are standardized <u>across</u> regions. Cross-regional product standardization may yield economies in purchasing components and raw materials to be used worldwide. (This appears to be a primary benefit of Ford's rationalized "world car" production system.) Global product standardization may also permit greater centralization, and hence economies, in R&D.

Worldwide product standardization may be mandatory where products sold in a single market are sourced from several foreign production locations; as when General Electric sources an iron for the U.S. market from both Singapore and Brazil. Multinational customers who source from multiple manufacturing locations may also require inter-regional product standardization. Thus Dow offers a uniform "world grade" in some chemicals sold to multinational customers. And where components are sourced from several locations, but used interchangeably in final assembly, there is an obvious need for product standardization.

Product standardization in the MNC can occur only with HQ direction. This is implicit in the requirement that superfluous product varieties be identified, common product standards agreed upon, and specifications communicated among subsidiaries. Only HQ can overlay national product lines for the purpose of identifying nonessential products. Only HQ can direct the search for product commonalities. And only HQ can judge the regional or global appropriatness of a standardized product.

When the Business is Local

Product standardization is generally inappropriate for the firm competing in a local business. Differences in national product varieties are likely to reflect underlying dissimilarities in consumer preferences and product usage characteristics. National idiosyncracies require adapted or/unique products.

Of course there are exceptions; Coca-Cola being the most obvious. But even Coca-Cola has found it increasingly necessary to supplement its foreign product lines with nationally-distinctive products.[7] However, international brands do provide for varying degrees of product standardization. Typically, packaging, labeling, logotype, and promotional programs are standardized, while the basic physical characteristics of the product are adapted to local requirements. For example, Maxwell House Coffee, a General Foods brand, looks the same all over the world, yet exists in hundreds of local formulations. And even when CPC transfers Hellmann's mayonnaise to a foreign affiliate, the local company must decide if customers want a spicy, bland, or lemony product.

In a local business, subsidiaries must be granted autonomy to determine product specifications. The subsidiary's proximity to the local market enables it alone to design or adapt products that are nationally- and culturally-responsive. HQ is not able to perform this function. Most international marketers can recount stories of products that have failed due to HQ's insensitivity to local needs.

Pricing

Finally, the roles of HQ and subsidiaries may be compared in the way pricing decisions are made in global and local businesses.

When the Business is Global

A number of factors encourage HQ to assume a large share of strategic responsibility for pricing actions taken in a global business. In a business where the competitive balance is struck on a global basis, a price move made by a subsidiary in one national market can reverberate around the world. It may invite retaliation (perhaps somewhere else in the world) from competing firms who suddenly find the oligopolistic competitive balance upset. And when the product is traded globally, it may impact on the market positions of other subsidiaries. (In the extreme case this may degenerate into price competition among subsidiaries as happened in Brown, Boveri's small motor business.) To avoid these problems, HQ must coordinate pricing policy on a global basis. As one Dow executive noted:

> We must have our hand firmly on the lever of price. Price is the most sensitive thing in the success of our business. In some products, if we were stupid, or made a gross mistake, we could shake prices around the world.

At Dow HQ has established a minimum price for every major product. No subsidiary may price below the minimum without HQ approval.

Price coordination may also be required when multinational customers who source from several of the firm's production locations demand a single price.

To have an effective input in price decisions, HQ must gather intelligence on the global price situation for each of its businesses. To enable HQ to identify and respond to trends in the global price situation, subsidiaries must inform HQ of competitors' price moves. A product director at Dow claimed that if a German competitor offered a customer a better price today, Dow HQ would know about it tomorrow. With a global perspective, HQ is able to determine if a competitor's price move in one part of the globe portends a similar move, or requires retaliation, in another part of the globe; or if a series of price actions signal a realignment of the global competitive balance.

When the Business is Local

In a local business, price decisions taken by one subsidiary have little impact on the multinational system. In addition, the strategic implications of competitor's price moves are generally local, not global. In this context, global price coordination is inappropriate. The subsidiary must assume responsibility for pricing decisions.

Global Businesses, Local Business, and the Locus of Strategic Responsibility

The foregoing discussion has illuminated a fundamental relationship between the strategic imperatives which give a business its global or local focus and the appropriate division of strategic responsibility between HQ and subsidiaries. When the MNC's businesses are global, the strategic imperative which demands a move to worldwide integration compels a concurrent shift in the locus of strategic responsibility toward HQ. When the MNC's businesses are local, the strategic imperative which calls for heightened national responsiveness also requires the locus of strategic responsibility to move toward national subsidiaries.

Of course, strategic responsibility never rests solely with HQ, nor is surrendered unequivocably to subsidiaries. In every business in which MNCs participate there are demands both for integration and responsiveness. Certain strategic tasks (e.g., financial planning) always require transnational coordination, while other aspects of strategy invariably require a posture of national responsiveness (e.g., labor policy). The coexistence of demands for central coordination and subsidiary independence precludes a unipartite concentration of strategic responsibility.

Yet for most businesses (exceptions to be noted below), one strategic imperative dominates and the locus of strategic responsibility tends to rest either with HQ or subsidiaries. Again, the concept of a continuum is useful. Depending on the relative forcefulness of pressures for integration and responsiveness, locus of strategic responsibility may shift <u>more</u> toward HQ, or <u>more</u> toward subsidiaries.

Approaching the issue from a different point of view, C.K. Prahalad argues that there is no middle ground with respect to the allocation of strategic authority.[8] A precise balance of strategic responsibility between HQ and subsidiaries makes it impossible to resolve disputes between HQ (business units) and subsidiaries (geographic units). Over time a consistent way of dealing with such disputes must evolve, favoring one perspective (business or geography) over the other, or the MNC risks losing its strategic focus.

The implications of the divergent strategic imperatives which characterize local and global businesses clearly call for a rethinking of traditional concepts of multinational corporate strategic control. For the experienced MNC participating in a majority of the world's markets, the demand for worldwide integration (or national responsiveness) imposed by the global (or local) nature of its businesses exerts a predominating influence on the selection of locus of strategic responsibility. Issues of foreign product line diversity, product maturity, extent of international experience, subsidiary size, and profitability may be of secondary or tertiary importance.[9]

THE CONCEPT OF CONSONANCE

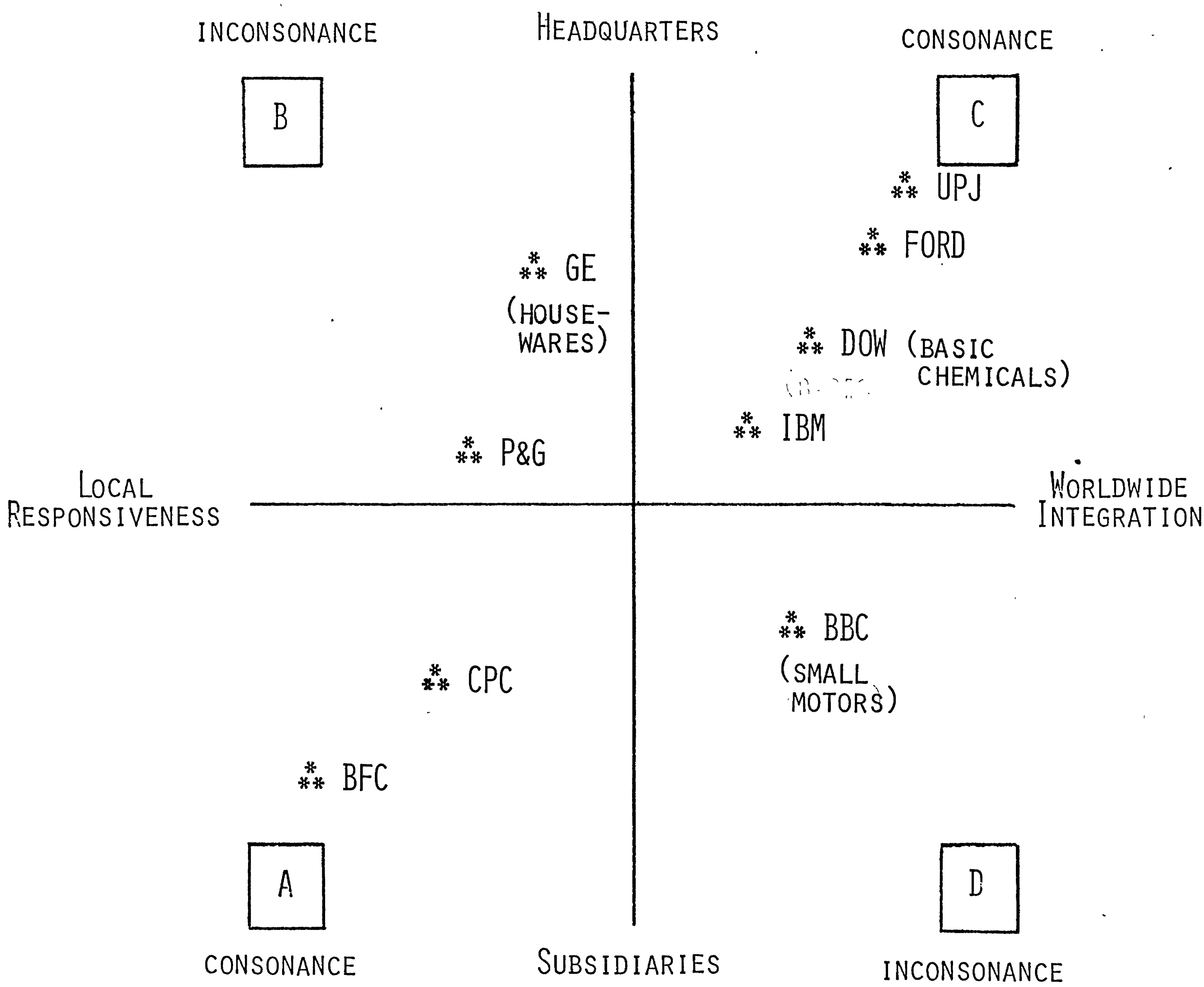
The Case of Consonance

A relationship has been proposed between 1) the strategic imperatives arising out of the local or global nature of a business, and 2) the locus of strategic responsibility appropriate to managing that business. Yet in some MNCs the expected relationship is not found. Practice violates principle. Reality suggests a typology of four possible cases: 1) a business where the strategic imperative demands local responsiveness, and where strategic responsibility tends to lie with subsidiaries; 2) a business where the strategic imperative demands local responsiveness, but where strategic responsibility tends to lie with HQ; 3) a business where the strategic imperative demands worldwide integration, and where strategic responsibility tends to lie with HQ; and, 4) a business where the strategic imperative demands worldwide integration, but where strategic responsibility lies with subsidiaries. Exhibit 2 depicts these four situations.

It is immediately apparent that two quadrants in this diagram, A and C, represent a felicitous matching of strategic imperative and locus of responsibility. Equally clear is that quadrants B and D are normatively inappropriate. Firms like Beatrice Foods and CPC International fall in quadrant A. The cultural-specificity of their businesses requires national responsiveness, and they have delegated an according degree of strategic responsibility to their national companies. (Their relative positioning in Exhibit 2 is indicative of CPC's greater reliance on international brands and the HQ involvement that implies, and the extreme strategic independence granted by Beatrice to its foreign profit center managers). Dow and Upjohn belong in quadrant C. Ford Motor Company and IBM, for example, would also fit in quadrant C. The businesses of these com-

Exhibit 2

THE CONCEPT OF CONSONANCE



Company Key:

BBC	Brown, Boveri, & Cie.
BFC	Beatric Foods Co.
CPC	CPC International
DOW	The Dow Chemical Company
FORD	Ford Motor Company
GE	The General Electric Company
IBM	International Business Machines Corporation
P&G	The Procter and Gamble Company
UPJ	The Upjohn Company

panies necessitate globally integrative management approaches, and in each company HQ plays a dominant role in strategy formulation.

In quadrants A and C, there is consonance between the strategic imperative and the locus of strategic responsibility. There are two prerequisites for the achievement of consonance: recognition of the nature of the strategic tasks incumbent on participants in the business, and a design of organizational structural and contextual mechanisms which apportion strategic responsibility in a way appropriate to those tasks.

The Case of Inconsonance

Consonance requires both sagacity and administrative adeptness. Firms that fall short in either respect find themselves in quadrants B or D. Inconsonance describes a mismatch between strategic imperative and locus of strategic responsibility. The two cases of inconsonance are discussed below.

National Responsiveness/HQ Strategic Responsibility

Companies which fall in quadrant B may either be incognizant of requirements for national responsiveness, or unable/unwilling to surrender strategic responsibility to subsidiaries. A number of executives who were interviewed put Procter & Gamble in this category. An industry observer ascribed P&G's undistinguished international results to a "centralized banks-of-the-Ohio character," where there are "an awful lot of approvals that have to go back to Cincinnati."[10]

With an exception to be noted later, General Electric's housewares business also belongs in quadrant B. Success in the manufacture and sale of small household appliances (e.g., toasters, griddles, counter-top ovens, etc.) requires at least a modicum of national responsiveness. Products must be adapted to conform to local electrical codes and voltage requirements. Access must be gained to fragmented and locally-controlled distribution channels. Promotional programs must be adapted to the media mix available locally, and to unique consumer purchasing characteristics. If the product concept is novel, as in the case of the toaster oven, it is necessary to educate consumers to the product's potential uses. Alternatively, it may be necessary to redefine the product concept in terms of tasks familiar to foreign consumers. A HQ-dominated approach to international opportunities in household products would seem to be at least somewhat inconsonant with the need for national responsiveness. Yet at G.E., a U.S.-based and -biased strategic business unit (SBU) holds full responsibility for growing the housewares business in most countries of the world (i.e., countries where G.E. does not have a multi-business affiliate).

The situation of G.E.'s international housewares business illustrates several problems encountered when this type of inconsonance exists:

1) Where there is no strategic imperative that a business be extended to foreign markets, the allocation of strategic responsibility to HQ results in a strong domestic orientation and a myopia toward foreign opportunities. This was the case at G.E. Although assigned worldwide strategic responsibility, one product line director admitted that less than five percent of his time was spent on international problems. The domestic orientation of the SBU was guaranteed by a management compensation plan based on U.S. results alone.

2) When HQ plays the primary strategic role in a local business, missed opportunities abroad are much less visible than missed domestic opportunities. This may result in an inappropriate allocation of strategic resources among domestic and overseas business opportunities. Evidence of such a situation was found at G.E.

3) The task of collecting country-specific information on market characteristics relevant to a local business, when viewed from HQ, appears to be of Brobdingnagian proportions. One G.E. manager gave this reason for the lack of interest in expanding housewares' international activities:

> To do international business we need to know, for each country, what kind of product they want, what the distribution channels are like, who the retailers are, and who our competitors are. It would be a phenomenally large job for us to collect that information here.

4) Finally, with long lines of communication between HQ and the occasional foreign customer, product adaptations and redesigns often turn out to be inappropriate. Another G.E. manager remarked that:

> Often we find out after we've adapted a product, that it's not really what the market wanted. So we're left with a bunch of inventory that's not saleable. This has really soured us on international business.

To put it simply, HQ is not in a position to identify and respond appropriately to international opportunities in businesses that have a strong local character. The following incident, related by a G.E. executive, is a vivid example of the costs of over-bearing HQ involvement in a business where a degree of local responsiveness is required.

> G.E. manufactured air conditioners in the Philippines that were appropriate to the Indonesian market, and so the Philippine operation decided to try and develop an export market in Indonesia. But the air conditioning business division in Texas [the domestic SBU] didn't want the Philippine operation to export to Indonesia, for in that case the Philippines, and not Texas, would book the export sales. Texas insisted on exporting the air conditioners it produced to Indonesia. But the Texas-made units were inappropriate for the market, and didn't do well.

In summary, the costs of inconsonance in quadrant B are of three major kinds: 1) <u>missed opportunities</u> as a result of insensitivity to national business opportunities; 2) inappropriate product/process/and managerial responses to foreign opportunities and threats (such inappropriateness is often the price paid for over-standardization); and, 3) costs of HQ resources expended in ill-advised coordinating, integrating, and standardizing activities.

Worldwide Integration/Subsidiary Strategic Responsibility

Quadrant D of Exhibit 2 depicts inconsonance of a different type. Firms falling in this quadrant have either not recognized the forces impelling a worldwide integrative approach to their businesses, or have been unable/unwilling to concentrate strategic responsibility at HQ.

The position of Brown, Boveri's small motor business in the early 1970s, mentioned earlier, illustrates type-D inconsonance. Even after changing patterns of production and competition had demonstrated the need for an integrated, HQ-directed, approach to the small motors business, BBC's traditionally autonomous national companies continued to jealously guard their strategic prerogatives.

Franko has suggested that European firms in general have had difficulty in responding to demands for integrated approaches to global business. This he attributes to their traditional use of "mother-daughter" organizational structures which give great strategic autonomy to national companies.[11] The historically fragmented and tariff-ridden European market made it necessary to grant subsidiaries a high degree of strategic freedom. With the creation of the European Economic Community, and the emergence of global businesses, many European MNCs found themselves in BBC's unenviable position.

The costs of inconsonance in quadrant D may be grouped under two broad headings: 1) missed opportunities for increased scale economies; and 2) costs of mismanaged, or unmanaged interdependencies (i.e., costs arising from the lack of inter-subsidiary coordination of export allocation, pricing, technology transfers, R&D activities, etc.). Exhibit 3 summarizes the costs of inconsonance.

THE CONCEPT OF CLARITY

The Case of Clarity

As was pointed out, a single business will always be confronted by both integrative and responsive strategic imperatives. Whether a business must be managed on a local or global basis depends on which imperative tends to predominate. This is illustrated in Exhibit 4. Forces compelling worldwide integration are summarized on the vertical axis. As one moves up the axis, the need for worldwide integration increases. Forces leading to increased national responsiveness are represented on the horizontal axis. As one moves out on this axis, the need for national responsiveness grows. A single business can be positioned on the basis of the relative strengths of opposing strategic imperatives.

Likewise, companies whose entire line of businesses respond to a common strategic imperative may be placed at a single point, or a small range of points on the diagram. Hence the positions of Ford and Beatrice. Although each firm participates internationally in several businesses, those businesses tend to face a common strategic imperative. For this reason, these firms may be thought of as possessing strategic clarity. Strategic clarity is simply the case where the MNC as a whole is confronted by a single strategic imperative.

Strategic clarity imparts organizational clarity. The fact that all the MNC's businesses respond to the same strategic imperative means that the division of strategic responsibility may be consistent across the firm's total business line. Typically, this allows the company to adopt an organizational structure where one strategic orientation, i.e. area or business, is greatly favored above all others.

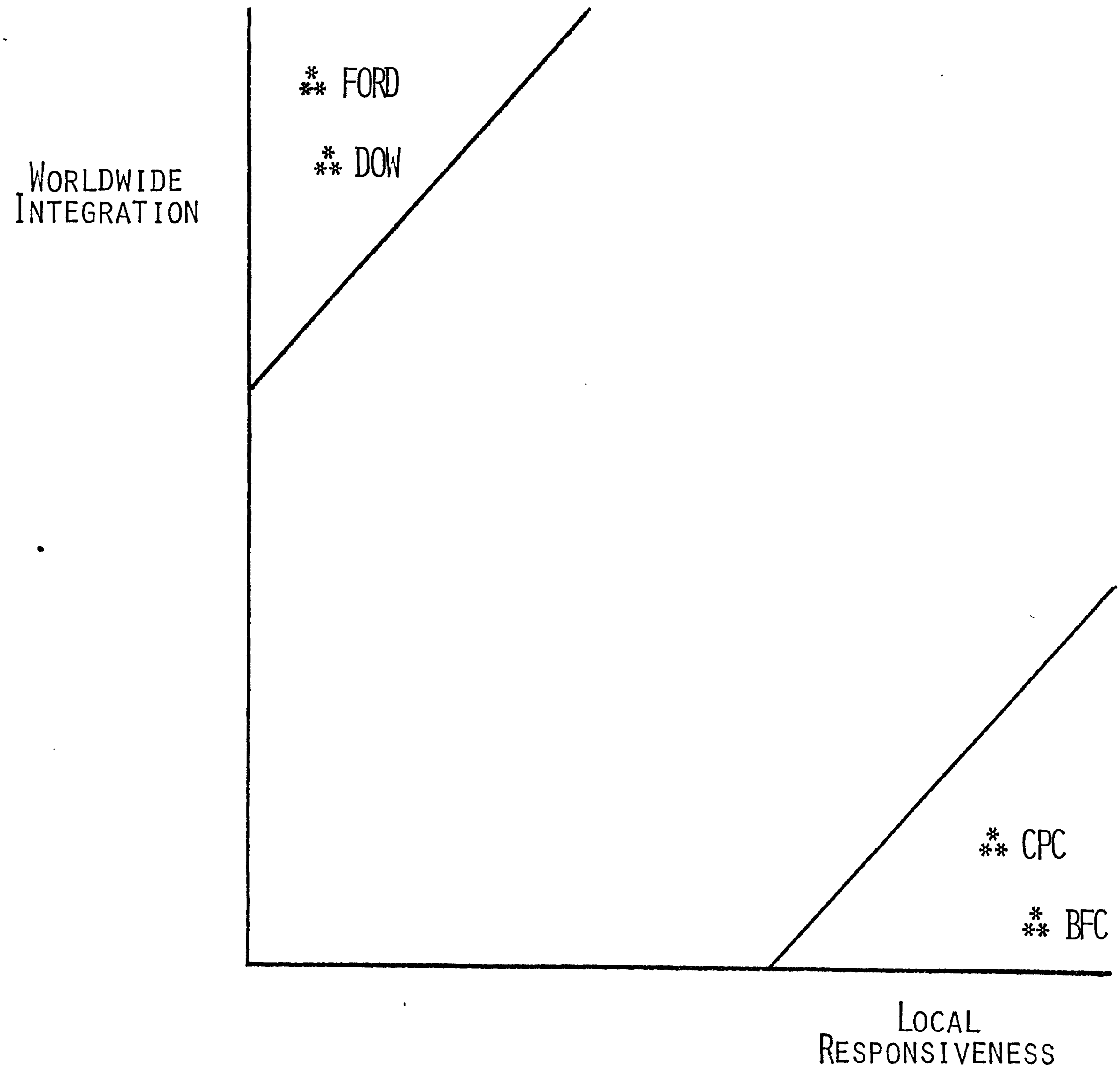
Exhibit 3

THE COSTS OF INCONSONANCE

Worldwide Integration Subsidiary Strategic Responsibility	National Responsiveness Headquarters Strategic Responsibility
Foregone economies of scale - passive search for foreign markets - failure to integrate/ rationalize production - under-standardization Unmanaged Interdependencies - lack of export coordination - lack of pricing coordination - lack of R&D coordination	Missed foreign opportunities - domestic orientation - lack of nationally-sensitive environmental scanning Inappropriate products/processes and managerial approaches - insensitivity to national idiosyncracies - over-standardization Costs of HQ resources applied to coordinating, integrating, and standardizing activities

Exhibit 4

THE CONCEPT OF CLARITY



Companies with a strong global orientation in each of their businesses are likely to find that a worldwide business/product structure provides the greatest opportunity for integrating business strategies transnationally. On the other hand, companies whose businesses require a local orientation will probably find an area/country structure to be most in accord with the need for national responsiveness. However, one must be careful of oversimplification. A "pure" area or business organization type was not found in any of the companies at which interviews were conducted. In every case, both perspectives were clearly represented; if not through structure, through managerial systems. What was important was the relative weight given each strategic perspective. In the companies where worldwide integration was a key managerial task, the business perspective dominated. In the firms where national responsiveness was the objective, the area perspective took precedence.

Strategic and organizational clarity imply that the ascendance of a particular strategic perspective is consistent across the MNC's businesses. This consistency endows the organization with internal integrity and inviolability. Where strategic and organizational clarity prevail, structure, systems, values, and people reflect a common strategic perspective.

The Case of Amorphism

In many multinational companies (e.g. G.E., ITT, Philips, etc.) strategic and organizational clarity are difficult, if not impossible to achieve. The diversity of their businesses permits not single overreaching strategic imperative. Demands for both integrative and responsive strategies exist within these firms. In some businesses the need for worldwide integration is the dominant strategic imperative, while in other businesses the necessity of national responsiveness is felt most keenly. A lack of strategic clarity may have other causes.

Some businesses may face simultaneous pressures for worldwide integration and national responsiveness. Other businesses may be in a transitional stage between integrative and responsive strategic imperatives. Each of these situations leads to strategic amorphism. And strategic amorphism begets organizational amorphism. The several causes of amorphism are discussed below.

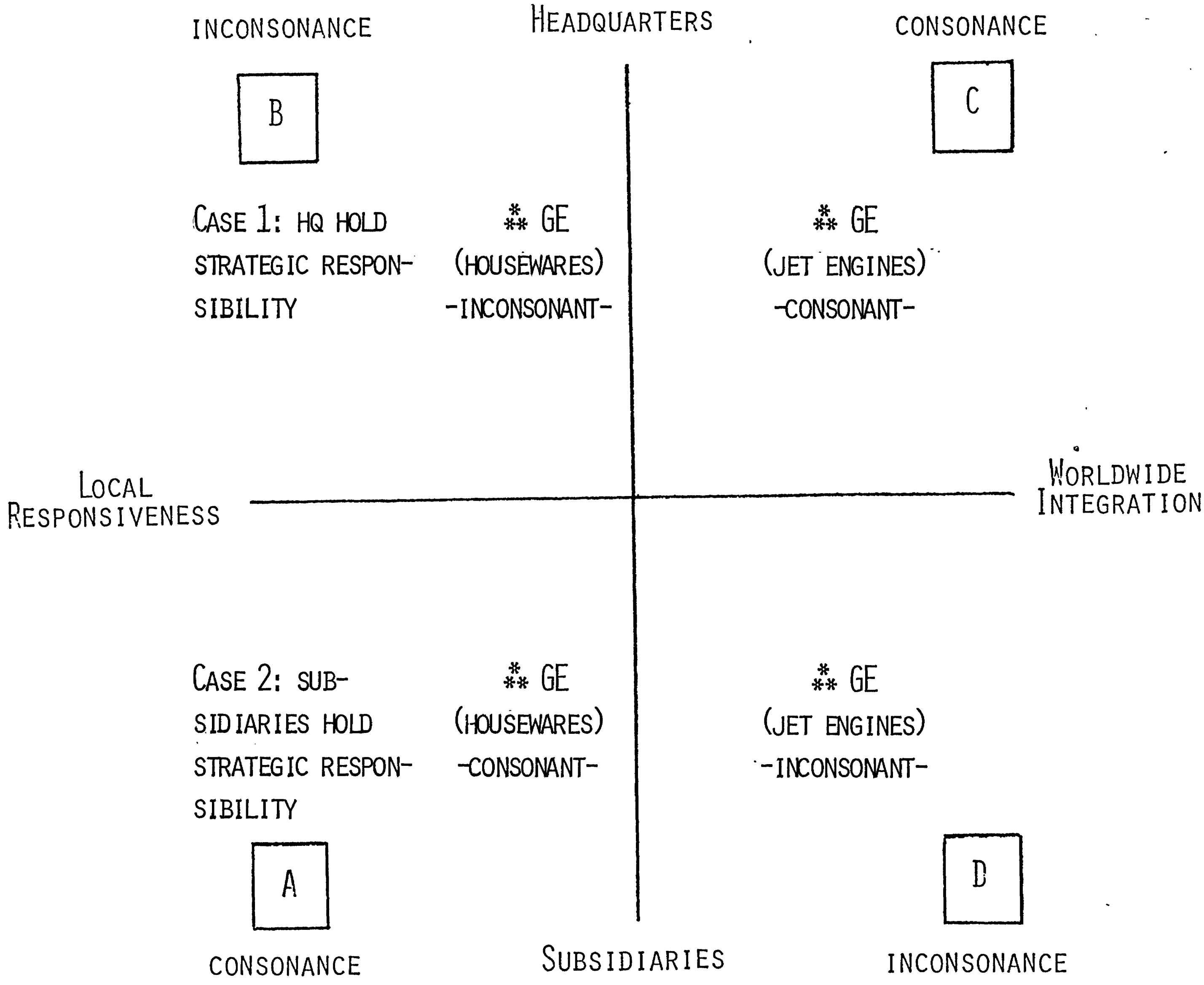
Multiple Businesses, Multiple Strategic Imperatives

A division of strategic responsibility appropriate to the strategic imperatives faced by one of the MNC's businesses may be inappropriate to the strategic demands of another. In this case, effecting an appropriate apportionment of strategic responsibility across the firm's businesses places tremendous demands on the organization. To at once run some businesses on a global basis, creating and managing system interdependencies on a worldwide basis, and run other businesses on a local basis, ensuring that subsidiaries retain an appropriate degree of strategic freedom, requires much of the organization and its management. How have some multinationals approached this problem?

General Electric provides one example. G.E. is organized into more than 40 SBUs that manufacture over 100,000 products from jet engines to hairdryers. With such diverse businesses, the division of strategic authority appropriate for one business, e.g. jet engines, may be completely inappropriate for another, e.g. housewares. (See Exhibit 5). G.E.'s approach has been one of structural plurality. International business activities take place within (at least) two distinct structural entities. In ten or so countries, principally in Latin America and Southeast Asia, G.E. has multi-business affiliates that operate quite autonomously, but report to G.E.'s international division. With substantial local-for-local production, these foreign affiliates produce and market low technology consumer and light industrial products. The domestic SBUs producing and selling these low technology products have no formal control over the activities

Exhibit 5

ONE CASE OF AMORPHISM
MULTIPLE BUSINESSES, MULTIPLE STRATEGIC IMPERATIVES



of the affiliates. And, as mentioned earlier, their interest in pursuing activities in other foreign markets is very low. So although the affiliates participate in businesses that have corresponding domestically-based SBUs, the national companies have great strategic independence.

For those high technology and heavy industrial businesses not found in foreign affiliates, domestic SBUs have worldwide strategic responsibility. The increasingly global nature of some of these businesses (jet engines, engineering plastics, steam turbines) has pushed the U.S. SBUs to actively seek out foreign markets. The foreign activities of these SBUs are conducted on a "direct-connect" basis. Each SBU determines its own particular international strategy in terms of foreign manufacture, sourcing, pricing, government relations, exporting, and so on. In some countries, affiliate manufacturing and sales activities, directed by the local company, take place side-by-side with direct-connect manufacturing and sales activities directed by U.S. SBUs.

While in principle this biformed structure allows locally-oriented businesses to be managed on a national basis (in countries where there are affiliates), and globally-oriented business to be managed on a worldwide basis, problems have emerged. Being so totally divorced from U.S. operations, foreign affiliates have had little incentive to assist SBUs that have attempted to operate or establish direct-connect operations in the affiliates' home countries. One G.E. executive remarked that

> The Brazilian affiliate won't help the U.S. SBUs sell aircraft engines or gas turbines in Brazil because there's nothing in it for the Brazilians.

The independence of the foreign affiliates has not been completely voluntary. With no formal connection between the affiliate's businesses and corresponding U.S.-based SBUs, the affiliates have been unable to draw on the resources of domestic business units. Affiliates' requests for SBU assistance in adapting U.S. products and technology for local markets have often been met with indifference. When asked what help would be given to an affiliate establishing a housewares manufacturing operation, a manager in the U.S. housewares business replied:

> Well, they can come look at our process, and ask questions about the plant, but we have no resources to help them design a plant. It is up to them to get the manufacturing technology in whatever way they can.

G.E.'s case illustrates the primary shortcoming of structural plurality: a severing of interdependencies between businesses. When businesses share common technologies or markets, structural segmentation hinders or precludes the coordination necessary to benefit from commonalities.

In an attempt to manage interdependencies, G.E. has created over 60 "internal joint ventures." Hammered out in "integration planning" sessions, these agreements set the terms for the exchange of services and allocation of shared costs between the various G.E. units, affiliates and SBUs, that participate in foreign markets. But integration planning has proved to be cumbersome, time-consuming, and formalistic. Although providing a solution to current problems, integration planning is seen at G.E. as a "transition phase," to be replaced when more workable solutions to the problems of managing interdependencies are found.

Perhaps a more satisfying solution to the problem of strategic amorphism lies in the concept of <u>relative power</u>. Developed fully by C.K. Prahalad,[12] and described briefly here, this approach preserves the integrity of the organizational structure, yet allows the division of strategic responsibility between HQ and area executives to be established on a business-by-business. This is accomplished within the context of a matrix structure. It requires a careful selection of key executives, and establishment of appropriate communication and reporting relationships.

Corning Glass, a company that operates in both local and global businesses, has used the concept of relative power to match the division of strategic responsibility in each business to the strategic imperatives faced by the particular business. In the early 1970s Corning executives began to realize that the degree of strategic independence granted foreign subsidiaries by the existing area-based organization was resulting in missed opportunities for integration of Corning's emerging global businesses: television picture tubes, ophthalmic glass, and medical products. This realization led to attempts to introduce a strong worldwide business perspective to the organization, first through international business managers, and then through "world [business] boards." Foreign-based executives running Corning's locally-oriented businesses, consumer and scientific glass, viewed the business managers, and later the world boards, as unwarranted HQ meddling in local affairs. However, the attempts to gain a greater role for HQ were thought to have some merit by those running Corning's more globally-oriented businesses.

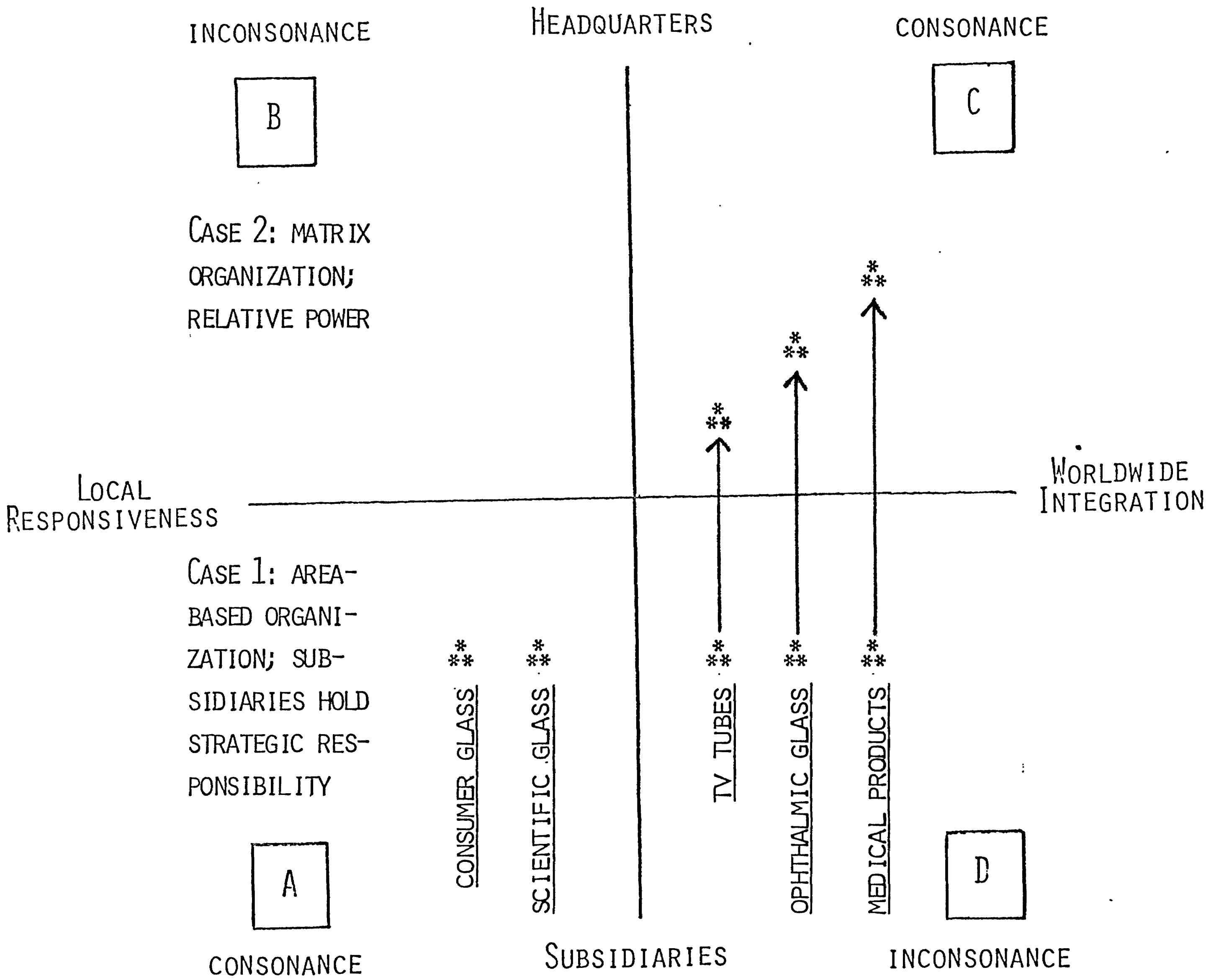
In 1975 Corning adopted a matrix structure. In this reorganization, area and business managers were to share strategic responsibility in each business, with differences in managerial systems and personnel <u>between</u> businesses providing for an appropriate balance of strategic responsibility to be struck in each business. The flexibility of this approach allowed the locus of relative strategic power to move either toward HQ or toward subsidiaries depending on the nature of the particular business. Exhibit 6 illustrates the shift of strategic responsibility brought about by Corning's reorganization.

<u>One Business/Multiple Strategic Imperatives</u>

It has been noted that an MNC may find some of its businesses facing demands

Exhibit 6

THE CONCEPT OF RELATIVE POWER:
CORNING GLASS WORKS' REORGANIZATION



for worldwide integration, and others facing demands for national responsiveness. In this case, there are two competing strategic imperatives within the firm. However, in some cases the imperatives of integration and responsiveness exist full strength within a single business. A business may face concurrent pressures for worldwide integration and national responsiveness. Exhibit 7 illustrates such a case. Businesses in this situation are typically those that are salient to host governments, i.e. that have governments as major customers.

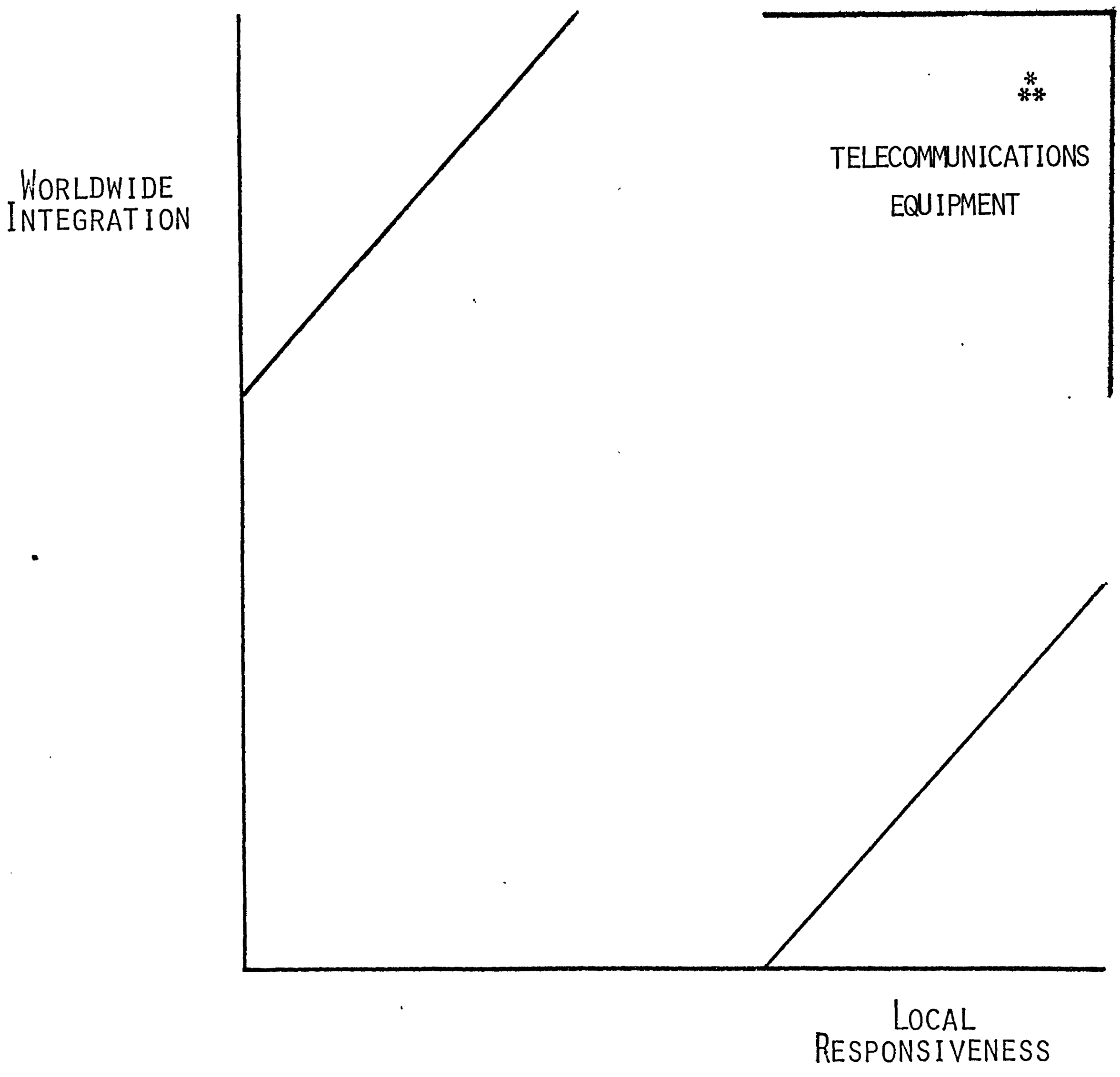
In an exhaustive and insightful work, Yves L. Doz describes the case of the telecommunications and power generating equipment industries in Europe.[13] Doz found that although incentives for integration were high in these businesses, government-imposed requirements as to technology adaptation, employment creation, local value added, joint venture participation, and exports, made a pressing case for national responsiveness. In further writings, Doz identified a generic approach to the problem of strongly competing strategic imperatives. He suggested that rather than attempting to make a once-and-for-all assignment of strategic responsibility to either HQ or subsidiaries, the firm should seek to deal with major strategic issues on an individual basis, attaining on each decision an appropriate compromise between HQ and subsidiary perspectives. Such compromise required that competing perspectives find representation within a single decision-making unit in the company. In Doz' words,

> [Strategic decisions] have to be reached by some group that collectively captures contradictions in the environment, internalizes them, and resolves them through contention, coalition, and consensus.[14]

In this mode of decision-making top management's role becomes one of "administrative coordination." Rather than imbuing one particular set of actors in the multinational system with a preponderant share of strategic responsibility, i.e. deciding who will exercise strategic responsibility, HQ manages the administrative

Exhibit 7

ONE CASE OF AMORPHISM:
A SINGLE BUSINESS, CONCURRENT STRATEGIC IMPERATIVES



context in order to determine <u>how</u> strategic responsibility will be exercised. A principal task is the determination of what kinds of decisions demand sensitivity to national concerns, and what kinds of decisions demand cross-national coordination. By assuring that the strategic orientation of individual decision making groups is consonant with the types of decisions that need to be made (accomplished through control over group membership and influence of managers' perspectives), HQ gives expression to both global and local viewpoints across a range of strategic issues. Administration coordination does not resolve, but merely manages strategic amorphism.

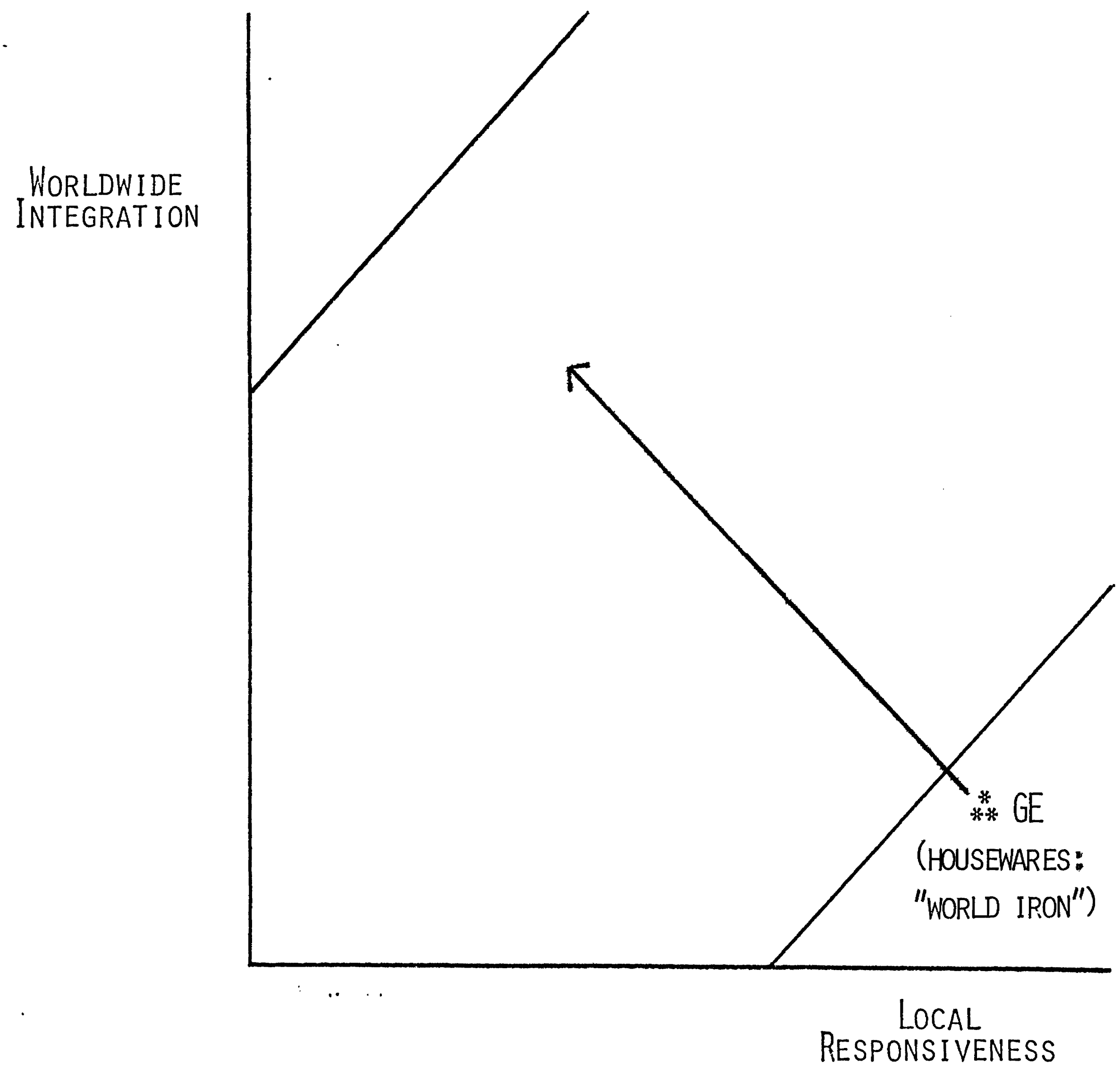
<u>One Business/Changing Strategic Imperatives</u>

A change in the strategic orientation of a business, from local to global, may be yet another cause of strategic and organizational amorphism. (See Exhibit 8.) HQ is typically first to recognize the emerging global nature of a previously local business. Yet between this first recognition and a reassignment of strategic responsibility is likely to be a period of uncertainty and conflict with respect to the strategic roles of HQ and subsidiaries. Subsidiaries may be slow to perceive the shift in strategic imperatives from national responsiveness to worldwide integration. Furthermore, the implications of this shift for the division of strategic responsibility may not be understood, and if understood resisted.

General Electric has faced such a dilemma. A few years ago G.E.'s domestic housewares operation underwrote a significant redesign of the hand irons that it had been selling in the United States. Spurred by declining profitability in the U.S., the redesign program yielded a significant break-through in product technology. The new line of irons required fewer parts in manufacture than previous

Exhibit 8

ONE CASE OF AMORPHISM:
A SINGLE BUSINESS, CHANGING STRATEGIC IMPERATIVE



irons, and made use of a "plastic," rather than metal shell which made the iron cool to the touch.

Initial plans called for the irons to be marketed primarily in the U.S., with exports handled on an opportunistic basis. The U.S. market was to be served by a domestic production, and an offshore, Far Eastern, production location. But there were those in housewares, one strategic planner in particular, and in the international division who began to argue that the new iron represented a world class technology which could be exploited all over the world. Working against the strong domestic orientation of the housewares SBU, these individuals made the point that among all housewares products, the physical characteristics and use patterns of hand irons varied the least among countries of the world, and would thus allow standardization and production economies. Noting that irons were the most widely used electrical product in the world, the iron was seen as housewares' best chance for coming up with a "world product." It was suggested that Brazil, a large and growing market for G.E. irons, should be chosen as the primary offshore production location. One particular advantage of the Brazilian location was that by turning Brazil into a major exporter of irons, G.E. would be able to take advantage of a government program rewarding export performance.

A decision was finally made to go ahead with production in Brazil. Irons produced there were to serve the Brazilian market, the U.S. market, and export markets. Thus over a period of months and years, and through the participation of a few internationally-oriented individuals, a project which had originally sought to obtain a cost-effective iron for the U.S. evolved into a concentrated push to make G.E.'s iron business a global business.

However, G.E. has found the road from decision to implementation to be problem strewn. While on one hand people in the housewares business have come to recognize the benefits of managing the iron business on a worldwide basis, the traditionally autonomous Brazilian subsidiary has not been entirely sure it wants to be the linchpin in G.E.'s world iron business. The Brazilians have not wanted to give up local control over production facilities located in their own market.

The replacement of local-for-local production with local-for-regional or -global, raised a host of problems typical of the transition to a globally-managed business: who will be responsible for plant operations on a day to day basis, the U.S. business division or the subsidiary; how will production be allocated between the subsidiary's market and other markets; what will happen when the product is in short supply; what will happen when there is excess capacity; who will set the transfer price for the products that will be exported; who will set the price the subsidiary will pay for products for the local market; on what basis will manufacturing overhead be allocated; where will export sales be booked; who will be responsible for providing on-going technical support of manufacturing activities; and so on.

Not only at G.E., but at any company in a similar situation, the subsidiary's point of view on these matters is likely to reflect a desire to maintain historical levels of strategic and operational control. On the other hand, HQ's perspective will evince a desire to consolidate worldwide strategic responsibilities as rapidly as possible. Reconciliation demands new organizational structures and management systems. These cannot be put in place, nor made workable, overnight. In the meantime, the division of strategic authority is likely to be ambiguous.

At G.E., a decision on the precise division of strategic responsibility came after ground had already been broken for the Brazilian plant. In fact, through much of the planning period for the "World Iron Project," as it came to be called, there was an implicit agreement that the issue of strategic responsibility wouldn't be broached. This prevented inter-unit rivalries from derailing the project before an understanding of its system-wide benefits could be fully communicated to all those involved.

Recognizing the need for a shift in a company's strategic perspective, and then engineering the reallocation of strategic responsibility is another basic task in the management of strategic responsibility in the MNC.

CONCLUSION

The arguments presented in this paper are, of course, not conclusions, but hypotheses. In adopting the case method of research, one trades sample size for depth of insight. Yet the observations of the twenty or so executives interviewed, the anecdotal evidence available from secondary sources, and the corroborating work of other researchers all tend to reinforce one another in a way consistent with the main premises of this paper.

In trying to understand the complexities of multinational corporate strategic behavior, the dichotomy between global and local businesses serves as a useful organizing principle. On this basis it is possible to distinguish between both competing strategic imperatives and diverging strategic responses.

Firms that face a strategic imperative demanding worldwide integration must consolidate responsibility for a broad range of strategic tasks at HQ. Firms that face a strategic imperative demanding national responsiveness must delegate responsibility for many strategic tasks to subsidiaries.

But the link between strategic imperative and corporate strategic response may be more tenuous and complex than this. For the diversified MNC, the focal point of strategy, and the division of strategic authority, may not be consistent for all businesses. In this case a higher order of structural and managerial sophistication is required to differentiate the firm's strategic perspective across businesses.

Or the MNC may find demands for integration and responsiveness imposed simultaneously on a single business. Here the lack of strategic integrity cannot be avoided. Multi-perspective decision-making units must be created and managed in such a way as to bring about an optimal trading between benefits of integration and benefits of responsiveness.

Finally, the MNC may be forced to respond to changes in the strategic imperatives which confront its businesses. Strategic responses appropriate yesterday may be inappropriate today. A realignment of strategic responsibility may be a prerequisite for continued participation in certain of the MNC's businesses.

NOTES

1. The Boston Consulting Group, Strategy Alternatives for the British Motorcycle Industry. London: Her Majesty's Stationary Office, 1975.

2. This list of tasks is not meant to be exhaustive, merely illustrative.

3. Menzies, Hugh D. "Westinghouse Takes Aim at the World." Fortune. (January 14, 1980), p. 48.

4. All observations pertaining to Brown, Boveri & Cie. are based on: Brown, Boveri & Cie. (Case No. 9-378-115). Boston: Intercollegiate Clearing House, 1977.

5. All observations pertaining to SKF are based on: "SKF Reintegrates Internationally." Multinational Business. No. 4, 1976.

6. All observations pertaining to Corning Glass Works are based on: Corning Glass Works: International, (A), (B), and (C). (Case No. 9-379-051). Boston: Intercollegiate Clearing House, 1978.

7. Recent annual reports of the Coca-Cola Company.

8. Prahalad, C.K. "Strategic Choices in Diversified MNCs." Harvard Business Review. (July-August, 1976).

9. These factors have typically been thought to be the main determinants of the degree of subsidiary autonomy. For example, see discussions in: Stopford, John M. and Wells, Louis T. Managing the Multinatinonal Enterprise. New York: Basic, 1972. (Especially chapters three and four). Also see: Abell, Peter. "Parent Companies' Control of Subsidiaries." Multinational Business, , 1974.

10. Loomis, Carol J. "P&G Up Against the Wall." Fortune. (February 23, 1981), p. 51.

11. Franko, Lawrence G. The European Multinationals. Stamford, Conn.: Greylock, 1976. (Especially chater eight).

12. Prahalad, C.K. "Strategic Choices ... "

13. Doz, Yves L. Government Control and Multinational Strategic Management. New York: Praeger, 1979.

14. Doz, Yves L. "Strategic Management in Multinational Companies." Sloan Management Review. (Winter, 1980), p. 37.