"You want to be able to optimize a business globally — to specialize in the production of components, to drive economies of scale as far as you can. But you also want to have deep local roots everywhere you operate. If you build such an organization, you create a business advantage that’s damn difficult to copy."

Percy Barnevik
MANAGEMENT OF INTERNATIONAL OPERATIONS:
TRANSNATIONAL STRATEGY AND KNOWLEDGE MANAGEMENT

Notes

AUTO INDUSTRY:
TRANSITION TO TRANSNATIONALITY

Global Integration

Local Responsiveness

Toyota

Ford

GM

dkd

TRANSNATIONAL STRATEGY

Greater emphasis on differentiated products than in "pure" global industries

• Greater demand for global efficiency and lower costs than in "pure" multinational industries

• Greater sensitivity to governmental demands

• Units coordinate activities with HQ and with one another

• Units may adapt to special circumstances only they face

Examples: CATERPILLAR, ABB

dkd

TRANSNATIONAL STRATEGY

Unit 1

HQ

Unit 2

Unit 3

dkd

TAIWAN: December 2004
Deepak Datta
MANAGEMENT OF INTERNATIONAL OPERATIONS:
TRANSNATIONAL STRATEGY AND KNOWLEDGE MANAGEMENT

Notes

FORD FIESTA PRODUCTION NETWORK IN EUROPE

- Valencia: Final Assembly
- Bordeaux: Transmissions
- Dagenham: Final Assembly
- Belfast: Carburetors and distributors
- Genk: Body panels and wheels
- Cologne: Transaxle casings, gear and axle components
- Enfield: Instruments and fuel gauges
- Basildon: Radiators, water pump assembly
- Valencia: Final Assembly

PONTIAC LEMANS

- Pontiac LeMans

TRANSNATIONAL STRATEGY

ISSUES TO CONSIDER

Adapting to Local Market Differences
- Distinction between attributes where customers truly value adaptation and where they are neutral or averse.
- For attributes where adaptation adds value, how much is the customer willing to pay?

Exploiting Economies of Global Scale
- Distinction between activities that are scale sensitive and those that are not
- Benefits from economies of scale vs. increases in costs – transportation, tariffs etc.
- Effective and efficient coordination mechanisms
MANAGEMENT OF INTERNATIONAL OPERATIONS:
TRANSNATIONAL STRATEGY AND KNOWLEDGE MANAGEMENT

Transnational Strategy

Issues to Consider

Tapping Optimal Locations for Activities
• Can it be easily neutralized by competitors?
• Organization and resource flexibility to shift locations over time
• How frictionless is the degree of our coordination across the various locations?

Maximizing Knowledge Transfers
• Ability to routinely and systematically uncover opportunities for knowledge transfer
• Enthusiasm of subsidiaries about knowledge sharing with peer units
• Effective mechanisms for knowledge transfer

Location Decisions

Transnational Strategies

Performance Enhancement
• Criticality of customer proximity in the execution of the activity
• Availability of needed talent
• Impact on the company’s speed at improving core competencies
• Impact on the quality of internal coordination
• Ability to work around the clock

Cost Reduction
• Impact of location on the cost of activity execution
• Government incentives and tax structure

Risk Reduction
• Currency risks
• Political risks

Political
• Government demands
**KEY FACTORS FOR GLOBAL SOURCING**

**VERY IMPORTANT**
- Better quality
- Lower price
- Unavailability of items in own country

**IMPORTANT**
- More advanced technology abroad
- Negotiability
- On-time delivery
- Willingness to solve problems

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**VALUE CHAIN AND FUNCTIONAL INTERFACES**

- Identify the value chain links
- Determine the location of the company’s competitive advantages, considering both economies of scale and scope
- Ascertain the level of transaction costs between value chain links (both internal and external) and select the lowest cost mode
- Determine comparative advantage of countries (including the company’s home country) relative to each link and to relevant transaction costs
- Develop adequate flexibility in corporate decision making and organizational design to respond to changes in competitive advantage and comparative advantage of countries

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**TYPES OF SOURCING STRATEGY**

<table>
<thead>
<tr>
<th>How to Source</th>
<th>Where to Source</th>
<th>Type of Sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intrafirm Sourcing</td>
<td>Domestic</td>
<td>Domestic In-House sourcing</td>
</tr>
<tr>
<td></td>
<td>Abroad</td>
<td>Offshore Subsidiary sourcing</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>Domestic</td>
<td>Domestic Purchasing Arrangement</td>
</tr>
<tr>
<td></td>
<td>Abroad</td>
<td>Offshore Outsourcing</td>
</tr>
</tbody>
</table>
ROLE FOR NATIONAL SUBSIDIARIES

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributor</td>
<td>Leader</td>
</tr>
<tr>
<td>Implementer</td>
<td>Black Hole</td>
</tr>
</tbody>
</table>

Resources and Capabilities of Local Organization:

- Low
- High

Strategic Importance of the Local Environment:

- Low
- High

BUILDING A GLOBAL KNOWLEDGE MACHINE

Market success is only part of globalization. We must globalize every activity in the company. We’ve made some progress in sourcing products and components so critical to surviving and winning in a price-competitive world, but the challenge goes beyond that — to capitalize on the vast intellectual capital available around the globe.

Jack Welch
CEO, General Electric

Knowledge in Consulting Organizations

Now

- Organizational Knowledge
- Personal Knowledge

Future

- Organizational Knowledge
- Personal Knowledge

Total knowledge individual can bring to customers
MANAGEMENT OF INTERNATIONAL OPERATIONS:
TRANSNATIONAL STRATEGY AND KNOWLEDGE MANAGEMENT

Notes

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KNOWLEDGE MANAGEMENT

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KNOWLEDGE ACCUMULATION AND MOBILIZATION

- Creation
- Acquisition
- Retention
- Identification
- Outflow
- Inflow

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CHALLENGES IN KNOWLEDGE ACCUMULATION

- Complacence
- Low-decision making discretion
- Absence of an internal market for ideas
- Failure to be an early mover in knowledge acquisition
- Inability to integrate and apply external knowledge
- Employee turnover
- Bleed-through proprietary knowledge to competitors

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Page 7
CHALLENGES IN KNOWLEDGE MOBILIZATION

IDENTIFICATION
- “Halo” effect

OUTFLOW
- “How does it help me?” syndrome
- “Knowledge is power” syndrome
- Incentives tied to internal performance

INFLOW
- “Not invented here” syndrome
- Reluctance to acknowledge the superiority of peers

MAXIMIZING KNOWLEDGE ACCUMULATION AND MOBILIZATION

KNOWLEDGE ACCUMULATION
- Stretch goals
- Provide high-powered incentives
- Cultivate empowerment and slack
- Cultivate market for ideas with firm

KNOWLEDGE MOBILIZATION
- Ban knowledge hoarding and turn knowledge givers into heros
- Rely on group-based incentives
- Invest in codification of tacit knowledge
- Match transmission mechanisms to type of knowledge

STRATEGIC ORIENTATION: SUMMARY

Multinational
- Building flexibility to respond to national differences through strong, resourceful, and entrepreneurial national operations

Global
- Building cost advantages through centralized, global-scale operations

Transnational
- Developing global efficiency, flexibility, and worldwide learning capability simultaneously
MANAGEMENT OF INTERNATIONAL OPERATIONS:
TRANSNATIONAL STRATEGY AND KNOWLEDGE MANAGEMENT

Notes

SOURCES OF COMPETITIVE ADVANTAGE

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Sources of Competitive Advantage</th>
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</thead>
<tbody>
<tr>
<td>National Differences</td>
<td>Exploiting scale economies</td>
</tr>
<tr>
<td>Scale Economies</td>
<td>Sharing of investments</td>
</tr>
<tr>
<td>Scope Economies</td>
<td></td>
</tr>
<tr>
<td>Achieving efficiency</td>
<td>Benigning differences in factor costs</td>
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<tr>
<td></td>
<td>Exploiting potential scale economies</td>
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<tr>
<td>Managing risks</td>
<td>Balancing scale with flexibility</td>
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<td></td>
<td>Portfolio diversification of risks</td>
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<tr>
<td>Innovation, learning and adaptation</td>
<td>Learning from societal differences</td>
</tr>
<tr>
<td></td>
<td>Benefiting from experience and learning</td>
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<tr>
<td></td>
<td>Shared learning across markets and businesses</td>
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</table>

STRATEGIES: ADVANTAGES AND DISADVANTAGES

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinational</td>
<td>- Customise product offerings and marketing in accordance with local responsiveness</td>
</tr>
<tr>
<td></td>
<td>- Ability to detect potential opportunities for attractive sites</td>
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<tr>
<td>Global</td>
<td>- Exploit experience curve effects</td>
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<tr>
<td></td>
<td>- Exploit location economies and economies of scale</td>
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<tr>
<td></td>
<td>- Align with global world standards</td>
</tr>
<tr>
<td>Transnational</td>
<td>- Exploit experience curve effects</td>
</tr>
<tr>
<td></td>
<td>- Exploit location economies</td>
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<td>- Customise product offerings in accordance with local responsiveness</td>
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<td></td>
<td>- Reap benefits of global learning</td>
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</tbody>
</table>

OPPORTUNITIES AND OUTCOMES OF INTERNATIONAL STRATEGY

<table>
<thead>
<tr>
<th>Identify Int. opportunities</th>
<th>International Strategies</th>
<th>Entry modes/strategies</th>
<th>Competitiveness outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Increased market size</td>
<td>- International strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Return on investment</td>
<td>- Multinational strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Economies of scale</td>
<td>- Global strategy</td>
<td></td>
<td></td>
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<tr>
<td>- Learning</td>
<td>- Transnational strategy</td>
<td></td>
<td></td>
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<tr>
<td>- Location advantage</td>
<td>- Exporting</td>
<td></td>
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<td></td>
<td>- Licensing</td>
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<td>- Strategic alliances</td>
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<td>- Acquisitions</td>
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<td>- Greenfield investments</td>
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<td></td>
<td>- Superior economic performance</td>
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</tr>
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<td>- Innovation and learning</td>
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