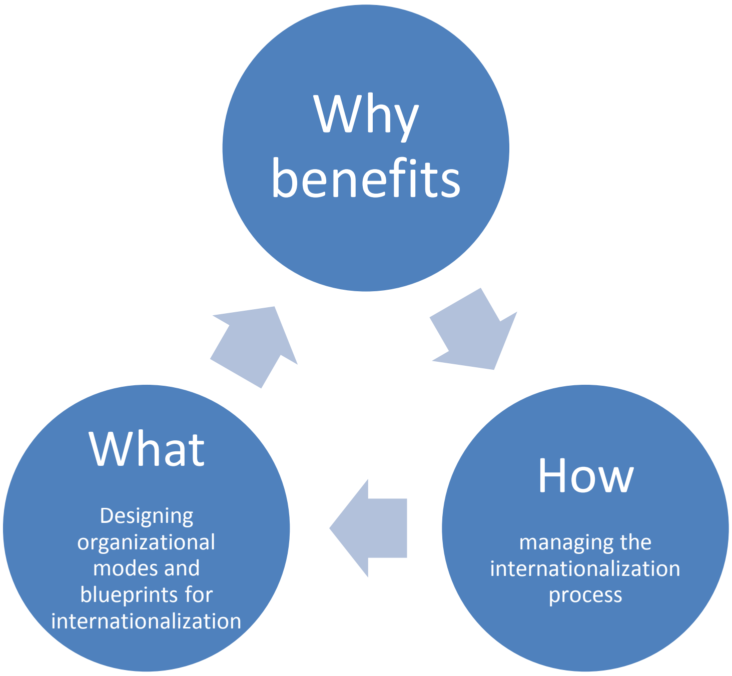


The WHY

Slogans:

- You have to internationalize or will die – What if you internationalize and die?
- Bigger is better – Or better leads to bigger?
- Our competitors are already doing it – Who is in charge of your strategy?
- Foreign competitors are entering my home market – So where exactly is your problem?
- Our domestic market is too small – Or can't you get a bigger share?
- Our home market is saturated – Or are you saturated at home?
- We are just following our clients - they are international – but will they buy from you abroad?
- Only a few large players will survive – Won't the survivors be the best companies?
- Eat or be eaten – Is fear of being eaten a good motive to eat?
- We have to take position – Or options on future positions?
- There are only a few interesting targets left – Is a target the solution?
- We need to be where the market is – Being there will do?
- It is key to have global access to clients – Is having access sufficient?
- It is too risky to depend on the home market alone – Will entering a new market increase or decrease that risk?
- We have to be international from the start – Have to or want to?
- All bets are off tomorrow – But isn't the market open every day?
- Globalization is strategic– As an objective or as a means? Should be means

The real question is what specific benefits the company is trying to achieve by internationalization.

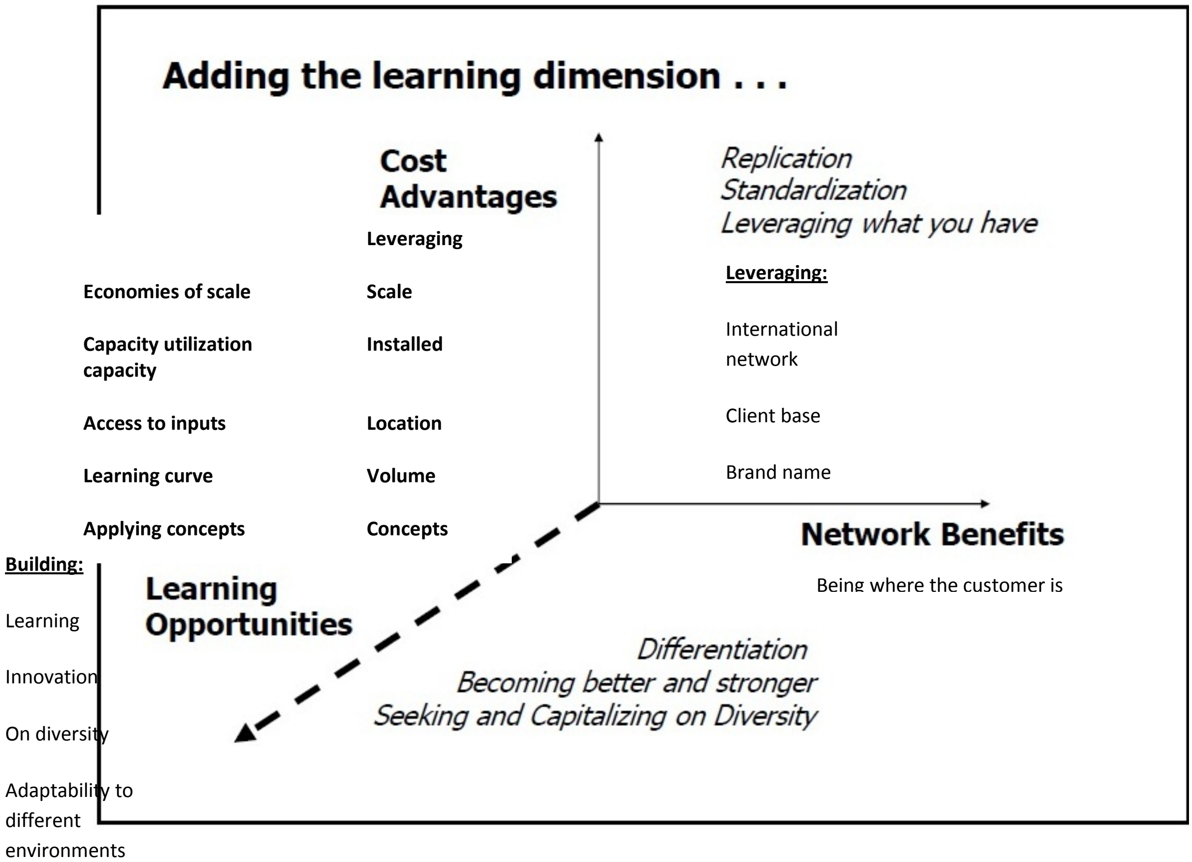
Framework for the benefits CONELEARN FRAMEWORK

Should be defined about the benefits:

- **Type of benefit**
    - Cost advantages
    - Network benefits
    - Learning opportunities
- **Importance of the advantage**
- **The urgency or priority**

CONELEARN FRAMEWORK

CONELEARN FRAMEWORK:



The first two axes shape the globalization potential and indicate opportunities to leverage assets beyond the home market. They define the relevant international playing field and in combination with the existing external limitations, prescribe the desired level and speed of standardization in managing the international operations. The third axis indicates an alternative route to successful internationalization: to create opportunities from learning and build on the diversity in international cultures and markets, even in local businesses where neither cost nor network seem to justify foreign adventures. This framework provides opportunity to prioritize the benefits if there is such possibility.

1. COST ADVANTAGES – efficiency aspects of the business. They are pushing you towards internationalization

- Economies of scale

- Better use of capacity – refers to the degree in which the capacity is used – to what extend the fixed costs of the capacity have been exploited – capacity trap of over capacity
- Better access to inputs – access to cheap labor becomes important – the arbitrage of Ghemawat – the valley syndrome – representing a cluster of related companies that are located next to each other express the idea where the action or expertise is.
- Moving down on learning (cost) curve – decline in costs as a company gets more accumulated units produced or delivered. The learning curve presents the costs advantages of a company that masters its technology and systems, improves technology and makes it more cost efficient.
- Applying existing concept and formulas in foreign markets - the ability to copy or leverage an existing concept, formula or system to other markets.

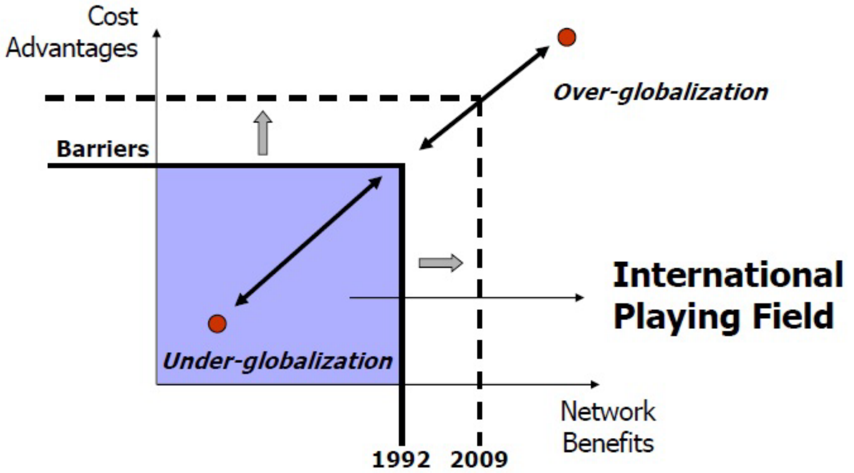
2. NETWORK BENEFITS – the advantages to clients of having an international supplier.

They are pulling you towards the foreign markets – examples – Hilton Novotel, CNN. Network benefits mostly entail a standardized product or service across the different countries. Network of externalities is very important to be created. American express has partners on the places that it does not cover.

There is a need of localization – globalization balance. Global strategy is to produce homogeneous products, use the same advertising, the packaging is uniform, the price is equivalent – everywhere. Or the focus can be on the local market. Adaptation vs Aggregation. The adaptation is called Multi-local vs Multinational strategy. There is a need of balance between the **globalization potential** – standardization and coordination in different geographies – and **the limitations on globalization** such as different languages, national cultures, diverse regulations that trigger towards multi-local approach. The optimal degree of globalization harvests the maximum globalization potential, taking into account the globalization limits and localization pressure. Global limits will obstructs the maximum degree of globalization: transverse lines on the Cone axes indicate the constraints on the cost and network advantages and hence show the maximum realizable globalization potential. The maximum degree of globalization one can realistically achieve within the context of the market limits is indicated by the upper right corner of the international playing field.

How realistic are those benefits?

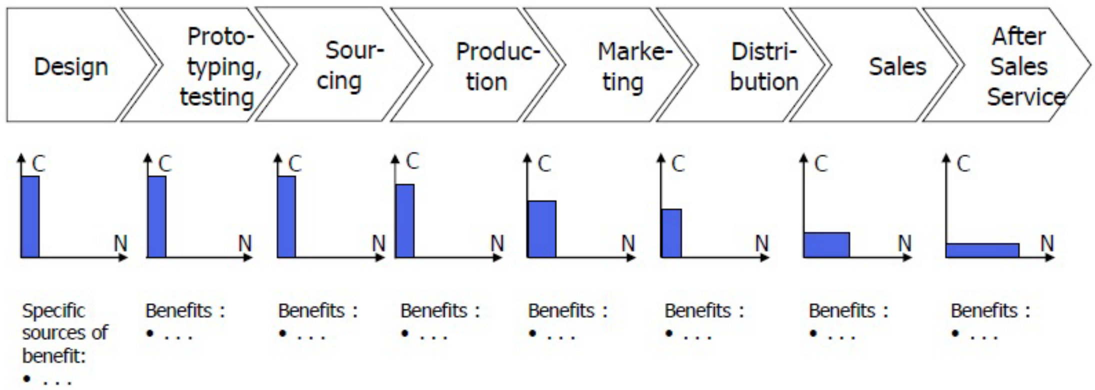
But there are costs or barriers to realize these benefits



This is the CONE analysis.

Where *exactly* is the beef ?

Need to perform this analysis across your Value Chain: Example of a car manufacturer*



The Cone benefits may be realizable at the regional level. However, building the regional strategy is hard enough. It entails all the complications of coordinating and integrating the limitations in the strategy and organization.

There are two types of companies that operate regionally:

- Those that have overglobalized and they try to introduce more regional approach – Coca cola
- Those that use the regionalization as their call-option for future globalization – 3M

There are two possible mistakes:

- *Overglobalization* – you globalized while the market remains of an intrinsically local or at least less global nature and the benefits of internationalization are hence more limited than anticipated. EX. Saatchi&Saatchi – global marketing strategy – too international too soon.
    - *Overglobalize on purpose* – they avoid the mistake too much, too soon, because they realized that anticipating market evolutions or overdoing globalization may prepare them for further developments in the market.
- *Underglobalization* – when you have a hard time competing with international companies which for various reasons perform better. DAF trucks – international too little, too late. DAF underperformed the competition because it lacked the cost advantages that the competition had already incorporated through internationalization.

The smartest way to deal with European convergence and dissimilarities is to see it as an opportunity for value creation. The market integration across borders should not eliminate discrimination or segmentation. On contrary, it might unleash opportunities for more segmentation or discrimination rather than less, but on the basis of "economically" relevant criteria, rather than geographic ones.

3. LEARNING OPPORTUNITIES

This is more dynamic, interactive perspective on managing international activities. There is more to gain than simply standardizing output, copying concepts to new markets and pleasing clients with similar offerings in other geographies. This is the power of **diversity**, the ability to learn and upgrade the know-how and knowledge from operating in many different places and environments and ultimately to become a more competitive company at home and elsewhere. Internationalization is two-way street where you get the opportunity to learn from the diversity of clients, competitors, markets and regulations that you are exposed to.

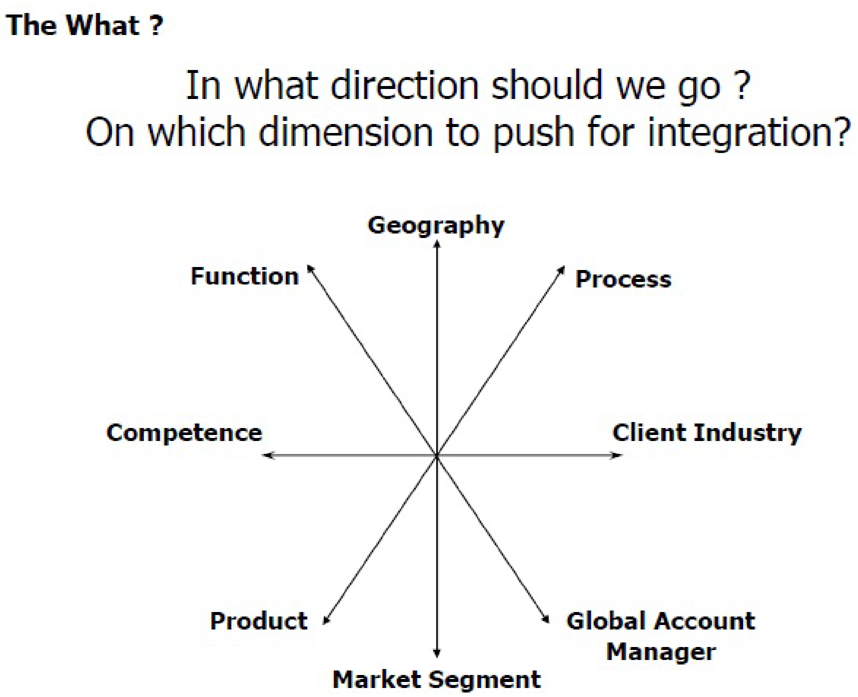
WHAT

The What explains what organizational vehicle will be most appropriate or what management approach should be followed. The organizational structure should allow the company to manage and control its people, products and other assets as effectively and efficiently as possible whenever they are located. Division of labour and responsibilities will no longer be an option but a requirement for international companies. Headquarters and top management can no longer take care of worldwide activities on their own. While the right organization structure by itself will not be sufficient to turn your company into a global master the wrong structure will certainly hinder your aspirations. International strategy and organization go hand in hand and how the organization should or can bolster the implementation of the international strategy.

Organizational chart

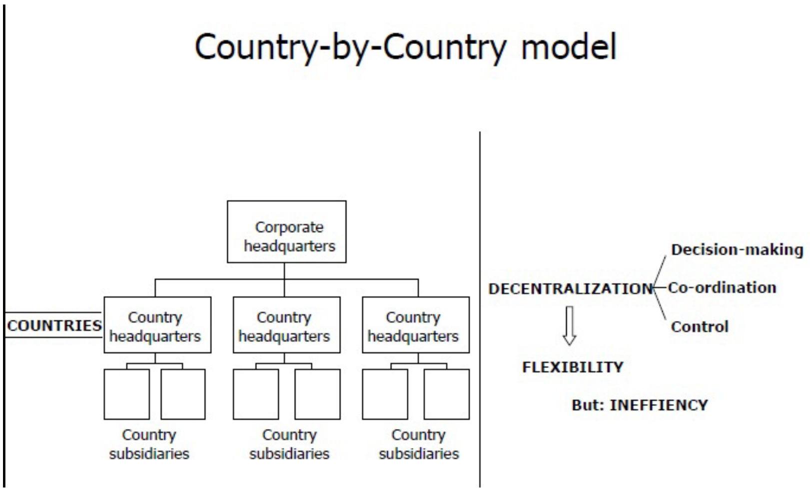
Show me your organizational chart and I will tell you what strategy you have.

The organizational structure should relate to the benefit you are seeking in your international strategy. The organizational chart should deliver the desired strategy and objectives. If you decide to go for cost benefits in your organization, it looks sub-optimal to go for a country-by-country organization. It requires you to know where the benefits and priorities are and then align the organization`s view and perception on these benefits.

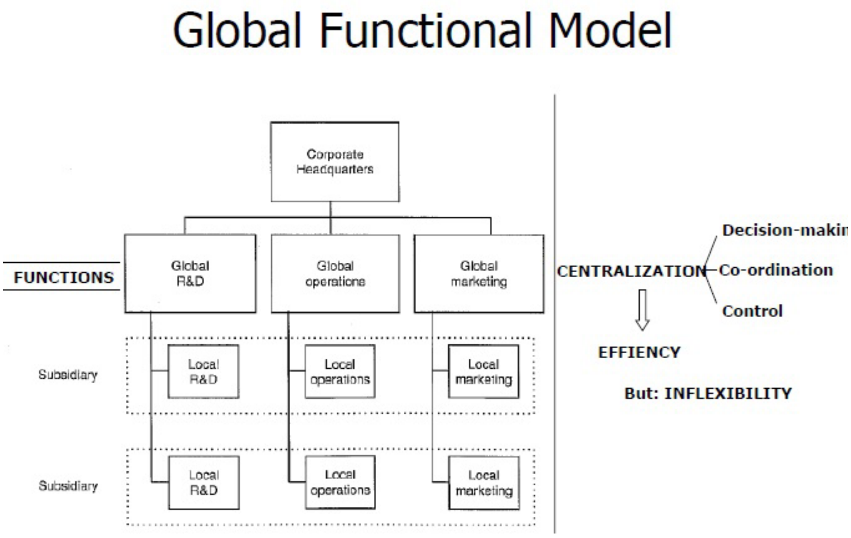


Types of organizational charts:

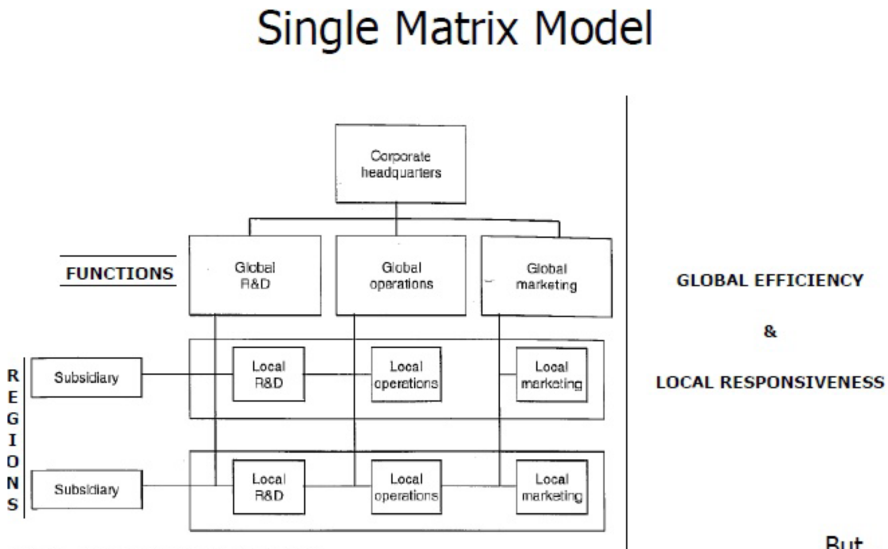
1. **Country-by-country model -**



2. **Global Functional Model**



3. **Single matrix model**



'igure 3.4 The single matrix organisational design

4. **Multi-Business Global product division model**

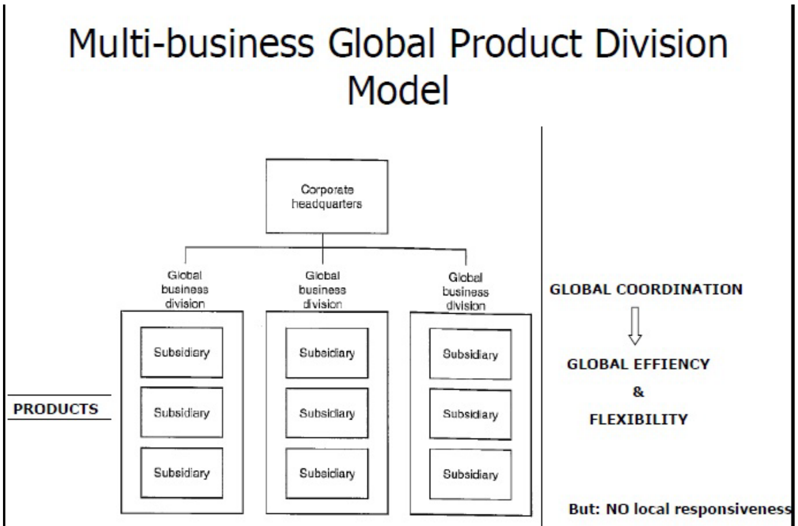
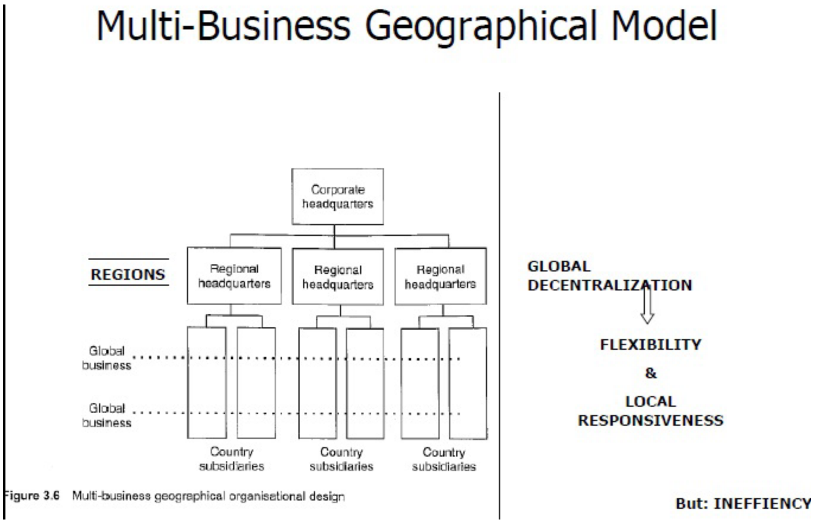
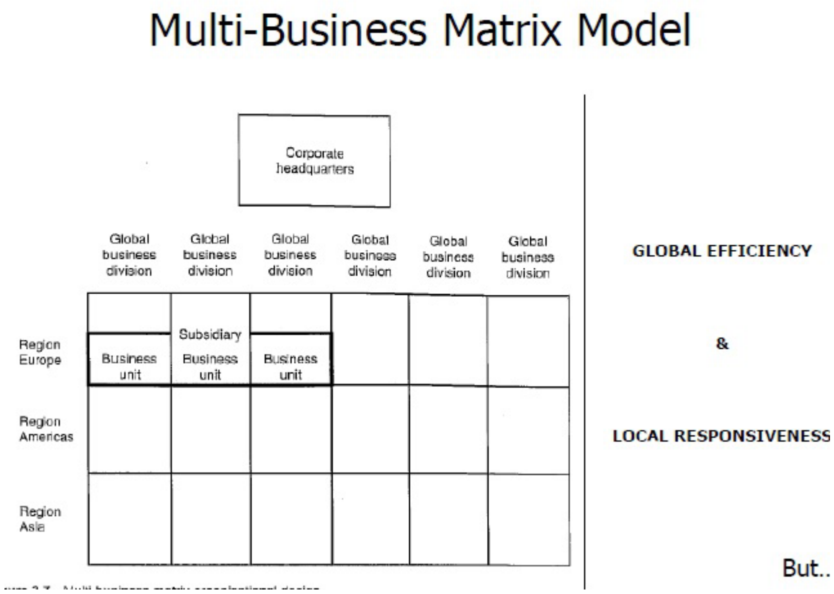


Figure 3.5 The multi-business global product division organisational design

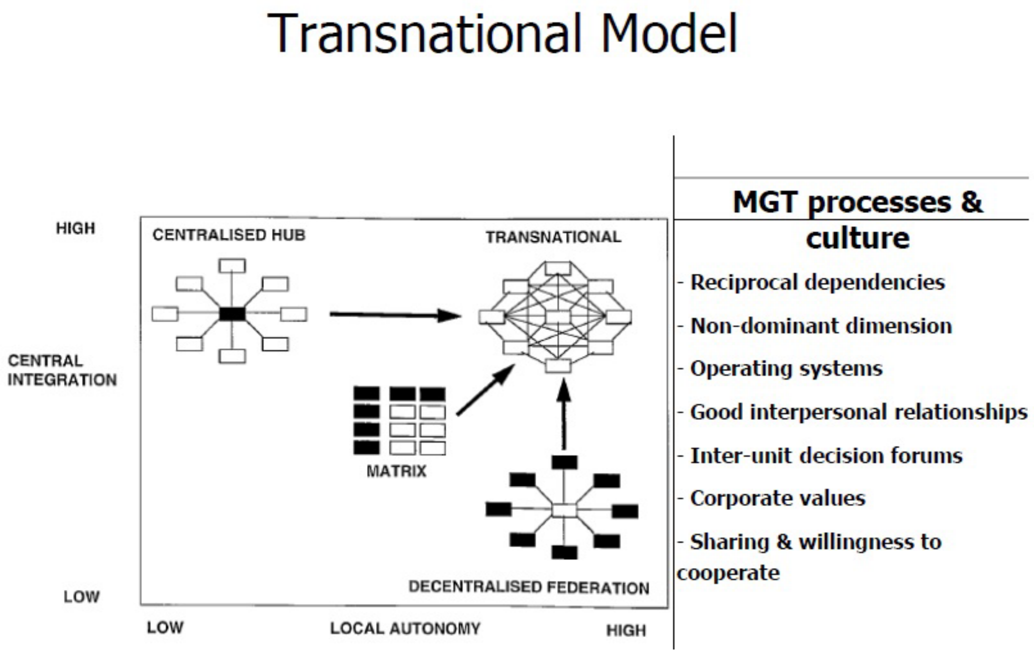
5. Multi-business geographical model



6. Multi-business matrix model



7. **Translational model**



Types of headquarters and subsidiaries

- Strategic leaders – highly competent covering an important local market
- Contributors – have an important capacity but do not control a substantial market
- Implementers – are useful just to implement the standardized strategy which has been set, they are supposed to deliver cost or network benefit
- Black hole – they will deliver none of these benefits

Principles of organizational design

- Organization should be simple
- Stable 2-3 years
- Takes time to implement
- Forward looking – pro-active, dynamic
- Clear priorities
- "Things will fall between the cracks."
- P&L responsibility + Resources
- It`s not just about the chart or the structure

HOW

This part answers the question how to manage to achieve the benefits of the organization. There are many internal limitations to those benefits. The response how to overcome these barriers is the right way to know how to manage the internationalization process in your company.

Barriers from the organizational structure

1. Communication and reporting lines – the lack of these communication lines is dangerous :D
2. Organizational culture – a culture that increases the independence, empowerment and self-managed teams may find it burdensome to incorporate increased coordination of activities

3. The operational mode
4. Installation of performance measurement and HR appraisal systems or IT infrastructure – the companies do not have enough of these to keep up with the process of internationalization.
5. Profit and loss responsibility – lags behind the emerging international reality and strategic objectives

Barriers from people in the organization

Typically the internationalization is pushed from the top of the organization but its success depends as much on the people who have to implement it. However, with the management of the people and internationalization some problems arise:

- Lesser degree of knowledge or involvement to the internationalization
- Some people positioned as roadblocks preventing the realization of the true benefits

Respond:

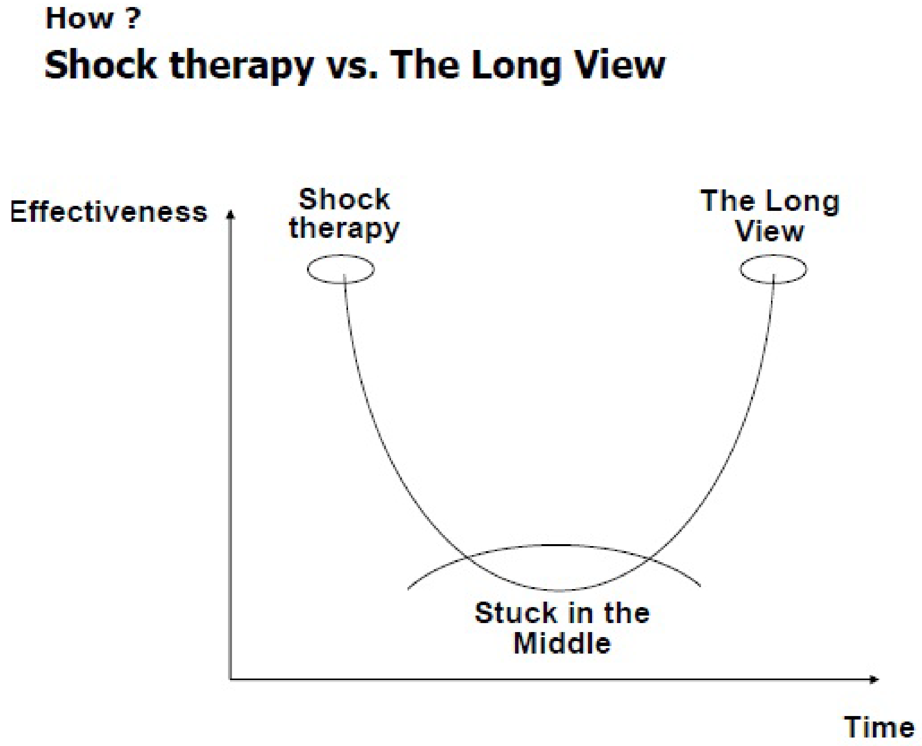
- International training
- Management development or management exchange and rotation programmes

Ways to overcome the limitations

How to overcome the barriers:

1. **Developing a clear and shared rationale** – to convince people why the new way of doing things is step forward. They need to see and agree on the benefits you are after and that they should be after too.
2. **Top commitment** – the top management to stand for the internationalization
3. **Involving the relevant actors** – people should feel part of these decisions as much as possible. The wider and deeper the involvement of the entire organization in the reflection and formulation, the more the implementation or action problem will disappear.
4. **Supporting with systems and processes –** incentives to be rewarded through matching compensation, monitoring systems, rewards, profits and loss responsibility.
5. **Securing the necessary resources and competencies** – to enable people to manage the complexity of international operations and put them in a position to deal with the trade-offs, dilemmas and pressures.
6. **Building an international mindset** – internationalization is very much mentally.

7. **<u>Deciding and acting on the time frame</u>** – The question whether to overcome the barriers quickly or slowly.



Shock therapy 3 M uses this	
Requirements	Risks
Often	
Mediocre efforts for quite some time	One shot deal
External pressure takes over	High pain and strain
Change in Top management	False expectations that it`s all over at once
Rare but probably better	Jump to dimensions that are not the most relevant
Create "Internal crisis" before you are forced to	
Corporate culture	
Involvement and shared ambition	
Long view P&G ex	
Requirements	Risks
Top level commitment	Losing momentum
Long term vision	Getting stuck in the middle
Keep the momentrum going	Confusion during transition
Real benefits	Top management turnover
Early wins	
Push on several dimensions	
Adjust structures	
Resources systems	
Incentives	

Stuck in the middle – a medium pace of change. These companies seemed to experience all the trauma and confusion of the short-term fundamental change without the benefit of a quick shock to overcome organizational resistance. On the other hand the change was too rapid to allow a true evolution of attitutes, responsibilities and capacities among managers. The result was a greater tendency to retreat to the old structure making little or no progress towards internationalization or cross border integration. These companies got stuck in the middle. The medium-paced processes are often sign of doubt unclear strategic directions and lack of support for overcoming the barriers.

8. Ready to face and make trade-offs

What can go wrong