

Building a New Organizational Design for Multinational Enterprise

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Abstract

This paper examined the modification in the conceptual frameworks which are used to understand and design MNEs. Disparity has been explored between traditional models and modern models which are signified as transnationalism and heterarchy. They are different in the sense that traditional models tend to be the models of equilibrium which maintain stability at the macro level. But modern models tend to be the models of change and are applicable at the micro level. The purpose of this article is to make a proper contrast between these models by evaluating the consequences of switching from old to new models and at last endeavoring to reconcile and integrate traditional and modern models of MNE organizational design.

Keywords: MNE, Organizational Design, Transnationalism, Heterarchy, etc

1. Introduction

A Multinational Enterprise (MNE), also commonly referred to as a Multinational Corporation (MNC), is an organization that has business operations or investments in two or more countries. It is realized in the recent years that there has been a significant change in the organizational structure of most of the multinational enterprises. This change also requires modifications in various strategies that multinationals follow which in turn reflects relocation from traditional models to modern models of MNE management design. Modern theories include Transnationalism developed by Bartlett and Ghoshal (1989) and Heterarchy developed by Hedlund (1986). Certain controversies arise in building a new organizational design of MNEs which addresses the main issue. The first argument is that traditional models don't take into account the matter of complexity that is required in the formation of various strategies that MNEs should

follow. On the other hand, newer models like Transnationalism take into account the complexities and change in various strategies. Traditional theories also neglect the new aspects of innovation which is desirable for the MNEs to gain competitive advantage. The second argument states that traditional models mainly focus on the formal organizational mechanisms for maintaining coordination. But modern models emphasize more on maintaining the informal management structure.

Due to these imperfections in the traditional models, it is asserted by modern theories that they would represent an extraordinary approach to the strategic management of MNEs.

Thus, it is postulated that modern models are considered substitutes of traditional models and no endeavor has been taken by MNEs so far to harmonize these two models.

2. Objective

This article is persuaded by a notion that alternation of modern theories embraces the new concept and assists in forgetting the old concept that is traditional models of MNEs. Keeping this viewpoint, the purpose lies in emphasizing the consequences of switching from traditional to modern theories and recommending the way of reconciling both these models. This study is exploratory in nature in which data has been collected from secondary sources.

3. Traditional Models of MNE

MNE proposes that traditional models are the models of equilibrium which shows parity between its structure and various strategic and environmental conditions. It is known that technologies and environments are responsible mainly for causing uncertainty in organizations which in turn lead to differences in organizations. Chandler (1962) worked out on strategy-structure models that signify the existence of traditional models in stable environments. However, uncertainty in strategies and environments occur because of size of foreign operations, level of foreign product diversity etc. This model is described by various studies which show the empirical specification of equilibrium between strategy and structure. For instance: the study of Stopford and Wells (1972) explored that international divisional structure seems fit when the company markets only a small assortment of products that is when there is low foreign product diversity and low foreign operation. If foreign operations increase, then the fit with international divisional structure will not remain and they maintain parity with geographic division structure as this structure facilitates local responsiveness. If foreign product diversity increases, then global product division structure works best and seems fit. However, if both foreign operations and foreign product diversity increase, then these will gain parity with matrix structure which is designed to achieve both global harmonization and local responsiveness.

Hence, it is desirable for MNEs to modify its structure when strategic and environmental conditions change.

As traditional models are consistent with the changes in strategy and structure, thus these models are very crucial in understanding the stability of multinational enterprises. For instance:

Brown Boveri initially had a multi-domestic strategy which facilitates only local responsiveness. In the 1980s, the company made efforts to change its strategy to grab more global economies of scale. This strategy need coordination across subsidiaries but it was found that MNE structure remained unchanged due to less creation of global product committees which shows disequilibrium between strategy and structure. Thus, in 1987, Brown Boveri merged with Asea to form a new company called ABB (Asea Brown Boveri), a Swedish-Swiss engineering multinational. A new company followed transnational strategy which focuses on both local responsiveness and global economies of scale. Therefore, equilibrium was restored when company successfully adopted the strategy of transnationalism.

4. Modern Models of MNE

Modern models of MNE emphasize on two theories: Transnationalism and Heterarchy. These models are divergent from the traditional models of organizational design.

4.1 Transnational Models

A transnational strategy offers the centralization benefits provided by global strategy as well as local responsiveness attribute of domestic strategy. This implies global integration, global efficiency, excellence of performance and global learning across company's subsidiaries. Transnationalism developed by Bartlett and Ghoshal (1989) focuses more on informal relationships between managers to maintain coordination in MNEs. These models propose that MNEs rely on informal means of communication to frame new ideas which otherwise not maintained by formal structure. The attributes of transnational design are that it is more specialized, flexible and better coordinated than traditional models. As a result of these attributes, modern MNEs are more willing to change their strategies than traditional MNEs. Gaining competitive advantage is the main source of multinational enterprises. This is possible only for modern multinationals to seek competitive advantage as they focus on innovation, renewal and change. Socialization is also being used by transnational

models to develop shared vision among subsidiaries.

Reconsidering the above instance of ABB, Bartlett and Ghoshal put forward a different explanation. Refinement of ABB is explained in terms of three aspects: First, an aspect of entrepreneurship, which incorporates decentralization and it is the frontline managers who are considered the entrepreneurs in the organization. Second, horizontal integration aspect, includes informal means of communication and is executed by middle management. Third, learning aspect shapes the corporate purpose in the organization and is implemented by top management. This model offers different imagination into the transformation of ABB as it mainly focuses on creativity by frontline managers and informal communication. On the other hand, traditional models also adopted transnational strategy but by resorting to only formal structure.

4.2 Heterarchy Models

Heterarchy as developed by Hedlund (1986) is a bit confusing creature than hierarchy. The concept of heterarchy is parallel to a hierarchy. Heterarchy may contain hierarchies. These hierarchies constitute same interdependent subunits and individuals, their orderings also vary. This implies that the orderings of these hierarchies are temporary and change frequently. Some hierarchies are really not considered hierarchies as they lack transitivity. It means ordering is not always transitive as in a true hierarchy but it can also be circular. Heterarchy models are considered change-oriented models consistent with transnationalism.

5. Traditional Models verses Modern Models

Traditional models are significantly different from modern models of MNE organizational design. Traditional models are based on a contingency theory aspect which presumes that there are varying changes in organization strategies and environmental conditions. A firm needs to adjust to maintain equilibrium with these changing conditions. This implies that there is a systematic pattern to these variations and maintain fit with them. On the other hand, modern models don't rely on contingency theory aspect. These models don't show any variation when they recognized

variations in strategic and environmental conditions. However, adjustment is made within a single broadly defined transnational or heterarchical design rather than specifying alternative designs of contingency theory.

Different propositions are also being set towards change for both models. Traditional models assume that environmental changes are very infrequent and most of the changes are predictable. Taking into account these assumptions, traditional models emphasize adaptive organizational change with conditions of equilibrium. But transnational and heterarchy models assume that environmental changes are frequent or continuous and most of the changes are unpredictable. Taking into consideration these assumptions, it is unrealistic to believe that organizational changes can occur within conditions of equilibrium. Modern models emphasize radical organizational changes outside the conditions of equilibrium. Yet transnational and heterarchical changes are not random events from the organization's perspective. They are generally managerial and economic responses which are not generated from traditional models of equilibrium.

Moreover, traditional models emphasize formal organization structure and certain attributes like centralization, decentralization of decision-making, planning, controlling and staffing. These are applicable at the macro level. On the other hand, transnational and heterarchical models emphasize informal organizational structure, shared vision. Informal structure is applicable at the micro level that is between individuals and work groups. Thus, modern models are renowned for major organizational change which also focuses on creation of new knowledge rather than obtaining of existing knowledge. Hence, these models are also known as self-organizing systems.

6. Switch from Traditional to Modern Models of MNE

So far both models have criticized each other and not put much of their efforts to have synchronization. The major consequence is that firm is purely guided by traditional model if it gains competitive advantage by utilizing existing knowledge. If the firm gains competitive advantage by creating and utilizing new knowledge, then modern models play crucial role.

These differences between traditional and modern models have mainly contributed to the main implications of switching from traditional to modern models of equilibrium.

However, the switching from traditional to modern models that is transnational or heterarchical models can cause loss of learning which is accumulated overtime that is necessary for understanding MNEs. As it is known that modern models presumes changing environment and emphasize more on change or modification rather than on equilibrium. Thus, no efforts have been taken to maintain equilibrium with changing and unstable environment. This proposition will not assist in designing a new organization design as design will be in flux if environment is in flux. This argument needs to be taken into account so as to specify new organizational design. Some elements of stability should be incorporated with changing environments. Therefore, modern models are guided by radical change which usually occurs outside equilibrium so as to proceed from one stable environment to another stable environment. But sometimes radical change may put firms in danger when these firms face major environmental changes and these would require the firms to analyze and direct change within environmental conditions.

Since the argument arises against replacing either model by the other model as both models are necessary for organizational design of multinational enterprise. Modern models usually increase the number of exceptions that can be accommodated. Traditional models don't take into account these situations, hence, define innovative situations. Therefore, modern models are likely to define a heterogeneous organizational context that would comprise more exceptions. Moreover, equilibrium conditions are purely guided by existing knowledge whereas new models emphasize more on radical change through which adoption of new knowledge can spread rapidly through informal networks. On the other hand, it is imperative for the traditional models to initially incorporate new knowledge in formal decisions before analyzing the significant impact on the organization. Traditional models develop a framework for consistent and predictable organizational behavior that encourages investors, customers, suppliers, competitors etc to respond effectively which results in rationality at the top most level of an industry. Codification and standardization of organizational knowledge is

also important so as to leverage knowledge across MNEs. Traditional models focus more on maintaining coordination between different parts of organization which incorporates information-processing limitations of large organizations. Thus, traditional equilibrium models provide a clear framework for understanding organization behavior.

Appraising and simultaneously criticizing traditional models do not make sense in replacing them by modern models that is transnationalism and heterarchy. Both the models have their own pros and cons. Thus, the ongoing discussion between these two models, which is more preferable, is not properly defined. Hence, it is recommended that MNE environments can be constituted as turbulent having little or no concern for stability and equilibrium. But MNEs should have adequate capability to emphasize on stability and adaptive change under equilibrium conditions. Sometimes, they also need to have more radical change occurring outside the conditions of equilibrium. If both models have different assumptions, then how can they coordinate and be applicable to the same organization? This question has raised some doubt keeping in mind the future perspective of these two models and the general switching from traditional to modern models. One possibility can be traditional models are suited with stable environments and modern models are suited with turbulent environments. But this is not gratifying, since stability and turbulence generally appear in the same organization. Therefore, an organization needs to specify the respective domains of these two models if they feel the requirement to include both stability and turbulence.

Disequilibrium of MNEs is tolerable and considered less risky at informal level than at total company level. At a micro level, shared values, proper insight and formal, informal relations can substitute for coordination which otherwise is provided by macro level coordination mechanisms. Individual failures at micro level do not constitute failure of the organization. It is innovation in organizations which takes place at this level of analysis. However, arguments for stability, adaptive change and equilibrium are relevant at the macro level. These models were initially defined at this level by which their emphasis is on macro level synchronization mechanisms like formal structure, centralization etc. Radical change can be considered risky at this

level as individual failure can endanger the security of the organization.

Hence, the scenario represents two models where transnational and heterarchical models are considered models of transformation which can be crucial for predicting organization behavior or where radical change is encountered. These models rely on interpersonal means of communication but often lack equilibrium. On the other hand, traditional models do not represent a complete organization theory of multinational enterprise. These models however, represent mechanisms of coordination at the macro level and define crucial phases of equilibrium. But they are not defined properly when they usually face the target of presenting themselves to cope up with change and disequilibrium. Thus, both models need to be defined as models of equilibrium and models of change. These are considered complementary as both models can be interpreted at different level of analysis.

7. CONCLUSION

The ongoing debate and comparison of two models with the objective of reconciling both models is the underlying theme of this paper. Both models provide unique insight into the organizational design of MNEs. However, the

integration and reconciliation of both these models generally requires the change-oriented framework of transnationalism and heterarchy at the micro level and the equilibrium framework at the macro level. Thus, new models of change should confront traditional models of equilibrium but never bypass old models. Both the models need to be synchronized so as to build a proper organizational design of the multinational enterprises.

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