



# 15.229 - Managing Global Integration

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Session 4+5

# Global Integration of the MNC

- 1) The vast majority of MNCs in the past (that is, before the current phase of globalization gained momentum in the 80's) were "portfolios" of national business units. Each national unit, normally equivalent to a local legal entity, was a quasi-replica of the business unit in the original country. It was just like a local, domestic company, but with a foreign name and access to some unique products or superior technologies. Country units performed autonomously under the (oft distant) guidance of HQ. The value logic of such country portfolio was to optimize the corporate risk-return relationship by providing top-line growth and diversifying country risk. This value proposition is for shareholders, not for customers. Managers at HQ referred to the MNC foreign subsidiaries as "countries": "France" is doing well, let's invest more there; "Italy" is doing poorly, perhaps we should sell it". Again, more often than not, the unit in France was doing well because the market and the economy there were doing fine too.
- 2) In a *non-global world*, the rule is that markets and businesses are contained in national borders. Customers are or behave like local customers as their perception of value is nationally bound. The "forces" of competition are felt only locally. And so on. The MNC in such a world is dubbed "multi-domestic" (or, as it were, "multi-national" or "multi-local"). GM, Shell, or IBM were different exemplars of the multi-domestic model. (It is hard to believe now, but GM was the most admired company in the world then, let alone being at the top of the Fortune 500 list).
- 3) The flows across borders in the multi-domestic MNC are very limited, and the most visible one is capital from and to the parent company (HQ). The HQ seems like a typical holding company, with a dominance of financiers, accountants, and lawyers. The amount of covariance across countries is kept at a minimum, portfolio logic oblige.
- 4) There is of course a small flow of managers in a "locally autonomous" MNC, the expatriates, whose job is to transfer knowledge from the parent to the foreign units and control their local performance for a limited period of time, three years or so at a time. This is even more noticeable in the "international" MNC, which thrives on the projection of knowledge from its home-base. The general manager of a country knows well several people at HQ, but does not know the general managers of other countries (unless they are expatriates like him and they were buddies in the parent company). An "excellent" country manager does not bother HQ with requests or problems, complies with all the statutory and legal rules, grows the local business as planned or more, keep within or below budget, and returns a hefty dividend. Life is good for an "excellent" country manager in a non-global world, namely in smaller or less developed countries where MNC are very profitable and admired for their prowess or modernity: he (it was very rarely a she) would enjoy a great office, be highly paid (for local standards), have a driver, and be invited for important local meetings and parties, official and private. As simple as that.

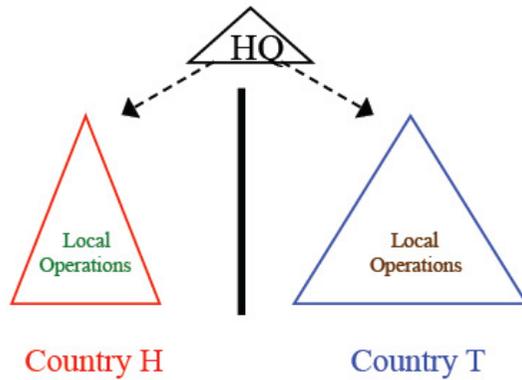
## Global Integration of the MNC (cont.)

- 5) When I was very young, I thought Nestlé was a Portuguese company. Its name sounded just like a Portuguese name, I could see its products in my neighborhood stores, their line brands were often Portuguese words, the packets were written in Portuguese only, and I would see warehouses and factories that were Nestlé (and there was, of course, a local HQ in Lisbon, complete with all functions of a modern company, and bigger and better than that of most (really) Portuguese companies). My father had Opel cars then. For him, Opel was a “German company” and he drove a “German car”. He was not aware that Opel was a part of the American General Motors (neither was I). And, by the way, Opel cars were German cars indeed: designed for Germans, engineered by Germans, made in Germany. Who cared if Opel was part of GM? (I wonder if even those in Detroit cared much ...).
- 6) The metaphors that were used are very telling. The original country of the MNC came to be known as its “home” or “home base”; the company there was the “mother” or “parent” company; the various units around the world were the “daughters” or “affiliates” (i.e., “equivalent to sons”), and they were in “host” countries. All very powerful metaphors: “home” is where we feel happy, comfortable and safe; the “parent” is the symbol of care, wisdom, power, and money; and if the “kids” perform well (as the parent told them to do), they will get a bonus ... It is easy to see how managers created such romanticized narrative for what the MNC was. There were more metaphors: the high autonomy of many local units made them known as “fiefdoms” and the respective country managers were “barons”; and companies like Shell had pride in their worldwide “federation” with their dual-country HQ. (An historical curiosity: Shell’s distributed HQ was a precursor of what will likely become the norm in the 21<sup>st</sup> century – and Shell concentrated it a few years ago into one central HQ only, as part of its renewed attempt to “globally integrate” ...).
- 7) The advent and intensification of globalization rocked the world of *multi-domestic* MNCs (and the lifestyle of the “barons”). Globalization did not start in one day nor in all countries, and its impact was not the same in all businesses. The global integration “of production and delivery” started early for some companies. Some GIEs (“globally integrated enterprises”, as IBM’s CEO Sam Palmisano calls them) were already visible in the 80s. As one might predict, the GIE movement begun in industries with high economies of scale in R&D and manufacturing – such as cars, consumer electronics, and semiconductors.

# “Global Integration” in the Multinational Company

The recent history of a major organisational change

“Local Autonomy”



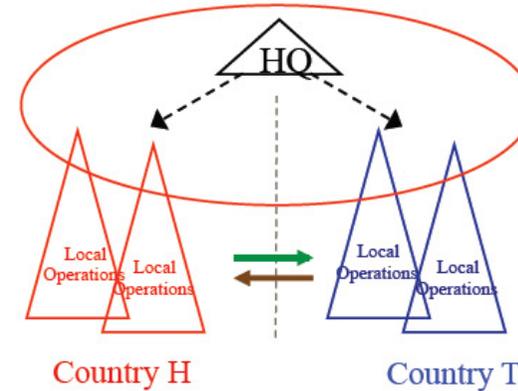
*Acting as a “set”*

*(Value Logic: Portfolio, integrating output)*

< 1980s

- GM
- Shell
- IBM

“Global Integration”



*Acting as “one”*

*(Value Logic: Collaboration, integrating work)*

> 1980s

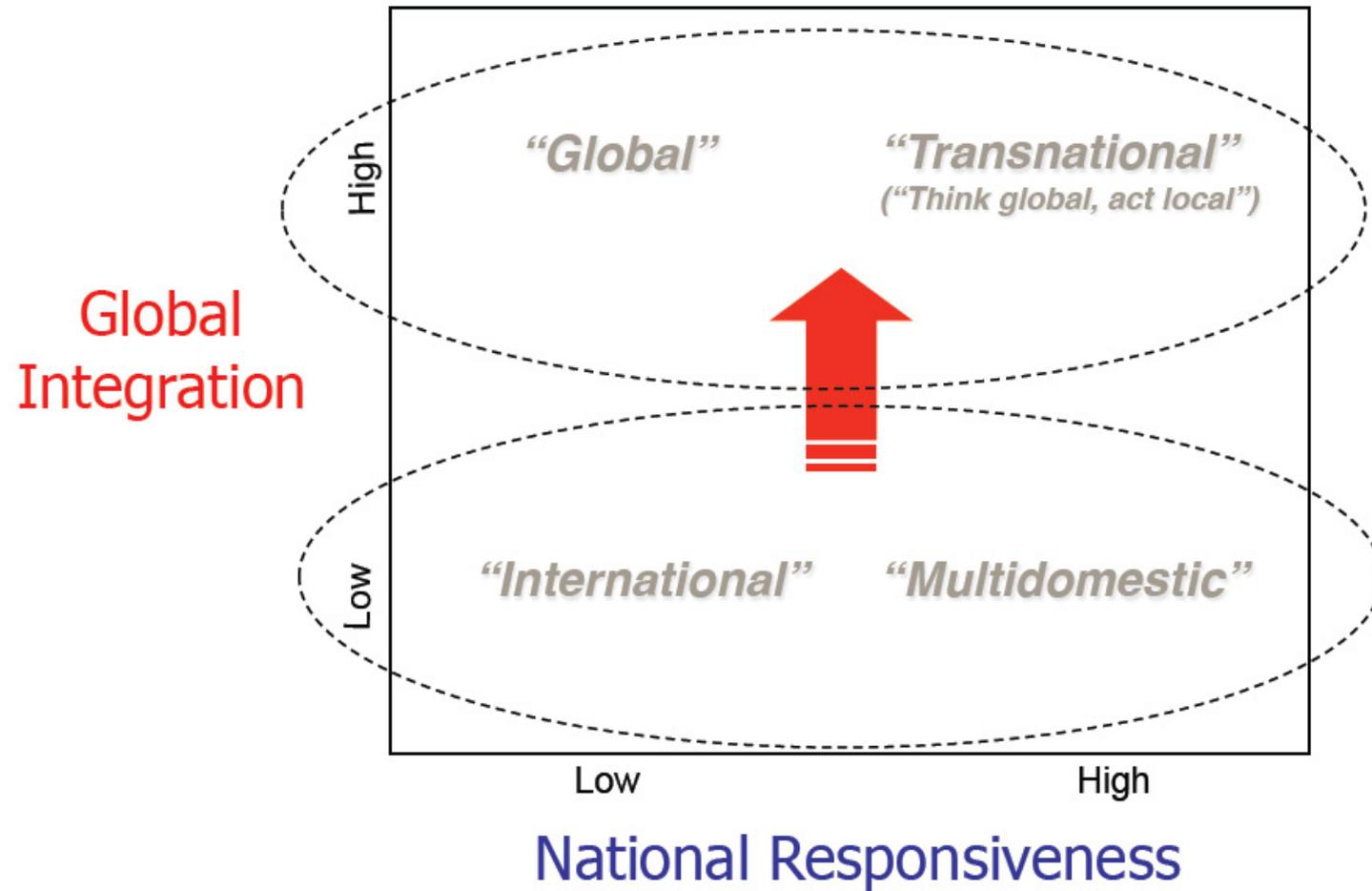
- Toyota
- Exxon
- IBM

# Global Integration: The value propositions

- ✓ Specialization  
(market knowledge, ...)
  - ✓ Proximity to customers  
(international lead customers, distant customer sites, ...)
  - ✓ Integrity  
(consistency of image, international reputation, ...)
  - ✓ Serving global customers  
(namely, customers *becoming* global!)
-  **Higher customer value**
- 
- ✓ Specialization  
(technologies, skills, operational capabilities. ...)
  - ✓ Scale  
(R&D, manufacturing, operations, procurement, ...)
  - ✓ Scope (across countries)  
(management teams, plants, offices, distribution channels, ...)
  - ✓ Flexibility  
(redundancy in the supply chain, arbitrage of factor costs,...)
-  **Lower global costs**
- 
- ✓ Competing globally  
(coping with multipoint competition and "grey trade")
-  **Higher overall price**

(For more details, see 15.220, Lecture Slides sessions 6 and 7)

# Global Integration in the MNC



## “Global Integration” in the Multinational Company

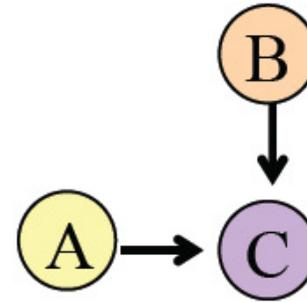
- 1) The multinational company (MNC) is particular because its *organization* spans different countries, not because it does business in different countries. The MNC is a multi-unit hierarchy with units in two or more countries. Managing in a MNC is particular in that one manages *with*, and *for* people of different Peoples in their respective national contexts.
- 2) The strategy of a MNC *as a* MNC has to include an organizational value proposition. Any description of a MNC strategy without such organizational element is incomplete. This MNC-specific strategy element has for long been established as “global integration”.
- 3) “National responsiveness” and “global integration” constitute the two fundamental factors of the economic (value created) and financial (value captured) performance of the MNC.
- 4) “National responsiveness” is about how the MNC responds to the economic, political, and organisational forces that arise from the differences and similarities across nations. National responsiveness choices are content choices, embodied in two kinds of specialization. One is “local specialization” (or “local adaptation” or “localisation”): the extent to which the product and the activities of the MNC in each country are specific to the national context there (i.e. depend on the local “pitch” *and* apply only there). Local specialization optimizes local performance (say, the country unit P&L). The other is “international specialisation”: the extent to which locally specific product features and activities in a particular country apply to the world or to a set of countries. International specialization optimizes local and global performance. For example: if a MNC decides to have a “centre of excellence” in design *in* Milano, Italy for Europe, that is “international specialisation” there; if the same MNC decides that its products *for* Italy will be branded with Italian names, that is “local specialisation”.
- 5) “Global integration” determines the overall (global) organization of the MNC. The global integration of a MNC reflects the value of the union of the country units that constitute the MNC. Global integration is not – at all – the extent (let alone the increase) of similarity or standardization across country units in the MNC. Choices of similarities and differences are “national responsiveness” choices.
- 6) Note that the local organizational choices in each country unit of a MNC depend also on its global integration. Only if global integration is zero (the MNC is a pure portfolio of country-business units) would the local organization in each country be a consequence of the business strategy there (i.e. the local unit of the MNC would be equivalent to a local indigenous company).

## “Global Integration” in the Multinational Company (cont.)

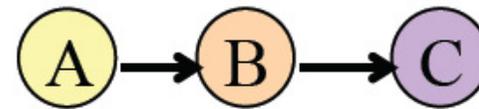
- 7) The global integration of the MNC is not a natural outcome of the globalization of the world. It is the outcome of managerial will and skill. The discourse and practice of globalisation often calls for added centralisation and standardisation across countries. It should not. The benefit of globalisation is integration, not centralisation. It is interdependence, not control. The greater value of globalisation stems from leveraging differences, not from erasing them. Global integration brings greater opportunities for higher efficiency or productivity (static performance) and for faster learning and added innovation (dynamic performance). But it is neither a natural process nor an easy one. Leaders have a critical role to play, one that starts with a clear vision and understanding about what "global" should be for their companies.
- 8) The *global integration of the MNC* is the extent of connectedness and interdependence of the country units that make up the MNC. Low global integration means the country units have an autonomous performance – and the value proposition of the whole lies in the exploitation of the differences across countries, i.e. in the “portfolio of countries”. High global integration means that the units mutually coordinate and control their actions, and therefore “act as one” or “work together”. The value logic of the whole is that of synergy, bringing economies of scope to the fore of MNC value creation. Global integration can also be termed “global coordination” or “global collaboration”. A globally integrated MNC has a “global business model”, as opposed to a set of “local business models” (usually localised replicas of the home-base model).
- 9) It is not market homogeneity that fosters the globalization of a MNC. Market homogeneity fosters the production and delivery of universal products, be it goods or services, and therefore economies of scale. The word aggregation (“put together”) should not be confused with integration (“work together”).
- 10) Global integration does *not* mean compliance with a worldwide standard. A MNC can have autonomous country units and still have all of them comply with some universal practices and even produce and sell universal products. Indeed, local companies from different countries but in the same industry often use the same standards (e.g. standard product specifications or industry “best-practices”). The transfer of knowledge, namely of explicit knowledge, can occur between units in different countries, be them subsidiaries of a MNC or locally owned companies. If a manager has information about a practice elsewhere and if such practice has universal value – i.e. is a “best-practice” – then such manager may order such practice irrespectively of the governance of the unit managed. Even global competition adds by making autonomous competitors from different countries ever more similar to one another.

# Interdependence

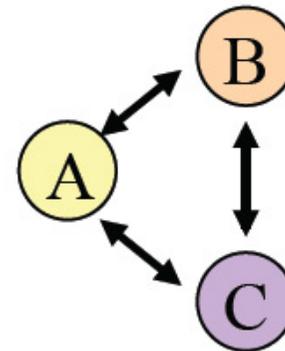
- Pooled



- Sequential



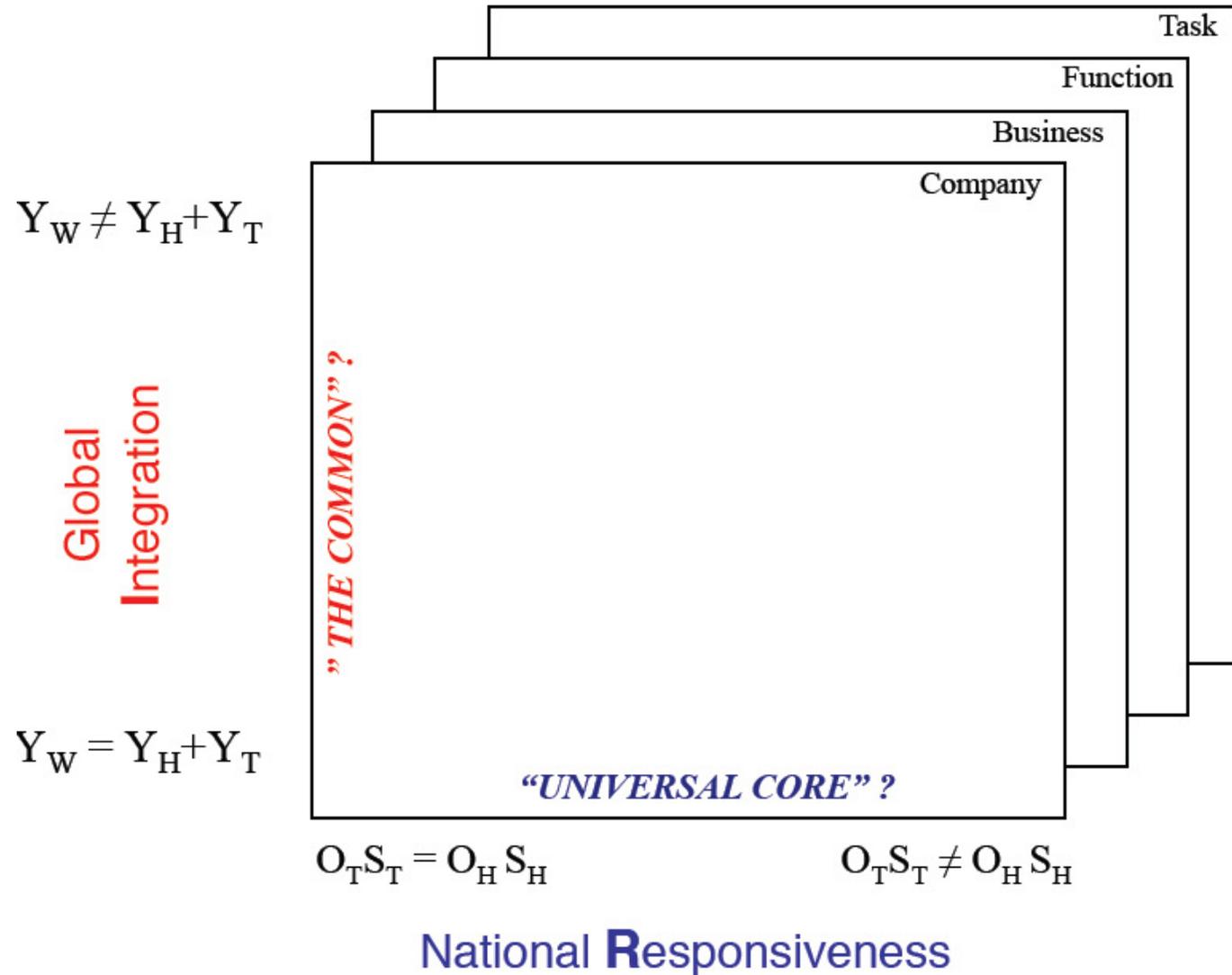
- Reciprocal



## “Global Integration” in the Multinational Company (cont.)

- 11) It is not possible to have units working together (interoperability) without some shared language, shared protocols, and connections across borders. High levels of global integration do require the universality of *some* things *inside* the organization of the MNC. Managing global integration calls for the choice of such common elements across the country units that constitute the MNC. I call such set of common elements the “*common ground*” of the MNC.
- 12) The “common ground” of the MNC should not be confused with its “universal core”, the set of elements of its business strategy and organization that are to be the same everywhere – i.e. unresponsive to differences across nations. For example, a company may decide to sell the same product everywhere and make that product part of its “universal core”. Such universal product is not a necessary condition for global integration. The universal core is necessarily firm-specific, the common ground is not.
- 13) There are *two* kinds of global integration. *Operational integration* is the extent to which the operations of each country units rely on other MNC units as sources of inputs (“internal suppliers”) or destination for outputs (“internal customers”). Operational integration is visible in the managerially determined flows of capital, goods, services, people, and information across countries between units of the MNC. There may be such cross-country flows that are not managerially coordinated, but are rather the outcome of market contracts. Indeed, a local company (not a MNC) can have a global strategy that relies on global *market* integration for its capital, components, technologies, and customers. Therefore, the observation of international flows across units of a MNC does not necessarily imply global integration. It is the governance of such flows (market contracts or hierarchy or some intermediate form) that determines the existence of a global business model in the MNC.
- 14) *Strategic integration* is the extent to which the strategy process – or resource allocation process – in the MNC involves the various country units of the MNC. This is the crux of global integration. Unlike operational integration, strategic integration means that managers at each country units do not decide on matters that shape the *future* performance of their own units without considering the impact of their decisions on other units and of other units in their units. (Indeed, one may refer to global integration only when referring to strategic integration, and refer to operational integration as *international integration* – because it is that what it is. The visible characteristic of a “transnational MNC” is transnational production, that is, production that relies on international specialisation and international integration.

# The "I-R" at different levels



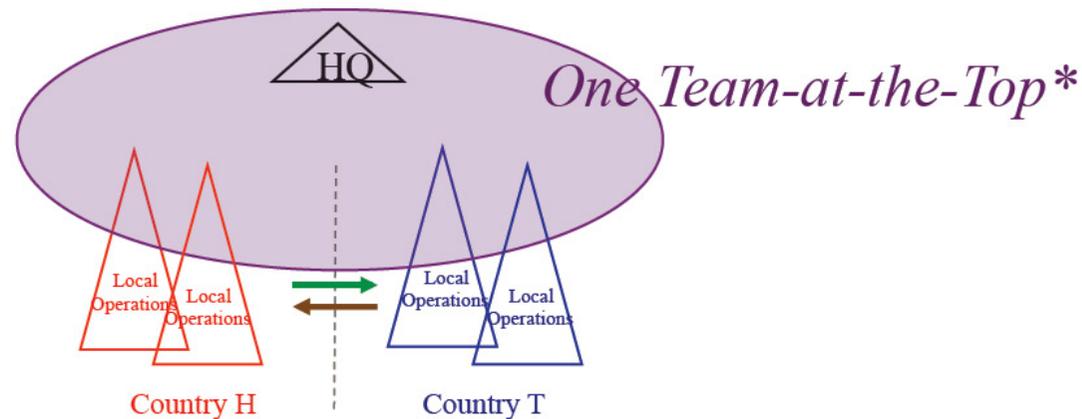
W= A "World" with two countries, H ("Here") and T ("There")  
 Y= Company Performance

Globalisation implies a discontinuous change  
in the strategy and organisation of multinational companies

How do we design, coordinate, and  
control what we do in our units  
around the world to realize a  
superior *global performance*?



# Global Integration in the MNC



How do we (an inclusive “we”) decide, coordinate, and control what we do in our units around the world to maximize global performance?  
How do **we** act as a unity and not as a multiplicity?

Global Integration is about collaboration, not centralization.  
Global Integration is about active local units abroad, not drones.  
But it is about “local performance” as a means, not an end.

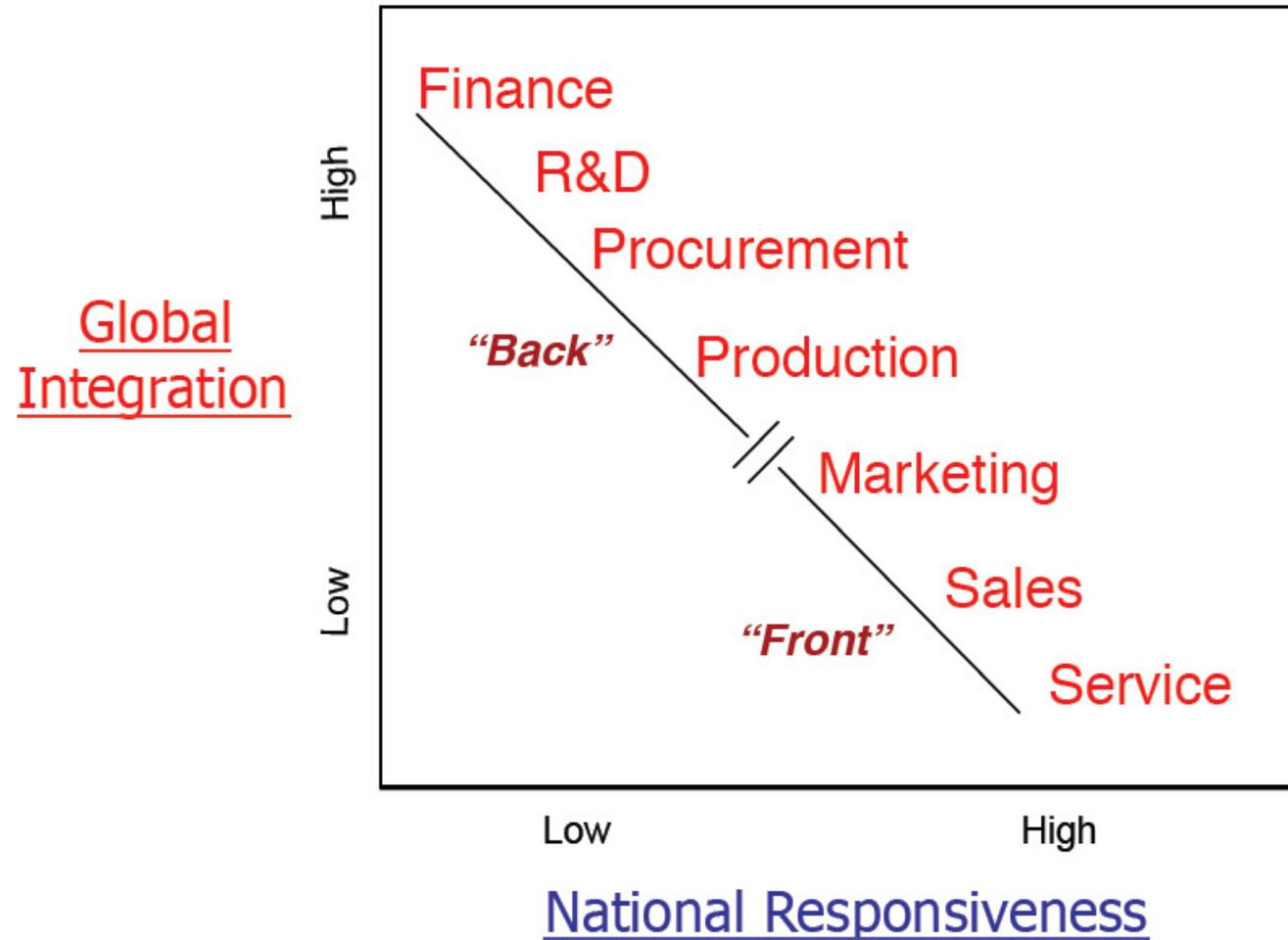
\* *The eGLT: “extended Global Leadership Team”*

## “Global Integration” in the Multinational Company (cont.)

- 15) Strategic integration stems from *managerial interdependencies*, which call for flows of information at the higher level of the organization and a shared strategic context. For example, if a manager of a country unit is deciding on an investment to increase its production capacity, the decision making process will depend on the MNC global integration. If such integration is zero, then the local manager will decide autonomously as if the unit was a single-national company there. In a globally integrated MNC, the local manager needs to know how the utilization of such added capacity interacts with the capacity of other country units and, more generally, how the allocation of capital to added capacity affects the performance of units in other countries and the MNC as a whole. Note that the local manager could still make the decision alone, but not autonomously.
- 16) Global integration is not global centralization (at HQ). Centralization is but one mechanism of *coordination*, and there are other mechanisms: formalization and mutual adjustment. (The equivalent mechanisms of *control* are supervision, accounting, and peer pressure.) A highly decentralized MNC can still exhibit a high level of global integration if formalisation and mutual adjustment determine managerial decisions and actions. Therefore, global integration does not determine the organization structure of the MNC. However, it does determine that the resource allocation processes involve the various country units of the MNC.
- 17) There is a strong local pull for decentralisation (devolution) in many MNCs. I argue that such pull is not a move against integration, but rather symptom of the lack of true integration of local managers who feel like second-rate citizens relative to those at home HQ. Such local managers are willing to substitute power for inclusion.
- 18) Global (strategic) integration therefore determines that a top tier of managers (in the HQ and in its various country units) make strategic decisions as if they were a team. Note that such functioning “as a team” does not imply that they are members of some formal committee or board. What matters is the shared recognition by such group of managers of the strong reciprocal interdependence of certain decisions, namely of strategic decisions. The “common ground” of the MNC has to allow for such group of managers to function as if they were a team. I call such group of managers the “extended global leadership” or eGLT of the MNC. Such group is composed of executives with corporate HQ positions (be it corporate functions or global business positions), regional HQ positions, and country-level positions (such as local general manager or even selected functional managers in some countries).
- 19) It is the eGLT that keeps the MNC globally integrated. Operational integration follows. The size of the eGLT is likely to be relatively large for a large, diversified MNC (say, a few hundred executives for IBM), but involve only a small fraction of the managers of the MNC (say, of the order of 1%).

# Selective Integration

Different functions call for different strategies and different organisations



## “Global Integration” in the Multinational Company (cont.)

- 20) Global integration is not about everything in the strategy and organization of the MNC. It is about *some* things. It is *selective*. The reason for such selectiveness is that the economic and financial impacts of global integration is not the same in every business activity or function in the MNC. For example, the cost of R&D or manufacturing tend to benefit more from global integration than that of sales or after-sales service; the willingness-to-pay by a global customer may depend strongly on the level of a globally integrated service, while the value of the product for a local customer may be independent of any global attribute of the company.
- 21) The emergence of the multinational hybrid organization often called “front-back”, is evidence of the functional selectivity of global integration.
- 22) However, even if global integration is selective, any selected piece can only be effectively integrated if the eGLT is in place. In other words, there is no alternative to the *total global integration at the higher levels of the MNC*.
- 23) Indeed, my observation is that the failure of multidimensional structures (e.g. “matrix” organizations) derives first and foremost from the top ranks inability to function *as a* team – and not just from the challenges of multiple perspectives (the “matrix in the mind”), let alone the existence of two or more “bosses”.
- 24) The art of selective integration is particularly relevant when a MNC moves from a low to a high degree of global integration. Two sets of mutually influential choices are particularly relevant: *what* activities to integrate and in which *order* (the sequence in time of what is to be integrated); and *which* geographic units to involve and in which order (the sequence in time of participation in the global integration process).
- 25) The management integration is doubly selective (activities, countries) in the case of an existent MNC that has been for many decades a non-integrated MNC, i.e. “multi-local” or “multi-domestic”. It is the complexity of organizational change that come with global integration that make such process daunting. It can hardly be done in one go. Proper selection of country units and activities to integrate initially is paramount. The eGLT membership will therefore increase over time. But the degree of union of the eGLT has always to be ahead of the operational integration required.
- 26) Building a globally integrated MNC is a discontinuous transformation, not and evolution. The transformation is lengthy for it requires the development of different organizational and individual attributes, not because it is a long series of increments. However, it may (should) be designed as a series of discontinuous transformations involving a few countries and functional units each time.

## “Global Integration” in the Multinational Company (cont.)

- 27) The essential principle of global integration is the *performance of each unit depends on the performance of the whole*, not the opposite. This totalitarian principle is valuable in so far as the proper interdependencies are put in place and no single unit or sub-set of units can claim to be vital for all. I will argue further that the effectiveness of such value requires a complementary one: that each country unit will be treated *as if* it was vital. The simple analogy here is “one for all, all for one”. This “global integrity principle” is key to global performance and has a very strong impact in many corporate decisions (such as divestiture, for example).
- 28) There may be other universal values or principles a part of the *common ground* of the MNC. But it should be parsimonious, objective, and specific of the collective business performance of the MNC. Such values could include, for example, “global integrity”, “customer satisfaction”, “transparency”, or “competitiveness”. However, this set should not include individual level values (such as modesty or altruism) – which apply only metaphorically to companies – or values that are more situated and nationally dependent (such as fairness or fulfilment).
- 29) The shared values or principles that unite the eGLT are not to be negotiated or mitigated. Any manager (senior managers a fortiori) who does not willingly accept such *common ground* should simply depart. I’ll argue more: the common set of performance values is multiplicative, not additive. If say, they include Global Integrity, Customer Satisfaction, and Shareholders Returns, failing to comply with one is failure to comply with all. The implications for incentive systems (bonuses, promotions) are obvious. This is another reason why the choice of common ground is a very strategic act.
- 30) Managers in a GI MNC require easy and autonomous access to information, be it about their unit, other units around the world, and the whole MNC. A global information system (GIS) is mandatory. It is somewhat paradoxical that HQ may see a GIS (such as a global ERP) as a means of control – and design it as such ... - when the value of a GIS is the affordance of coordinated action of managers, local and HQ. An effective GIS is actually a pre-requisite of global integration, and a global integration programme should not be enforced before or during the making of a GIS. Otherwise, without easy and autonomous access to global data, local managers will (initially) depend on information provided by HQ ... and such local managers will take the “global integration” programme as yet another device to increase the authority and control of central HQ.

## “Global Integration” is a re-creation of the MNC!

	“Portfolio of Countries”	“Global Integration”
<b>Environment</b>	Business is multi-domestic: customers, competitors, ... are local companies or “portfolio” MNCs.	Business is global: customers, competitors, ... are globally integrated MNCs.
<b>Strategy</b>	The whole is a portfolio of countries (autonomous performance)	The whole works together as “one” (interdependent performance)
<b>Organization</b>		
Managerial Mindset	May be different between HQ and country units and across countries	Universal for all those in the “extended global management team” (members of HQ, country units, and other units)
Structure	Geographic	Multidimensional (or Functional)
Processes	Bilateral (focal country and HQ)	Multilateral (focal country, other country units and HQ)
Incentives	On country / unit performance	On global / unit performance
People: HQ Mgrs	Entrepreneur/Steward, self-sufficient, controller, financier	Leader/Steward, team-player, coordinator, umpire
People: Country Unit Mgrs	Entrepreneur, self-sufficient, trader (“governor”)	Steward, team-player, negotiator (“ambassador”)

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