Structure of the MNE

Nell, Phillip C.; Decreton, Benoit

Published in:
Encyclopedia of International Strategic Management

DOI:
10.4337/9781800884045.ch92

Published: 29/02/2024

Document Version
Early version, also known as preprint

Structure of the MNE

Phillip C. Nell*
WU Vienna University of Economics and Business
Welthandelsplatz 1, Building D1, 3rd Floor
1020 Vienna, Austria
ORCID iD: 0000-0002-6742-0013
phillip.nell@wu.ac.at

Benoit Decreton
Nova SBE
Universidade Nova de Lisboa
Rua da Holanda, 1
2775-405 Carcavelos, Portugal
ORCID iD: 0000-0002-0753-7877
benoit.decreton@novasbe.pt

* *Corresponding Author*

Please cite as: Nell, P. C., & Decreton, B. (2024). Structure of the MNE. In *Encyclopedia of International Strategic Management* (pp. 372-378). Edward Elgar Publishing.

This paper has been accepted by the guest editors for a chapter in the Encyclopedia of International Strategic Management published by Edward Elgar Publishing (2024). This paper is a preliminary non-edited version.

1 INTRODUCTION

The success of multinational corporations (MNCs) depends to a substantial part on its formal organizational structure. Yet, defining what exactly organizational structure is, is non-trivial. Building on Puranam et al. (2014), organizational structure can be understood as dealing with the fundamental problems of what shall be done (task division) by whom (task allocation to individuals and organizational units) and how the entire set of activities shall be integrated (e.g., through coordination and control mechanisms). Organizational structure therefore deals with a very wide range of issues and phenomena.

The MNC literature has essentially approached the wide range of questions of organizational structure in two different ways: (1) Macro structures, which embody – at least in their pure forms – specific manifestations of task division, task allocation, and integration. (2) Substructures, notably the structure of subsidiaries.

2 MACRO STRUCTURES

Macro structures refer to archetypical structures and designs on the level of the overall corporation. Two streams of research stick out in terms of importance. First, Stopford and Wells (1972) initiated a contingency perspective on MNC structure. Stopford and Wells (1972) had built on earlier work by Chandler (1962; 1966) who focused on domestic organizations. Chandler´s key conclusion was that "structure follows strategy". This insight highlights an idea of "fit" and thus represents a contingency theory because the best structure depends on the strategic choices of the corporation. Later on, the question if structure "follows" strategy has given way to a more balanced view in which it has eventually been acknowledged that strategy also follows structure (e.g., Burgelman, 1983). The core idea of fit, however, remained valid.

Stopford and Wells (1972) extended Chandler's contingency framework to the MNC. Building on two important strategy dimensions – the degree of foreign product diversity and the degree of internationalization in terms of sales – they found that MNCs used four different types of macro structures and that they move in sequential steps, similar to Chandler's insights. International division structures occur predominantly in early phases of internationalization when both foreign product diversity and the degree of internationalization is low. Such structures simply add an "international markets" or "international sales" division to the existing organization, which focuses, by definition, to a dominating extent on the home market. The international division helps taking care of the non-domestic business.

Area division structures occur when the firm then internationalizes its sales further while keeping foreign product diversity low. Area division structures refer to divisions that are responsible for specific geographic regions such as Europe or South-East Asia. The area divisions help the organization cope with the complexity that an engagement in a large range of international markets produce.

Product division structures occur when firms, instead of internationalizing further, stay in a few international markets only but increase product diversity in these international markets notably. The complexity thus derives predominantly from the many different types of products that need to be handled. Product divisions help separating very different product groups from each other while putting similar ones into the same divisions.

Finally, at high levels of foreign product diversity and international sales, firms eventually select a matrix organization, which mixes product, geographic (area), and at times functional divisions and thus responsibilities.

Later research revised the model adding or deleting individual stages or clarifying details (Daniels, Pitts and Tretter, 1985; Habib and Victor, 1991). For example, the overall contingency framework was reinterpreted from an information processing theory perspective (Egelhoff 1982; 1991; Wolf and Egelhoff, 2002). Later research also added insights with regards to how individual divisions are governed. For example, area divisions are usually governed by regional headquarters[1]. An entire research stream attempted to dissect key features of regional headquarters such as their embeddedness in the region (Hoenen, Nell and Ambos, 2014), their staffing (Sullivan, 1992), the various activity configurations that regional offices take over (Enright, 2005; Chakravarty et al., 2017), their impact on the corporation (Mahnke, Ambos, Nell and Hobdari, 2012), their evolution (Lasserre, 1996; Piekkari, Nell and Ghauri, 2010), and the specific locations that are chosen by or for them (Belderbos, Du and Goerzen, 2017).

Second, after Stopford and Wells (1972), a new framework of MNC structures emerged that partly overlapped but also extended Stopford and Wells' ideas. While still applying a contingency lens, this stream added the environmental context to the strategy and structure debate. The researchers in this stream developed the "integration – responsiveness" framework. It categorizes MNC environments in terms of two dimensions that exert pressure on the MNC: the pressures for global integration (e.g., the extent to which the industry of the MNC requires cross-border synergies) and the pressures for local responsiveness (e.g., the extent to which local markets in specific countries require that products and services are adapted). Thus, their key insight was that the type of environmental context needs to be aligned with strategic choices as well as with organizational choices of the MNC.

Similar to Stopford and Wells (1972), the protagonists of the stream (e.g. Bartlett and Ghoshal, 1989; Ghoshal and Bartlett, 1990; Prahalad and Doz, 1987; Ghoshal and Nohria, 1989) developed archetypical descriptions that fit different environmental contexts. While there is some disagreement, three archetypical macro structures seem relatively uncontested: Global environments are characterized by strong pressures for global integration for example because of massive economies of scales. In such industries, global standardization strategies are important and global structures apply. Global structures thus need to score high on strong corporate headquarters, top-down coordination and centralized decision-making. In contrast, in multi-domestic environments (characterized by strong local adaptation pressures but low global adaptation pressures), internationally operating firms need to respond to the local needs and organize their firm in such a way that local subsidiaries possess substantial decision making authority with low corporate involvement and steering and little coordination across countries. Finally, in the case of "transnational" environments (high pressures of global integration and local responsiveness simultaneous), firms need to find a balance between the two conflicting pressures. The corresponding organizational structure is thus complex, representing a mix of choices, which allows both global coordination as well as local adaptation. Conceptually, transnational structures were often interpreted as representing matrix organizations (Wolf and Egelhoff, 2013)[2] or organizations with a strong regional dimension (Lehrer and Asakawa, 1999). Yet, the transnational structure also received interpretations highlighting its fluid, project-based elements in the organization as well as its characteristic as a network (Hedlund, 1986; Ghoshal and Bartlett, 1990). In fact, transnational structures are rather characterized by more ambiguous roles and responsibilities, various types of interdependencies, and interpersonal relationships, which enable cross-unit and cross-departmental coordination. Formal organizational structure is less emphasized than informal organization (Bartlett and Ghoshal, 1993). Furthermore, the transnational organization is highly differentiated (Ghoshal and Nohria, 1989), which refers to the fact that individual subunits may be organized very differently as compared to others. As a consequence, the transnational structure as an overarching concept gave rise to a number of sub-streams of research that focused on specific elements of the transnational organization, specifically its substructures.

3 SUBSTRUCTURES

Research on substructures primarily focused on "subsidiaries"[3]. Birkinshaw, Hood and Jonsson (1998: 224) define an MNC subsidiary ''as any operational unit controlled by the MNE and situated outside the home country". Subsidiaries represent important organizational subunits in the MNC[4] to which specific sets of activities are allocated and which are integrated in the MNC via various mechanisms (Meyer, Li and Schotter, 2020).

A central theme of research on subsidiaries focused on subsidiary roles or mandates, i.e., the spectrum of activities that subsidiaries take over and that should ideally be allocated to a subsidiary given certain circumstances (Birkinshaw and Hood, 1998; Dunning, 1993; Jarillo and Martinez, 1990; Roth and Morrison, 1992). Some subsidiaries are merely local implementors (Gupta and Govindarajan, 1991), some are referred to as competence-creating centers of excellence (Cantwell and Mudambi, 2005), which have responsibilities beyond their host country (Frost and Birkinshaw, 2002): Some are strongly externally embedded in their host context while others are embedded within the MNC (Meyer, Mudambi and Narula, 2011); some assume a narrow functional scope while others are referred to as "miniature replicas" (which exist mainly in multidomestic macro structures) because they cover all important activities and functions so that they could be stand-alone companies (White and Poynter, 1984). This variety of subsidiaries reflect the fact that MNCs do use a great variety of organizational solutions for their subsidiaries and that these differ even within individual MNCs. It has also been highlighted that headquarters do not merely allocate roles and mandates in a top-down way but that subsidiaries shape and influence these mandates (for example via subsidiary initiatives) in a quest to become more influential or to get more resources (e.g. Birkinshaw, 1997; Birkinshaw and Hood, 1998; Mudambi and Navarra, 2001).

A related and overlapping stream investigated how different types of subsidiaries are integrated via control and coordination mechanisms. The most prevalent control and coordination mechanisms are the centralization of decision making, normative integration, and the formalization of rules and systems (Ghoshal and Nohria, 1989; Zeng, Grogaard and Steel, 2018)[5]. Many factors pertaining to the environment, the strategy, the local context, and the subsidiary itself matter in shaping the type and extent of integration mechanisms used. Research showed, for example, that decisions tend to be decentralized when subsidiaries are mature, powerful, and when they operate in dynamic and distant contexts (Johnston and Menguc, 2007; Geleilate; Andrews and Fainshmidt, 2020).

Another key finding is that normative integration seems to be generally valuable as a coordination mechanism irrespective of some contingencies and that it is necessary conditions for other mechanisms to be applied as well (Nohria and Ghoshal, 1994; Björkman, Barner-Rasmussen and Li, 2004; Brenner and Ambos, 2013; Gupta and Govindarajan, 2000). Normative integration refers to a strong organizational culture, i.e., shared values that help integrate the otherwise highly differentiated subsidiaries (Nohria and Ghoshal, 1994). MNCs often rely on individuals to ensure effective normative integration (Harzing, Pudelko and Reiche, 2016; Schotter et al., 2017). Specifically, research showed that expatriates can help transfer corporate culture to subsidiaries as well as develop subsidiary employees' perceptions and attitudes towards headquarters (Kostova and Roth, 2002), which increases subsidiary performance (Chang, Gong and Peng, 2012). Along the same lines, subsidiary managers with work experience at headquarters also better understand and react to the involvement of managers from headquarters (Decreton, Nell and Stea, 2019). Additionally, the formalization of rules and systems, such as specific HRM practices has been shown to improve the ability and motivation of individuals to transfer knowledge within the MNC (Minbaeva et al., 2003).

4 Conclusion

In sum, the archetypical macro structures of earlier research gave way to much more detail and complexity but perhaps also more blurriness later on. Overall, in this paper, we constrained ourselves to contingency theory as the main lens on MNC organization: the optimal organizational structure depends on number of factors on many levels of analysis. Yet, many more theoretical lenses have been applied to investigate MNC structures such as resource-based theories, economic theories such as transaction cost economics or agency theory, as well as institutional and behavioral theories. We refer to recent contributions by Meyer et al. (2020) as well as Nell, Kappen, and Laamanen, (2017) which highlight a range of theoretical views and how they relate to MNC organizational questions. These contributions also develop important future research avenues and highlight latest contributions. For example, Mees-Busch, Welch, and Westney (2019) conceptualized a new macro structural model (called the neo-global organization) as a very different organization than the transnational solution. Recent research also investigated if configurations of control and coordination mechanisms are more important that individual mechanisms (Zeng, Grogaard and Steel, 2018) and there is initial research on the effect of the ongoing digital transformation on MNC structure (Schmitt, Decreton and Nell; 2019). Finally, there is debate about how relevant formal organizational structure really is mirroring earlier discussion around the transnational solution. For example, some scholars have recently argued that informal and fluid organizational mechanisms are more important than formal organizational structure and that subsidiaries have become meaningless (Edwards et al. 2021). Others disagree highlighting the importance of formal organizational structural elements (Andrews, Nell, Schotter and Laamanen, 2022). There is thus ongoing debate and the topic of MNC structure is a valid area for research in the upcoming years.

NOTES

1. At times also referred to as regional management centers or regional offices.
2. There is substantial debate, however, what exactly a matrix organization represents. See for example, Wolf and Egelhoff (2013); Ford and Randolph (1992).
3. The integration-responsiveness stream also highlighted that the substructures of individual functions such as IT, HR, or Marketing might differ. Thus, entire streams emerged that focused much more narrowly on optimal organizational structures for individual functions such as work on structuring international R&D (e.g., Ambos and Schlegelmilch, 2007; Gassmann and von Zedtwitz, 1998), manufacturing (Chang and Taylor, 1999; Taggart, 1997), key account management (Birkinshaw, Toulan and Arnold, 2001), or marketing (Lim, Acito and Rusetski, 2004), some of which is overlapping with subsidiary-focused research.
4. Doz, Santos and Williamson (2001) for example argue that MNCs can source new knowledge via its dispersed subsidiaries and that this knowledge advantage represents the raison-d'être for the MNC.
5. There is no universally accepted framework of control and coordination mechanisms. For example, some researchers use frameworks that differentiate between input and output control as well as behavioral control (Schmid and Kretschmer, 2010).

REFERENCES

Andersson, U., Forsgren, M. and Holm, U. (2002). ‘The strategic impact of external networks: subsidiary performance and competence development in the multinational corporation’, Strategic Management Journal, 23, 979–996.

Andrews, D., Nell, P. C., Schotter, A., Laamanen, T. (2022 forthcoming). ‘And the subsidiary lives on: Harnessing complex realities in the contemporary MNE’, Journal of International Business Studies.

Baaij, M. G., Mom, T. J., Van den Bosch, F. A. and Volberda, H. W. (2015). ‘Why do multinational corporations relocate core parts of their corporate headquarters abroad?’, Long Range Planning, 48, 46–58.

Balogun, J., Fahy, K. and Vaara, E. (2019). ‘The interplay between HQ legitimation and subsidiary legitimacy judgments in HQ relocation: A social psychological approach’, Journal of International Business Studies, 50, 223–249.

Bartlett, C. A., & Ghoshal, S. (1993). Beyond the M-form: Toward a managerial theory of the firm. Strategic Management Journal, 14(S2), 23-46.

Bartlett, C. A., & Ghoshal, S. (1989). Managing across borders: The transnational solution. Harvard Business Press.

Belderbos, R., Du, H. S. and Goerzen, A. (2017). ‘Global cities, connectivity, and the location choice of MNC regional headquarters’, Journal of Management Studies, 54, 1271–1302.

Birkinshaw, J. (1997). Entrepreneurship in multinational corporations: The characteristics of subsidiary initiatives. Strategic management journal, 18(3), 207-229.

Birkinshaw, J. and Hood, N. (1998). ‘Multinational subsidiary evolution: Capability and charter change in foreign-owned subsidiary companies’, Academy of Management Review, 23, 773–795.

Birkinshaw, J., Braunerhjelm, P., Holm, U. and Terjesen, S. (2006). ‘Why do some multinational corporations relocate their headquarters overseas?’, Strategic Management Journal, 27, 681–700.

Birkinshaw, J., Hood, N. and Jonsson, S. (1998). ‘Building firm-specific advantages in multinational corporations: the role of subsidiary initiative’, Strategic Management Journal, 19, 221–242.

Birkinshaw, J., Toulan, O. and Arnold, D. (2001). ‘Global account management in multinational corporations: Theory and evidence’, Journal of International Business Studies, 32, 231–248.

Brenner, B. and Ambos, B. (2013). ‘A question of legitimacy? A dynamic perspective on multinational firm control’, Organization Science, 24, 773–795.

Burgelman, R. A. (1983). ‘A process model of internal corporate venturing in the diversified major firm’, Administrative Science Quarterly, 28, 223–244.

Cantwell, J., & Mudambi, R. (2005). MNE competence-creating subsidiary mandates. Strategic management journal, 26(12), 1109-1128.

Chakravarty, D., Hsieh, Y. Y., Schotter, A. P. and Beamish, P. W. (2017). ‘Multinational enterprise regional management centres: Characteristics and performance’, Journal of World Business, 52, 296–311.

Chandler, A. D. (1962). ‘Strategy and structure: Chapters in the history of the American enterprise’, Massachusetts Institute of Technology Cambridge.

Chang, Y. Y., Gong, Y. and Peng, M. W. (2012). ‘Expatriate knowledge transfer, subsidiary absorptive capacity, and subsidiary performance’, Academy of Management Journal, 55, 927–948.

Chang, E. and Taylor, M. S. (1999). ‘Control in multinational corporations (MNCs): The case of Korean manufacturing subsidiaries’, Journal of Management, 25, 541–565.

Ciabuschi, F., Dellestrand, H. and Holm, U. (2012). ‘The role of headquarters in the contemporary MNC’, Journal of International Management, 18, 213–223.

Collis, D., Young, D. and Goold, M. (2012). ‘The size and composition of corporate headquarters in multinational companies: empirical evidence’, Journal of International Management, 18, 260–275.

Daniels, J. D., Pitts, R. A. and Tretter, M. J. (1985). ‘Organizing for dual strategies of product diversity and international expansion’, Strategic Management Journal, 6, 223–237.

Decreton, B., Nell, P. C. and Stea, D. (2019). ‘Headquarters involvement, socialization, and entrepreneurial behaviors in MNC subsidiaries’, Long Range Planning, 52, 101839.

Doz, Y. L., Santos, J. and Williamson, P. J. (2001). ‘From global to metanational: How companies win in the knowledge economy’, Harvard Business Press, Cambridge, MA.

Dunning, J. H. (1993). Multinational enterprise and the global economy. Wokingham: Addison Wesley.

Edwards, T., Svystunova, L., Almond, P., Kern, P., Kim, K., & Tregaskis, O. (2022). Whither national subsidiaries? The need to refocus international management research on structures and processes that matter. Journal of International Business Studies, 53(1), 203-210.

Egelhoff, W. G. (1982). ‘Strategy and structure in multinational corporations: An information-processing approach’, Administrative Science Quarterly, 27, 435–458.

Egelhoff, W. G. (1991). ‘Information-processing theory and the multinational enterprise’, Journal of International Business Studies, 22, 341–368.

Enright, M. J. (2005). ‘The roles of regional management centers’, MIR: Management International Review, 45, 83–102.

Ford, R. C., & Randolph, W. A. (1992). ‘Cross-functional structures: A review and integration of matrix organization and project management’, Journal of Management, 18, 267–294.

Foss, N. J. (1997). ‘On the rationales of corporate headquarters’, Industrial and Corporate Change, 6, 313-338.

Ghoshal, S. and Bartlett, C. A. (1990). ‘The multinational corporation as an interorganizational network’, Academy of Management Review, 15, 603–626.

Ghoshal, S. and Nohria, N. (1989). ‘Internal differentiation within multinational corporations’, Strategic Management Journal, 10, 323–337.

Gassmann, O. and Von Zedtwitz, M. (1998). ‘Organization of industrial R&D on a global scale’, R&D Management, 28, 147–161.

Geleilate, J. M. G., Andrews, D. S., & Fainshmidt, S. (2020). Subsidiary autonomy and subsidiary performance: A meta-analysis. Journal of World Business, 55(4), 101049.

Gupta, A. K. and Govindarajan, V. (2000). ‘Knowledge flows within multinational corporations’, Strategic Management Journal, 21, 473–496.

Habib, M. M. and Victor, B. (1991). ‘Strategy, structure, and performance of US manufacturing and service MNCs: A comparative analysis’, Strategic Management Journal, 12, 589–606.

Harzing, A. W., Pudelko, M. and Reiche, S. B. (2016). ‘The bridging role of expatriates and inpatriates in knowledge transfer in multinational corporations’, Human Resource Management, 55, 679–695.

Hedlund, G. (1986). ‘The hypermodern MNC—a heterarchy?’, Human Resource Management, 25, 9–35.

Hoenen, A. K., Nell, P. C. and Ambos, B. (2014). ‘MNE entrepreneurial capabilities at intermediate levels: the roles of external embeddedness and heterogeneous environments’, Long Range Planning, 47, 76–86.

Jarillo, J. C. and Martínez, J. I. (1990). ‘Different roles for subsidiaries: The case of multinational corporations in Spain’, Strategic Management Journal, 11, 501–512.

Lasserre, P. (1996). ‘Regional headquarters: The spearhead for Asia Pacific markets’, Long Range Planning, 29, 30–37.

Lehrer, M. and Asakawa, K. (1999). ‘Unbundling European operations: Regional management and corporate flexibility in American and Japanese MNCs’, Journal of World Business, 34, 267–286.

Lim, L. K., Acito, F. and Rusetski, A. (2006). ‘Development of archetypes of international marketing strategy’, Journal of International Business Studies, 37, 499–524.

Mahnke, V., Ambos, B., Nell, P. C. and Hobdari, B. (2012). ‘How do regional headquarters influence corporate decisions in networked MNCs?’, Journal of International Management, 18, 293–301.

Meyer, K. E., Li, C. and Schotter, A. P. (2020). ‘Managing the MNE subsidiary: Advancing a multi-level and dynamic research agenda’, Journal of International Business Studies, 51, 538–576.

Minbaeva, D., Pedersen, T., Björkman, I., Fey, C. F. and Park, H. J. (2003). ‘MNC knowledge transfer, subsidiary absorptive capacity, and HRM’, Journal of International Business Studies, 34, 586–599.

Monteiro, L. F., Arvidsson, N. and Birkinshaw, J. (2008). ‘Knowledge flows within multinational corporations: Explaining subsidiary isolation and its performance implications’, Organization Science, 19, 90–107.

Nell, P. C., Kappen, P. and Laamanen, T. (2017). ‘Reconceptualising hierarchies: The disaggregation and dispersion of headquarters in multinational corporations’, Journal of Management Studies, 54, 1121–1143.

Nohria, N. and Ghoshal, S. (1994). ‘Differentiated fit and shared values: Alternatives for managing headquarters-subsidiary relations’, Strategic Management Journal, 15, 491–502.

Piekkari, R., Nell, P. C. and Ghauri, P. N. (2010). ‘Regional management as a system’, Management International Review, 50, 513–532.

Prahalad, C. K., & Doz, Y. L. (1986). The multinational mission: Balancing local demands and global vision. New York: Free Press.

Roth, Kendall, and Allen J. Morrison. "Implementing global strategy: Characteristics of global subsidiary mandates." Journal of International Business Studies 23, no. 4 (1992): 715-735.

Schmid, S., & Kretschmer, K. (2010). Performance evaluation of foreign subsidiaries: A review of the literature and a contingency framework. International Journal of Management Reviews, 12(3), 219-258.

Schmitt, J., Decreton, B. and Nell, P. C. (2019). 'How corporate headquarters add value in the digital age', Journal of Organization Design, 8, 1–10.

Schotter, A. P., Mudambi, R., Doz, Y. L. and Gaur, A. (2017). 'Boundary spanning in global organizations', Journal of Management Studies, 54, 403–421.

Stopford, J. M. and Wells Jr, L. T. (1972). 'Managing the multinational enterprise: Organization of the firm and ownership of the subsidiary'.

Sullivan, D. (1992). 'Organization in American MNCs: the perspective of the European regional headquarters', MIR: Management International Review, 32, 237–250.

Taggart, J. H. (1997). 'An evaluation of the integration-responsiveness framework: MNC manufacturing subsidiaries in the UK', Management International Review, 37, 295–318.

Wolf, J. and Egelhoff, W. G. (2002). 'A reexamination and extension of international strategy–structure theory', Strategic Management Journal, 23, 181–189.

Wolf, J. and Egelhoff, W. G. (2013). 'An empirical evaluation of conflict in MNC matrix structure firms', International Business Review, 22, 591–601.

Johnston, S., & Menguc, B. (2007). Subsidiary size and the level of subsidiary autonomy in multinational corporations: a quadratic model investigation of Australian subsidiaries. Journal of International Business Studies, 38(5), 787-801.

Zeng, R., Grøgaard, B., & Steel, P. (2018). Complements or substitutes? A meta-analysis of the role of integration mechanisms for knowledge transfer in the MNE network. Journal of world business, 53(4), 415-432.

Mees-Buss, J., Welch, C., & Westney, D. E. (2019). What happened to the transnational? The emergence of the neo-global corporation. Journal of International Business Studies, 50(9), 1513-1543.