



EIGHTH EDITION

TRANSNATIONAL MANAGEMENT

Text and Cases in Cross-Border Management

CHRISTOPHER A. BARTLETT & PAUL W. BEAMISH

Transnational Management

Text and Cases in Cross-Border Management

Transnational Management provides an integrated conceptual framework to guide students and instructors through the challenges facing today's multinational enterprises. Through text narrative and cases, the authors skilfully examine the development of strategy, organizational capabilities, and management roles and responsibilities for operating in the global economy.

The key concepts are developed in eight chapters that are supplemented by carefully selected practical case studies from world-leading case writers. All chapters have been revised and updated for this eighth edition to reflect the latest thinking in transnational management while retaining the book's strong integrated conceptual framework. Ten new cases have been added, and four others updated. A full range of online support materials are available, including detailed case teaching notes, almost 200 PowerPoint slides, and a test bank.

Suitable for MBA, executive education, and senior undergraduate students studying international management, international business, or global strategy courses, *Transnational Management* offers a uniquely global perspective on the subject.

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PREFACE

This book grew out of the authors' strongly held belief that the best research in the academic fields of international business and cross-border management did more than capture the activities, challenges, and best practices from the field. It also translated those findings into practical and relevant lessons for managers and students of management. That philosophy and commitment has shaped the content of *Transnational Management* over the 25 years since it was first published, and remains at the core of this eighth edition.

Indeed, it was our commitment to deliver current, relevant, and practical research in an engaging format to the students who will be tomorrow's business leaders that led us to make an important change with this new edition. As we became increasingly concerned that many textbooks – including this one – were being priced beyond the means of many of those we were trying to reach, we decided to work with a publisher whose commitments more closely aligned with ours. So this eighth edition of *Transnational Management* begins our exciting new relationship with Cambridge University Press, a publisher that shares our values.

In the quarter-century since the first edition of *Transnational Management* was published, much has changed in the field of multinational enterprise management. In the rapidly evolving global environment, new external demands have required innovative new strategic responses, flexible new organizational capabilities, and adaptive new management capabilities. But many seasoned observers who have operated in the global business environment for decades will insist that despite these differences, the core agenda remains remarkably constant. They make a convincing case that beyond ongoing and inevitable adjustments and refinements, the tensions that characterize cross-border management remain much as they have always been: understanding the world's inexorable evolution toward an integrated strategic whole, yet being sensitive to the constantly evolving impediments and constraints to that ideal; recognizing global and regional opportunities while also being aware of cross-cultural differences and responsive to host country demands; developing the ability to be fast, flexible, and adaptive while also overcoming the barriers to such seamless implementation due to the reality of the distance, language, time, and culture that separate worldwide operations.

We are reminded of this debate with each revision of this volume, as faculty colleagues weigh in on both sides. They remind us that, in many ways, both views are correct. On the one hand, we receive passionate input from those anxious for brand new material that reflects the vibrancy of the field and keeps up with the latest developments. But we also hear from colleagues who recognize the

importance of the ongoing cross-border management tensions, often best captured in classic cases that teach timeless international management issues.

Based on input that we constantly receive from the users of this text as well as from the valuable expert reviews to which each new edition is subjected, we have sought to maintain this balance. As you will see in the following pages, while we have maintained the intellectual integrity of the core concepts, we have also undertaken a major updating of each of the chapters to ensure they reflect the current global context. As a new feature, we have added an extended list of recommended practitioner-oriented readings at the end of each chapter. Where possible, we have used the authors' wording of their article abstracts. We have also provided expanded annotated footnotes of relevant theory. And we have retained our practice of changing about half the case material in this edition, aiming to capture the emerging issues to keep courses fresh, while retaining popular classic cases that have maintained their relevance and have a proven history of stimulating strong classroom engagement and learning.

We trust you will find that the new content, new format, and new publisher support we have assembled for the eighth edition offer a relevant, insightful, and stimulating framework through which to explore the rich territory of transnational management.

ACKNOWLEDGMENTS

Transnational Management has greatly benefited from comments, suggestions, and insights generously offered by colleagues at the hundreds of institutions around the world that have adopted this book. In particular, we would like to acknowledge the key role played by the Cambridge University Press panel of reviewers whose insights and suggestions for the chapter content of the eighth edition proved extremely helpful. They are listed on page xix as our Editorial Advisory Board.

We are also extraordinarily grateful to the colleagues who have contributed to this edition. Co-authors who have collaborated on our own case studies for this edition include faculty colleagues Professors Harold Crookell, Brian J. Hall, Isaiah A. Litvak, Aloysius Newenham-Kahindi, Albert Wöcke, and Michael Y. Yoshino, as well as Research Associates and doctoral students R. Azimah Ainuddin, Heather Beckham, Nicole Bennett, Carole Carlson, Nikhil Celly, Dwarka Chakravarty, Vincent Dessain, Charles Dhanaraj, Perry L. Fagan, Vanessa Hasse, Arar Han, Sarah McAra, Paul S. Myers, Michael Roberts, Anders Sjomán, Laura Winig, and Megan (Min) Zhang. We are also delighted to include additional new case studies authored by Luis Arciniega, Ivy Buche, Ramasastry Chandrasekhar, Meeta Dasgupta, Charles Dhanaraj, Tashmia Ismail, Srivardhini K. Jha, Rishiksha Krishnan, José Luis Rivas, Jean-Louis Schaan, and Margaret Sutherland.

Assembling a textbook always involves coordinating many components, but this is particularly true at a time of transition from one publisher to another. We could not have managed this without the great help provided by the skilled support staff who worked with us over many months to coordinate the flow of emails, phone calls, manuscripts, and other documents between the United States, Canada, and Australia. At Ivey, this includes PhD candidates Dwarka Chakravarty, Yamlaksira Getachew, Max Stallkamp, and Jenny Zhu. However, we would like to offer special thanks to Research Associate Mila Bojic for helping us through the long and arduous revision process.

This eighth edition also represents an important publishing landmark that merits recognition. As mentioned in the preface, we are delighted to be working with Cambridge University Press as our new publisher. To Valerie Appleby, our Commissioning Editor, and Caitlin Lisle, our Development Editor, we offer our grateful thanks not only for your helpful input and continual support, but also for your patience and tolerance through a long and challenging transition process. We look forward to continuing our productive working relationship for many years to come.

Finally, we would like to acknowledge the lasting contribution of our good friend and colleague, the late Sumantra Ghoshal, who passed away in 2004. Sumantra was a founding co-author of this book and left an enduring imprint on the field of

international management and beyond. His wisdom and insights still glow brightly in this volume. But more than his sharp intelligence, we miss his warm, convivial, and energetic company.

Despite the best efforts of all the contributors, responsibility for any remaining shortcomings of the book rests with us. Our only hope is that they are outweighed by the value that you find in these pages and the exciting challenges that they represent in the constantly changing field of transnational management.

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Our thanks also to those reviewers who wish to remain anonymous.

Introduction

So What Is Transnational Management?

Few managers operating in today's international business environment would dispute that this is an extremely exciting time to be engaged in almost any aspect of cross-border management. Fast-changing global developments have created big challenges that appear unusually complex, but at the same time they have opened up new opportunities that seem almost limitless.

Around the world, managers are asking questions like the following: How does the unraveling of the long anticipated Trans-Pacific Partnership (TPP) trade agreement affect our business? What can we do to manage the political disruption and economic dislocation following Brexit? How can we take advantage of the continued rise in Asian markets? How should we deal with the threat of new competitors emerging from developing countries? Can we exploit the impending boom in big data to track and exploit new global trends? How might we harness fast-growing social networks to leverage our cross-border management connections and organizational processes?

Before we launch into these and the other such rich and engaging discussions, perhaps we should step back for a moment to review the broad territory we will be exploring on our voyage of discovery. A good place to start might be with the title of this book. What exactly does *Transnational Management* mean?

Transnational: What Does That Imply?

The first word on the cover of this book may not be familiar to some. While the terms “multinational,” “international,” and “global” are in widespread general use, it may not be entirely clear to you why we chose to use the less familiar description “transnational” in the title of this book.

Good question. And we promise to respond to it by the end of Chapter 1. By the end of that opening chapter it should be clear to you that we use those four terms quite specifically. Furthermore, you will find that our distinction between “multinational,” “international,” “global,” and “transnational” will become a strong theme that runs through this book in our discussion of strategy, organization, and management.

But more of that later. For the purpose of this introduction, let's just recognize that the “transnational” qualifier indicates that our focus will be on the management challenges that face companies whose operations extend across national boundaries. Indeed, the concepts we will be presenting in the text are grounded in extensive research published in a book titled *Managing Across Borders: The*

Transnational Solution. The challenging cross-border management issues identified in that five-year long, multicompany, worldwide research project supplemented with a large body of subsequent research frames our agenda.

So what is different about cross-border management? In what ways do the challenges facing a manager of a multinational enterprise (MNE) differ from those facing his or her counterpart in a purely domestic organization? There are many such differences, but let's begin by identifying half a dozen of the most important that will be reflected in the issues we explore throughout this book.

- The most obvious contrast derives from the fact that, by definition, MNEs have operations in multiple nation-states, a difference that has huge strategic, organizational, and management implications. Although domestic companies must take account of local and state governments, what distinguishes intercountry differences from the intracountry ones is the powerful force of national sovereignty. Unlike the local or regional bodies, the nation-state generally represents the ultimate rule-making authority against whom no appeal is feasible. Consequently, the MNE faces an additional and unique element of risk: the political risk of operating in countries with different legislative requirements, legal systems, and political philosophies regarding a host of issues including private property, free enterprise, human rights, and corporate responsibility – that a domestic company can simply take for granted.
- Cross-border management must also deal with a greater range of social and cultural differences. Again, domestic companies experience some regional cultural differences, but in cross-border operations the stakes are much higher. An MNE will quickly flounder unless management is not only embedded in the community and able to speak the local language, but also is both sensitive and responsive to local cultural norms, practices, preferences, and values.
- By having operations in foreign countries, an MNE is exposed to a wide range of economic systems and conditions that they must understand and to which they must adapt. The differences may be built into political systems ranging from unfettered free enterprise to highly regulated socialist economies; they may be reflected in various stages of economic development from advanced OECD countries to extremely poor less developed countries; and they may be facilitated or constrained by differences in national infrastructure ranging from subtle differences in technical standards to the quality of basic communications services. Each variation in the underlying standards or support systems demands significant modifications to an MNE's strategy and operations.
- Another major way in which cross-border management diverges from domestic management relates to differences in competitive strategy. The purely domestic company can respond to competitive challenges within the context of its single market; the MNE can, and often must, play a much more complex competitive game. Global-scale efficiencies or cross-border sourcing may be necessary to achieve a competitive position, implying the need for complex international logistical coordination. Furthermore, on the global chessboard, effective competitive strategy might require that a competitive challenge in one country might call

for a response in a different country – perhaps the competitor’s home market. These are options and complexities a purely domestic company does not face.

- In terms of metrics, a purely domestic company can measure its performance in a single comparable unit – the local currency. But because currency values fluctuate against each other, the MNE is required to measure results with a flexible and sometimes distorted measuring stick. In addition, its results are exposed to the economic risks associated with shifts in both nominal and real exchange rates.
- Finally, the purely domestic company manages its activities through organizational structures and management systems that reflect its product and functional variety; the MNE organization is intrinsically more complex because it must provide for management control over its product, functional, and geographic diversity. And the resolution of this three-way tension must be accomplished in an organization whose managers are divided by barriers of distance and time, and impeded by differences in language and culture.

Management: Why This Focus?

The *Transnational* in the title is simply a qualifier for *Management* and, in the final analysis, that is what this book is really about. In many ways, it is a focus that distinguishes this volume from many others in the field. For that reason, let’s take a moment to understand why.

The serious study of cross-border management is a relatively recent phenomenon. For many decades, international business research focused mainly on global environmental forces, international systems and structures, and powerful institutions like home- and host-country governments, all of which framed the context within which the MNE had to operate. In these studies, countries and industries rather than companies were the primary units of analysis, and most international policy attention (as well as academic research) focused on macro analysis of key indicators such as trade flows and foreign direct investment patterns.

During the 1960s and 1970s, this interest in global economic forces and international institutions began to be matched by an equal focus on the MNE as the primary driver of the rapidly expanding international economy. A decade later, as the task of running such companies became more complex, attention again expanded to encompass an understanding of the roles, responsibilities, and relationships of those running the MNEs.

And so there opened a field of management that had been largely neglected by both practitioners and researchers up to that point. Indeed, until the 1970s, many companies had staffed their international operations with aging or less competent managers, instructing them to simply take the most successful domestic products, strategies, and practices, and transfer them abroad. But in the closing decades of the twentieth century, as new offshore markets opened up, global competition intensified, and worldwide operations became more complex, it was clear that such an approach was doomed to failure. Only the most capable managers would be able to run the modern MNE.

This book builds on the lessons that came out of that burst of innovation in cross-border management that has continued into the first decades of the twenty-first century. So while we will reflect on the changes taking place in the macro global environment, and specifically on the way in which these forces affect MNEs, we will do so by adopting a management interpretation, viewing these fast-changing global forces through the eyes of the executives who operate in the thick of it.

It is this management perspective that has framed the design of this book and the pedagogy that supports it. But unlike many other courses in international management that have been constructed around the traditional functions of the company – R&D, manufacturing, marketing, etc. – we have rejected this conceptual approach. Our experience is that the most important issues facing today’s business leaders rarely come packaged in such neatly defined and hermetically sealed bundles. Almost all real-world problems cut across functional boundaries and require executives to understand the issue in a broader and more systemic sense. Furthermore, they demand integrative solutions that bring together, rather than divide, the people working in their traditional functional silos. For that reason, our dominant perspective throughout this book will be that of a general manager – whether that is the CEO of the corporation, the global business vice-president, the national subsidiary manager, or the frontline country product manager.

By adopting the perspective of the transnational general manager, however, we do not ignore the important and legitimate perspectives, interests, and influences of other key actors both inside and outside the company. We view the effects of these other key players from the perspective of an MNE general manager, however, and focus on understanding how they shape or influence the strategic, organizational, and operational decisions that the general manager must take.

Text, Cases, and Readings: How Will We Learn?

If the title, *Transnational Management*, describes the field of study and the content of the book, the subtitle, *Text and Cases in Cross-Border Management*, provides clues to the teaching philosophy and materials that will be employed. Because this book may be different in structure and format from some others you have used, it’s probably worth spending a little time describing the classroom materials you will find between these covers and the pedagogic philosophy we followed in assembling them.

As the previous paragraphs have suggested, taking on the responsibility of the general manager in a twenty-first century MNE may well represent the most complex task to which a manager could be assigned. So creating a course that prepares one for such a role requires some creativity. It’s clear that the challenges cannot be reduced, for example, to a few global strategy recipes, a standardized international organization chart, or a simple check list of the six most important things a country manager must do to succeed.

But neither is it helpful to suggest that everything is too complex to reduce to specifics. In the chapters that follow, we will seek a middle way that presents some

broad concepts, frameworks, and principles that allow some generalization and conceptualization of the issues. But we will also provide material that allows students to take these generalized models for a “test drive” to apply, adapt, enhance, and embed the ideas in a practice-based, decision-oriented approach that is both grounded and flexible.

The Structure

The book is structured into three parts, which are divided into eight integrated text chapters, each representing a topic that builds on the chapters that precede it. The basic outline is shown in Figure 1.

Part I of the book consists of three chapters that focus on the strategic imperatives facing the MNE.

- In Chapter 1, we will examine the internal strategic motivations that drive, attract, or compel MNEs to expand offshore.
- Chapter 2 helps us understand the complex and often conflicting external environmental forces that shape the strategy of the MNE as it expands abroad.

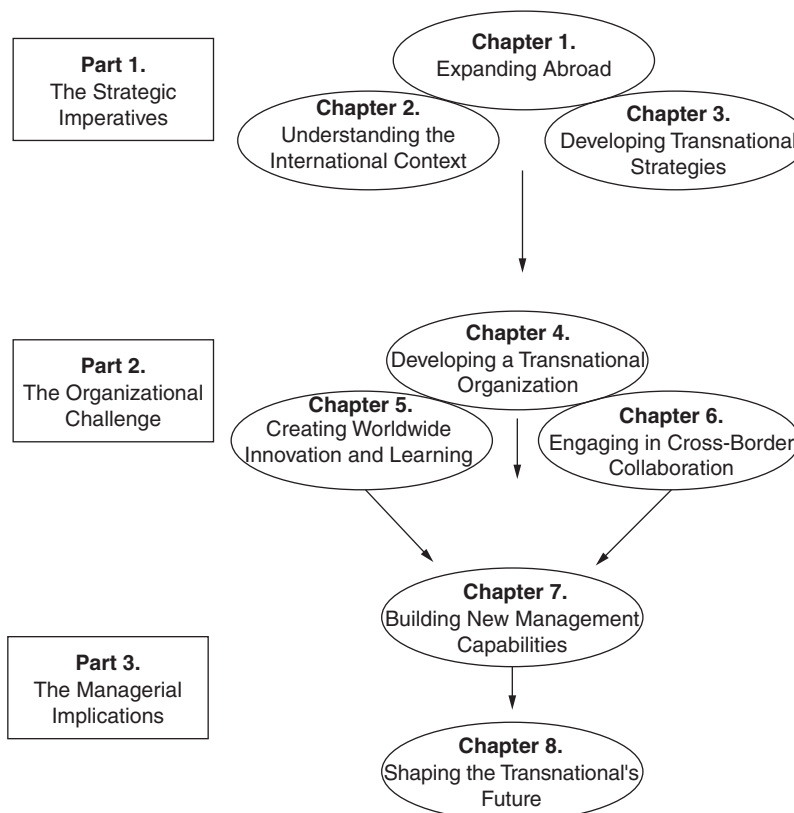


Figure 1 The structure of the book

- Chapter 3 explores how MNEs resolve the tension between their internal motivations and the external forces to develop a strategy based on building layers of competitive advantage.

Part II has three chapters that examine the organizational challenges flowing from the strategic imperatives.

- Chapter 4 examines the task of building an organization able to deliver the multilayered strategic capabilities required by a multidimensional transnational strategy.
- Chapter 5 focuses on the critical strategic task of developing the capability to advance and diffuse innovations on a worldwide platform.
- In Chapter 6, we explore the growing organizational challenge of managing collaborations across corporate boundaries.

Part III has two chapters focusing on the managerial implications of both the strategic imperatives and the organizational challenges we have identified.

- Chapter 7 allows us to explore the managerial roles and responsibilities required to build the capabilities MNEs need to successfully implement their strategies.
- Chapter 8 considers the evolving roles and responsibilities of transnational organizations that managers need to develop to negotiate the current and future global political economy.

The Learning Materials

To help us through this big agenda, the book is constructed around three major learning resources: the eight text chapters described above, 28 case studies relevant to the chapter topics, and a portfolio of recommended practitioner and academic supplemental readings. Let's briefly explain how each of these components contribute to the overall learning.

At the end of each chapter, there is a list of recommended readings drawn primarily from practitioner-oriented journals such as *Harvard Business Review* and the *McKinsey Quarterly*. These readings have been carefully selected to provide supplemental perspectives to those presented in the text chapters. Some are classic articles whose wisdom has endured over time, while others are contemporary and reflect the latest thinking on the topic being addressed. And for those interested in exploring the theoretical underpinnings of the arguments presented, the footnotes in each chapter provide a link to relevant academic articles. In all instances, the objective of these supplemental readings is to expand and enrich the mental maps being created as we progress on this voyage of discovery.

But, as we have emphasized, because the challenges facing the modern MNE represent perhaps the most complex environment in which a manager can operate, no amount of concepts, models, theories, or frameworks can capture the task. We believe that the most powerful way to allow students to enter this complexity is to employ real-life cases that require the complexity to be unraveled and decisions to be made. Most of those in this book provide the reader not only with data on the

macro business and company context, but also with detailed information about the key actors and what they bring to the situation: their personal motivations, their strengths and weaknesses, their roles and responsibilities. In many instances, videos and follow-up cases lead to further insight.

Although a few of the cases have been disguised, all of them are real, and almost all have been prepared on the basis of detailed field research. While the vast majority of them document current best practice or illustrate managers facing contemporary challenges, we have also included a handful of classic cases, enduring favorites that have been shown to be effective in illustrating persistent issues in cross-border management.

For those who are less familiar with the use of cases in a classroom setting, it is worthwhile emphasizing that the purpose of this classroom material is to present you with the kinds of important challenges a manager might encounter only once a year, once in a decade, or even once in a career. They present you with an opportunity to go through the same process as the case protagonist – sorting through the information, analyzing the situation, evaluating the options, deciding on action, thinking through the implementation steps required to bring about the necessary change, and then convincing your colleagues of the wisdom of your approach. Repeating this process a couple of dozen times through the course can significantly increase one's ability to translate abstract concepts and general theories into real on-the-ground practice.

Getting Started

But enough overview, background, and analysis; it's time to launch headlong into this fascinating and exciting new world of transnational management. So let's begin our voyage to explore the challenges and opportunities of those who have the responsibility for the strategy and operations of organizations that stretch across the barriers of distance, language, and culture. It should be quite a trip.

Part I

The Strategic Imperatives