



Global Strategy & Organization

Joe Santos

Class 8 & 9

National Responsiveness or Local Adaptation or Localization

Example: McDonald's

- McCurry
- McArabia
- McDelivery
- McCafe



From upper left, counterclockwise:

Photo by [counterclockwise](#), [vagabondblogger](#), [Kansir](#), [Kevin Lim](#) on Flickr.

Lincoln Electric

Images of examples of Lincoln Electric adaptations to other nations removed due to copyright restrictions.

Flexible Adaptation to national *labor institutions*

	Piece Rate	Bonus	Merit Rank.	E. Adv. Board
US	✓	✓	✓	✓
Netherlands		✓	✓	
Poland	✓	✓		
Venezuela			✓	✓
Mexico	✓ (team)	✓ (home loans)		

(Source: Siegel, 2009)

Managing *Localization**

How do we respond to the differences across nations to optimize *local* performance?



Avoid using “Act Global”

The value of "National Responsiveness"

Satisfaction of Local Preferences

Local Customers, Prescribers, Users/Consumers
Local Government
Local Society

Higher Local **v**

Effective Competition with Local Competitors

Local companies
Local subsidiaries of other MNCs
Local substitutes

Higher Local **p**

Efficient Use of Local Resources

Local managers and employees
Local vendors and partners
Other local resources (tangible, intangible)

Lower Local **c**

The prize of high local responsiveness in a global world is high!

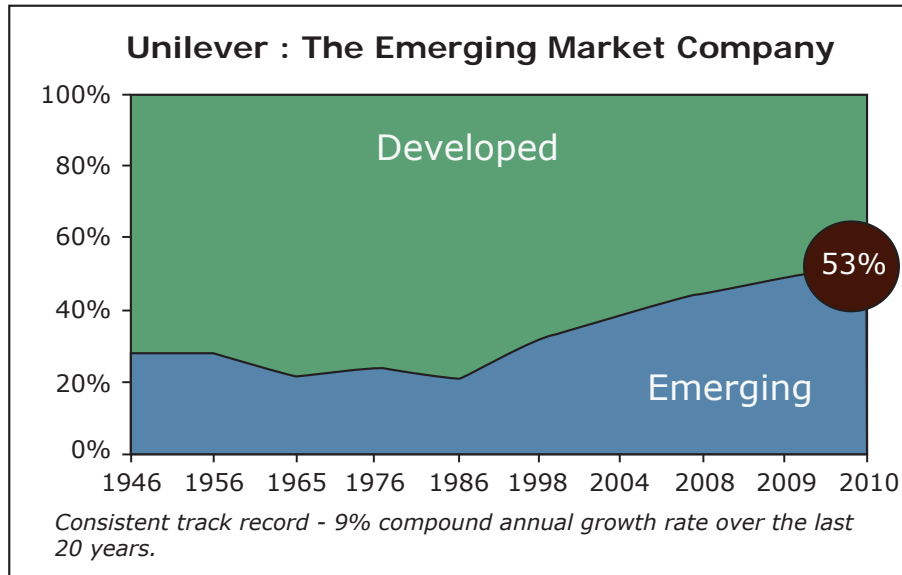


Image by MIT OpenCourseWare.

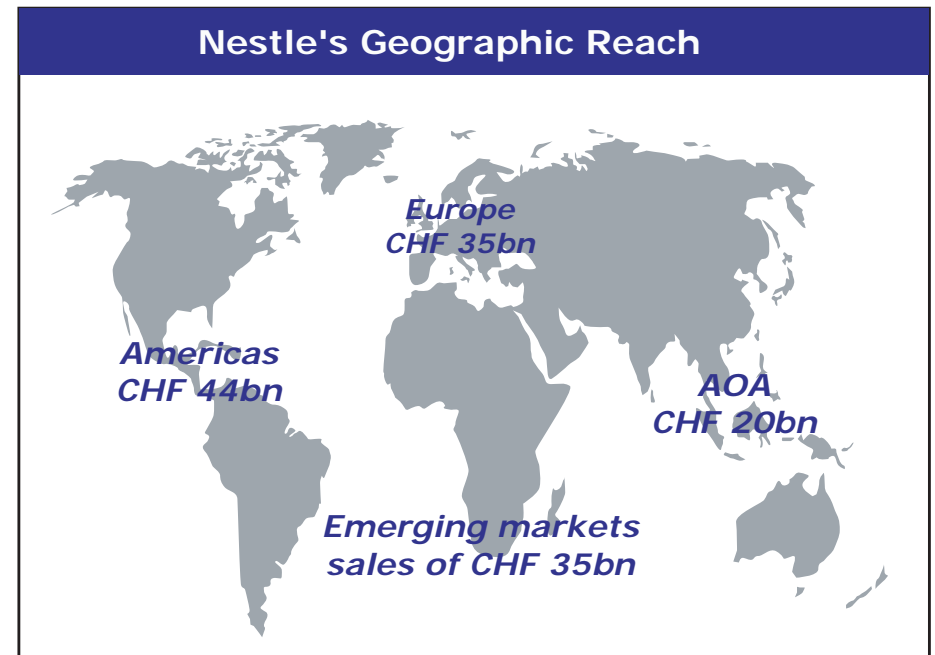


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(Source: Company data)

National Responsiveness

Hyundai USA Unemployment Insurance, Jan 2009

Photograph of KFC in Xiamen, China and photograph of Santander BRASIL at the stock exchange removed due to copyright restrictions.

TOKYO, Feb.17 (Xinhua) -- Haier, China's biggest home appliance company announced on Wednesday the establishment of its Asia headquarters in Japan, as well as research and development centers in Tokyo and Osaka, marking another big step in its global strategy since it entered the Japanese market.

Lincoln Electric Regional Performance (2005)

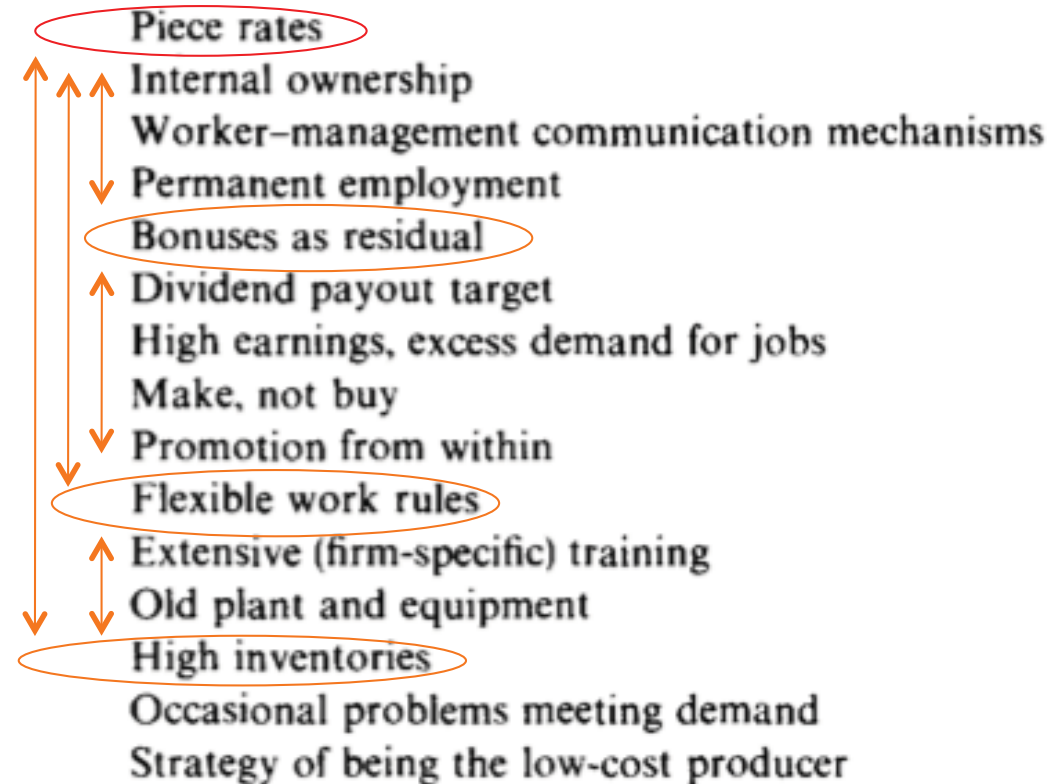
Region	ROA	Sales/Assets	Sales (\$M)	Assets (\$M)
USA & Ca	0.28	1.7	1,078	652
Mex & LA	0.16	1.5	121	83
Europe	0.07	1.4	426	313
Asia & Aust	0.05	1.3	125	98

(NB. US and Germany with highest “wages” were amongst the best performing units)

(Source: Lincoln Electric in China – INSEAD case)

Complementarities* and Performance

Distinctive features: The Lincoln Electric Company



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**More of one increases the return of more of the other. So, if A and B are complements, both [low A, low B] and [high A, high B] will exhibit positive outcomes (higher vpc for different market segments, for example) and (low, high) combinations will exhibit negative outcomes (lower vpc) – recall the pianist-violinist analogy.*

(Source: Milgrom & Roberts, 1995)

National Responsiveness at Lincoln Electric

Ceteris paribus, Lincoln

Electric is the most profitable in markets that allow the unconstrained use of incentive pay-for-performance, but has been able to overcome the majority of the institutional distance in other countries through flexible intermediate adaptation.

We find that flexible intermediate adaptation is strongly and positively associated with productivity.

But, as shown in the caselets, exact combinations of practices differ depending on the nature of the formal and informal constraints imposed by the local labor market.

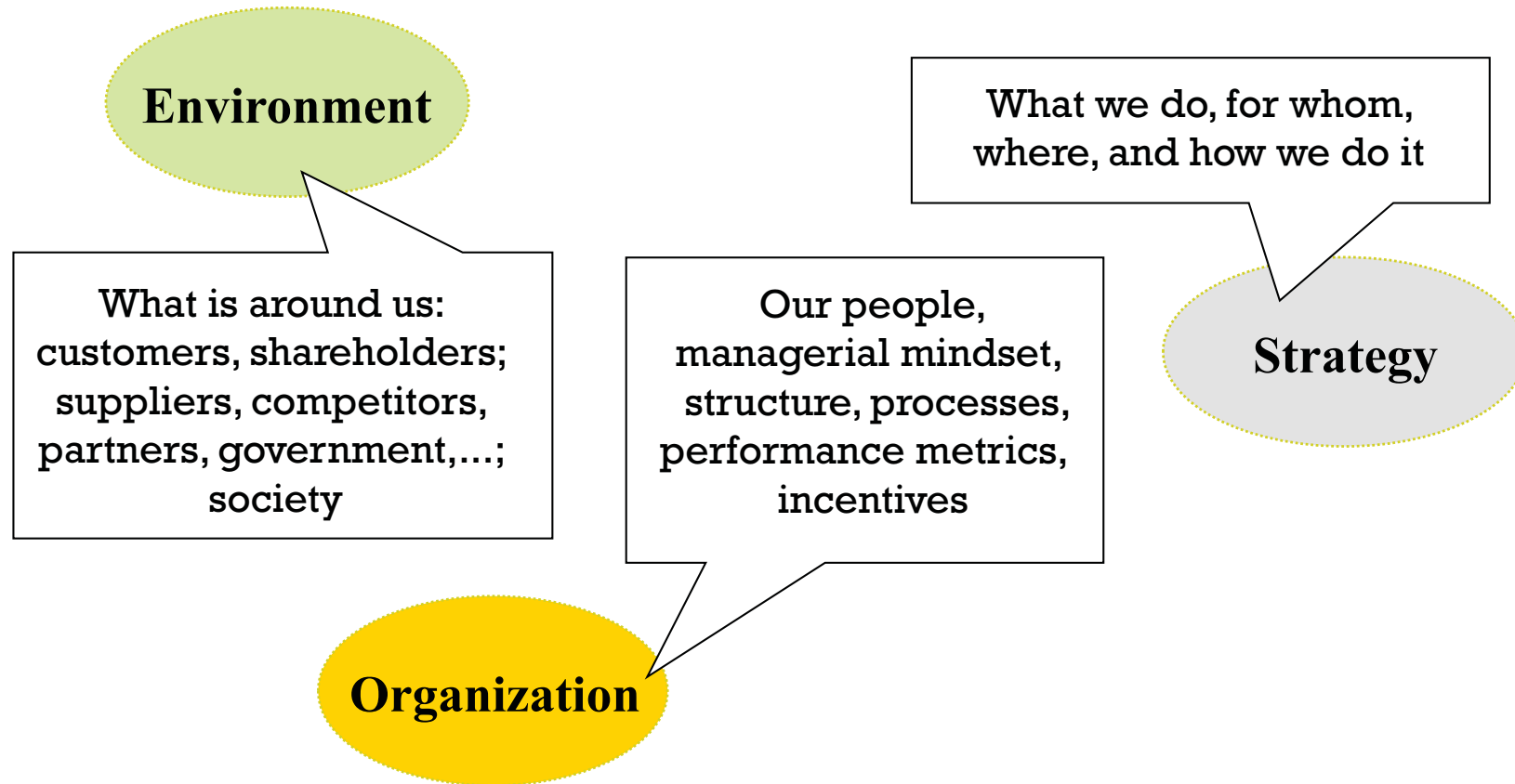
When we interviewed Lincoln Electric subsidiary managers, we found that they had spent time observing practices and consulting with experts in Cleveland, their host country and other Lincoln Electric international subsidiaries before deciding on an intermediate set of practices that would provide strong incentives but also operate smoothly in the local institutional environment.

(Source: Siegel and Larson, Management Science, 2009)

The challenge of growing international

E S O

Elements of company* performance



* Company or "business unit". The expression "We" in the elements above means the "company" or business unit.

NB. If you manage a unit, then the rest of your company is "part" of the Environment of your unit.

(Source: Santos, forthcoming 2012)

Elements of company performance

- **Environment:** the company's *customers and its shareholders*; its *suppliers, competitors, partners, ...*; and *society*, the national or international context of its activities. Such context exhibits not only physical, institutional, technological, and cultural properties, but also a particular history – i.e., a given “PITCH”.
- **(Business) Strategy:** the company's *offerings* (good and services) and *position* (value propositions) in its target markets, its set of *activities* (its “business model”) and *resource allocation*. This is the real or actual “business strategy” of the company – hence, what the company does and how it does it – and should not be confused with the planned or intended strategy.
- **Organization** (see next slide)

A model of Organization

- “**People**” is the set of individuals in the organization, with their individual traits, style, experience and skills. It includes particularly all its managers: the general manager (“CEO”), the top management team and the other managers. If we take the whole organization, it will include also the other employees, and even outsourcing agents that are closely intertwined with the people of the organization in their daily activities.

- “**Managerial Mindset**” refers to the principles, values and frames of reference *shared* by the general manager (“CEO”) and the management team. The “purpose” of the company, its “vision”, and its “goals” are elements of the “managerial mindset” and express the intent and dreams of the management team. *The “managerial mindset” determines what is right, good, and beautiful for the organization* – and therefore guides the managers in their choices.

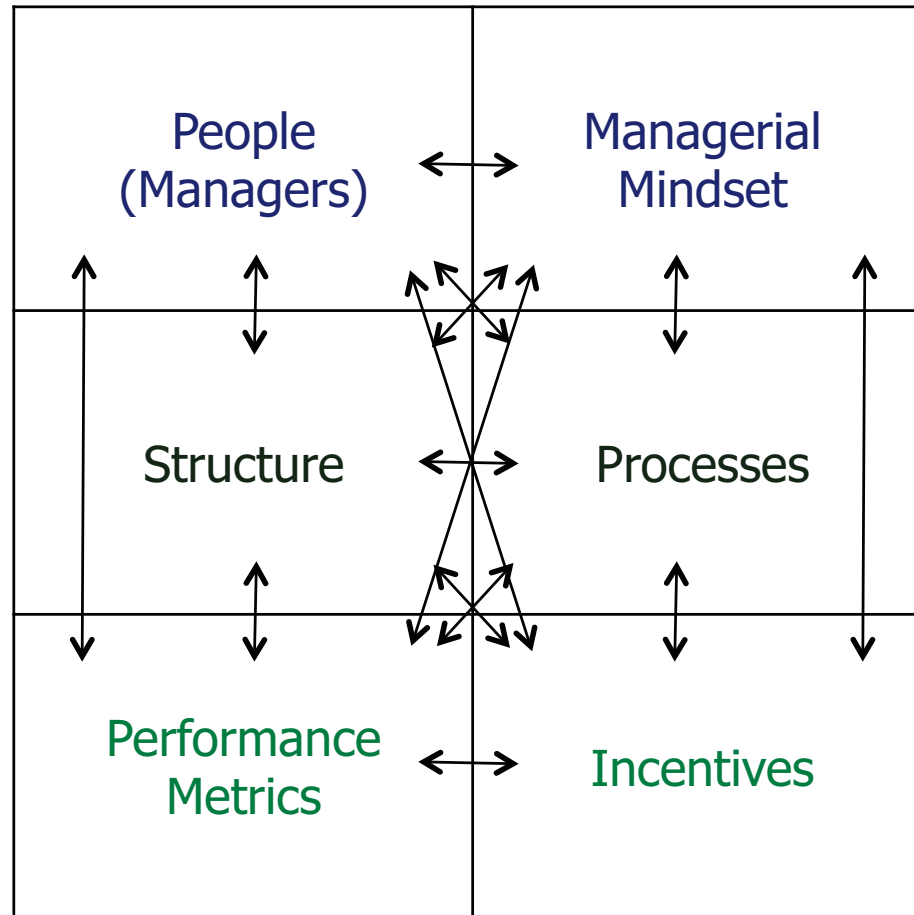
- “**Structure**” is the organizational structure, i.e. the differentiation of roles, location, information, and authority (decision rights) and their integration through a number of coordination and control mechanisms. The structure includes the pattern of relations between the individuals and units that make up the organization, be it the formal relations (the “org chart”) and the informal relations (the “network”).

- “**Processes**” include, in general, the decision making processes in the organization, be it resource allocation (budgeting, headcount and capex planning,...), conflict resolution, and the handling of exceptions. Specifically, it includes information processes and people processes. (N.B. These are the processes that make the organization be (the “physiology” of the organization), not the activities/processes that are elements of “Strategy”(such as delivering a solution to a client).

- “**Performance Metrics**” is the set of indicators (quantitative and qualitative) used in the company to measure the individual, unit, and organization level performance.

- “**Incentives**” include the instruments of recognition, retribution, and motivation of managers -- and other employees -- for their own performance: the salaries and equivalent; the bonus systems and other special rewards; and the career and promotion rules.

A model of Organization

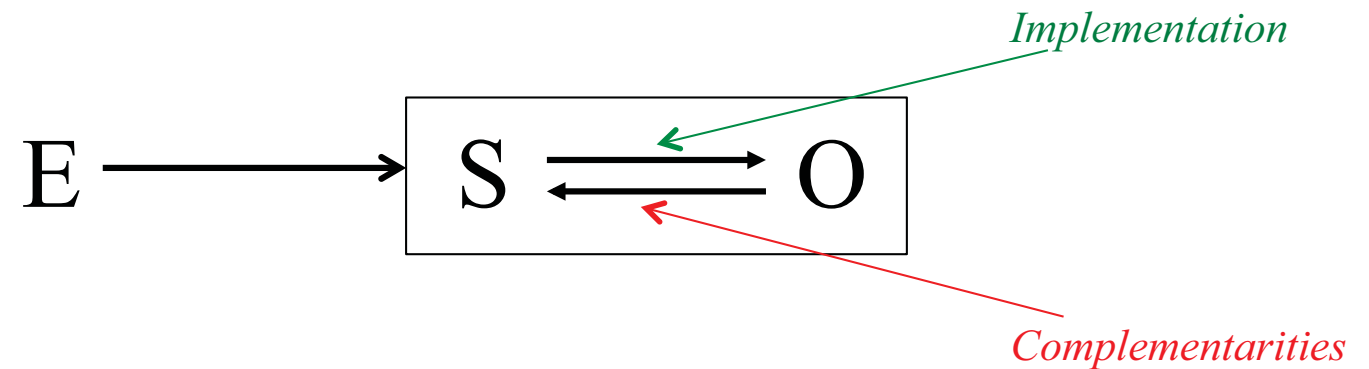


N.B. 1. There are several systemic models of “Organization”, each giving special emphasis to particular elements. I developed the model above to focus on managerial intervention, but you can use another model – for example, the “PARC” model (by Roberts) or the model built in the 7Ss (by Waterman et al, aka the “McKinsey model”) or in the “STAR” (by Galbraith).

N.B. 2. I developed and depict the model this way in order to signify the critical role of the “right side” (Mindset, Processes, Incentives) in *global integration*.

(Source: Santos, forthcoming 2012)

The challenge of growing international

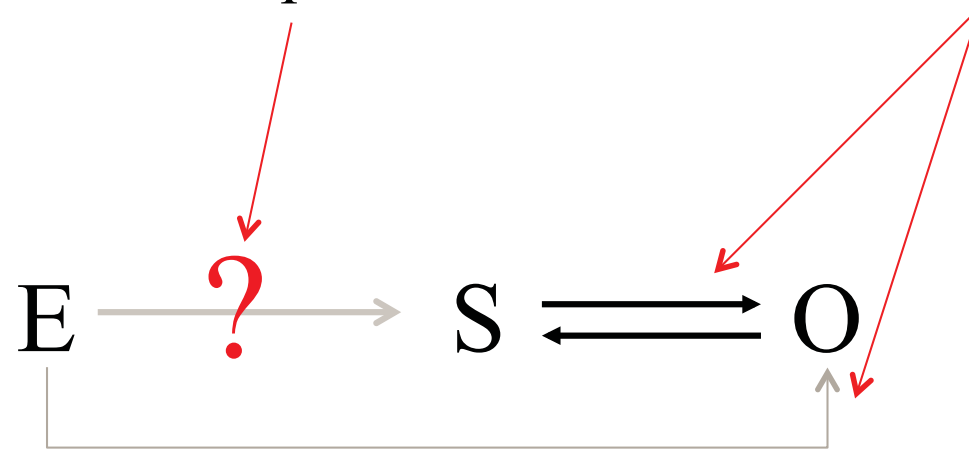


$$E_H \neq E_T \implies S_H \neq S_T \text{ and } O_H \neq O_T$$

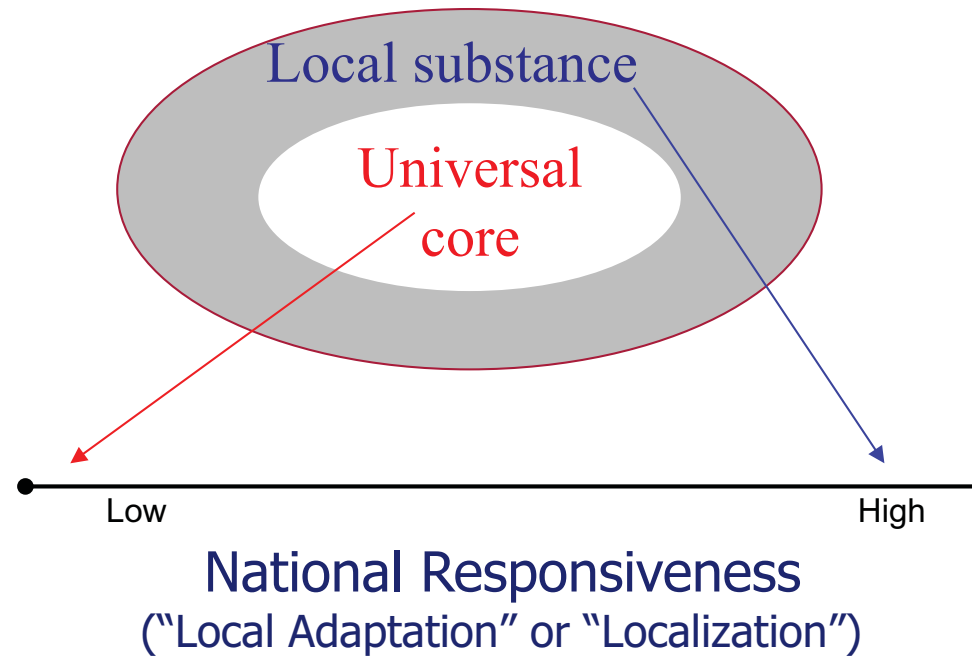
The challenge of growing international

What is the essential bit that companies don't know when they start to reach beyond their home country?

The *Home Context* Impact at Home + The “double-fit” of *O*



Managing “Localisation”: Universal Core and Local Substance



$$[E, O(o_1, o_2, o_3, o_4, \dots, o_{n-1}, o_n), S(s_1, s_2, s_3, s_4, \dots, s_{m-1}, s_m)]_X$$

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