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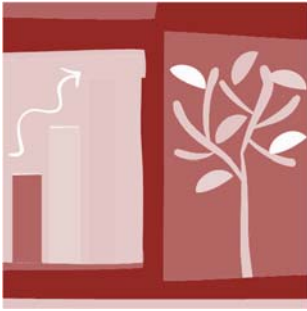
## Special Essay: CHANGING MNES

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In 1972, *The Economist* published a survey on international business asserting that “a revolution is coming in international business” (Macrae, 1972: viii) and that the large multinational corporations dominating the contemporary world of international business were facing a period of decline. Four and a half decades later, the same magazine has declared that although huge multinational firms dominated the world’s business scene well into the twenty-first century, they are now “rickety and overextended” and that “the global firm is in retreat” (*The Economist* 2017). The intervening decades witnessed a succession of similar business press predictions that giant MNEs were a dying breed, each pronounced as if it had never been made before. The reasons given for the MNE’s impending doom are remarkably similar across the decades. In both the 1972 and the 2017 articles, the MNEs’ peril is attributed to three sets of factors: growing internal complexity of MNEs making them more and more resistant to effective managerial control; imminent threats to the openness of the global business environment from national governments; and technological changes reducing the MNEs’ advantages of scale and geographic dispersion. Very large MNEs still, however, have continued to dominate international business and do so to this day.

These recurring predictions of doom can provide entertaining material for IB classes (and perhaps instill in our students a healthy skepticism about what they read in the business press). While it may be easy to ridicule such dire predictions, however, we should note that there is an underlying reality that goes unrecognized by the journalists and probably by their readers: the large MNEs as they were organized in 1972, such as Unilever, IBM, Shell, or General Motors, are indeed no longer with us, although the companies still are. MNEs have survived and indeed flourished by changing over time in response to shifting internal and external challenges. How they organize their activities and distribute them geographically has been repeatedly transformed over the ensuing decades.



Yet we can question how well the IB field has understood and portrayed these changes in the very large MNEs, as they moved from the world of 1972 to that of 2017. When I was asked to contribute an essay to this publication, I could not resist the opportunity to reflect back on what we have learned and what we have still to learn about the changing form of the world's largest multinational enterprises. Perhaps it is simply the grumpiness of a recently retired academic, but it seems to me that we in the IB field have not done a good job of grappling with and understanding the organizational form of the world's largest MNEs since the turn of the century.

This essay starts with an overview of past research, and then looks briefly at more recent changes in large established MNEs and how the IB field has – or has not – dealt with them. It closes with a short reflection on the potential of deeper, case study-based research, particularly on Japanese MNEs.

### *OVERVIEW OF RESEARCH ON MNE ORGANIZATION IN THE 20<sup>TH</sup> CENTURY*

During the last three decades of the 20<sup>th</sup> century, it is possible to identify two successive “long waves” of IB research on how MNEs organized their international activities. The first was grounded in Ray Vernon's Harvard Multinational Enterprise Project, which began in 1966 and shaped much of the work on MNE organization through the 1970s and well into the 1980s. The second wave, initiated by the work of C.K. Prahalad, Yves Doz, and Chris Bartlett in the late 1970s and early 1980s, leading to Bartlett and Ghoshal's influential book, *Managing across Borders: The Transnational Solution*, dominated work on MNE organization from the late 1980s well into the early 2000s.

#### (a) The First Wave: The HMEP and the Strategy and Structure of MNEs

The Harvard Multinational Enterprise Project (HMEP) had a major impact on the study of MNE organization in IB. In its first stage, a large team of researchers collected data, primarily from public sources, such as annual reports, press releases, and business press articles, on 187 American Fortune 500 companies with manufacturing subsidiaries in 5 or more countries. Later in the 1970s data collection expanded to include Western European and Japanese MNEs.

When the project began, in the second half of the 1960s, global economic growth had been accelerating over the past decade and the international activities of American firms were expanding rapidly. American managers were asking how best to move from an organization dominated by the home country to one that could more effectively operate abroad as international expansion became increasingly central to company strategy. As a 1964 *Harvard Business Review* article by two McKinsey consultants demonstrated (Clee and Sachtjen, 1964), much of the managerial attention focused on organizational architecture as the potential solution. The article laid out the strengths and weaknesses of three basic architectures for MNEs: the international division, the geographic structure, and the worldwide product structure. These architectural categories were picked up in the HMEP research design, with the additional of an architecture that was emerging in the late 1960s and early 1970s: the matrix of geography and worldwide product

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divisions.

The architectural approach was grounded in Alfred Chandler's influential 1962 book, *Strategy and Structure*. Chandler developed a stage model of the shift from a functional to a product divisional structure, where the architecture changed with the firm's strategy of product diversification. Its focus on organizational architecture and its link with diversification, together with the stage model of organizational change, shaped the HMEP. Stopford and Wells (1972) produced an influential model based on the U.S. data, mapping the four MNE architectures (international division, worldwide product divisions, geographic divisions, and matrix) onto a two-by-two grid, where the two variables were product diversification in foreign markets and geographic diversification (measured as % of foreign sales). They posited that companies began with an international division structure, moved either to a product or geographic structure, depending on whether product or geographic expansion proceeded first, and culminated in the most advanced structure, the matrix. Analyses of Western European MNEs (Franko, 1976) and Japanese MNEs (Yoshino, 1976) under the HMEP umbrella adopted the stage model approach, though in both cases the researchers found that the international division continued as the architecture for much more extensive internationalization than was the case for American MNEs. Franko also identified an MNE form in Europe not evident among the American MNEs: the "mother-daughter" structure, in which foreign subsidiaries were connected to headquarters by strong informal relationships across the top management teams rather than by formal systems or reporting lines. However, this recognition that MNEs based in different home countries might differ initially in their architectures for their international activities and even that they might follow different organizational paths as they expanded internationally did not prevent IB researchers from positing that "advanced" MNEs would share a similar architecture, regardless of home country, internationalization trajectory, or industry. This assumption became deeply embedded in IB approaches to MNE organization.




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#### (b) The Second Wave: The Network MNE

The second wave of IB research on the organizational form of large established MNEs also originated at Harvard Business School, but provided a marked contrast to the HMEP and was quite separate from it. The key early researchers were HBS graduate students in the 1970s (C.K. Prahalad, Yves Doz, and Chris Bartlett), all students of the Business Policy professor, Joe Bower and unconnected with the HMEP, though it was still underway while they were at HBS. They continued to work together after graduating from HBS. All three had extensive experience as MNE managers before returning to graduate work, and were strong advocates of working with executives to address current organizational and strategic challenges.

The challenges in the 1970s and early 1980s differed significantly from those of the 1960s that had informed the HMEP, including an abrupt shift from world economic expansion to stagnation and competition from Japanese companies that were leveraging new transport and communications technology and the declining restrictions on cross-border trade to benefit

from economies of scale and location advantages in a new way. Executives of established MNEs shifted from a concern with expansion abroad and building capable country subsidiaries to a focus on integrating their geographically dispersed operations more effectively.

In contrast to the HMEP, these researchers focused on strategic processes rather than structures; they drew on the contingency theory of Lawrence and Lorsch rather than the work of Chandler (developing the widely-used Global Integration/Local Responsiveness framework); they worked with in-depth case studies rather than quantitative data; and they were strongly committed to what we now call “action research” (that is, developing a deep knowledge of specific MNEs by working closely with the management team to address important strategic issues). However, they shared the assumption that MNEs would converge from variation based on home country and “administrative heritage” to a single model. Ironically, even the terminology for this ultimate model went from variation (heterarchy, multi-focal firm, transnational) to convergence (the network MNE). This core group expanded in the 1980s (early recruits were Gunnar Hedlund in Sweden and Sumantra Ghoshal) and by the 1990s, the transnational network model of the MNE dominated IB research on established MNEs, leading to a wide body of research on subsidiary roles, headquarters-subsidiary relations, and flows of various resources across the MNE network. Increasingly, in the 1990s, much of the analysis of MNC networks drew on the theory and methodology in organizational sociology around the emergence of network organizations. The network model has dominated IB research on MNEs to this day, even as the phenomenon itself has been changing.

(c) The 21<sup>st</sup> Century: Coming to grips with a changing phenomenon

Two important organizational changes that began in the 1990s but accelerated in the early 2000s changed MNEs significantly. One, not specific to MNEs, was the increasing resort to outsourcing of supply chains and support activities (such as IT); the other, specific to MNEs, was the fragmentation of country subsidiaries. Surprisingly, IB researchers have been quicker to come to terms with the former than with the latter.

Both developments were stimulated by Japanese business models and enabled by rapidly developing information and communications technologies. Japanese MNEs had recreated their supplier networks as they expanded abroad, and the outsourcing of components and subsystems to suppliers and close relationships with them were central aspects of the “lean production” model based on the Toyota production system adopted first by American and later by European manufacturers. Japanese MNEs were the first to set up functionally separate subunits instead of the conventional country subsidiary. When Japanese companies expanded abroad, they first set up marketing subsidiaries, then manufacturing subunits, and then, sometimes, R&D units. These were not folded into a unified country subsidiary on the conventional Western MNE model but reported back directly to their functional units in Japan and were much more tightly integrated with their counterparts in the home country than with other subunits in the same country. In the 1980s, IB scholars criticized this model as lacking in local responsiveness, but by the early 2000s most Western MNEs were breaking their country subsidiaries into similarly specialized functionally-focused subunits that reported to functional managers in global product units. This enabled greater centrally-directed integration across locations; it also

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facilitated the integration of acquired companies into MNE networks as M&A became an increasingly important mode of international expansion, especially in mature industries. The dominance of the network model of the MNE allowed IB researchers to assimilate this change into their current models and simply refer to them as "country subunits" without exploring the implications for local responsiveness or for the complexity of MNE structures.

Recognition of the growing importance of external partners and suppliers has shifted attention in strategy and in IB towards the "enterprise ecosystem". Doz, Santos, and Williamson (2001) focused on innovation to build their model of "the metanational" as the next step "beyond the transnational". More recently, Peter Buckley has drawn on economic geography, the sociological work of Gary Gereffi and others on global supply chains and development, and of course on the economic theory of the firm, to propose "the global factory" as the model of the contemporary MNE. The metaphor of "orchestration" has become increasingly common in IB (and in Strategy) to describe the management challenge of the MNE ecosystem, but the implications for the organizational architecture of the MNE in the broadest sense of structures, systems, and processes have yet to be explored.

What the 21<sup>st</sup> century IB models have in common with the 20<sup>th</sup> century models is the assumption of convergence from variety towards a single "ideal type" (in both the Weberian and the normative senses) of the MNE. One reason may be that IB has been imprinted by the economics idea of "the theory of the firm" – one general model. Another may be a manifestation of what critical organizational theorists have identified as the proclivity of business schools and consultants for identifying a "one best way" towards which enterprises must move (and for which they require the insights and expertise of the academics and consultants). More defensible is the proposition that large established MNEs share a common global institutional and competitive environment that exercises similar pressures on their organizations and leads to convergence.

However, recent developments in organizational evolutionary theory have suggested that large complex organizations may respond differently to changes in the same environment, because of differences in their internal selection regimes. In IB we have remarkably few empirical studies comparing how two or more MNEs have evolved over time in response to the changing international business environment, including their geographic footprint, changes in the organization of their foreign subunits, the changing composition of the top management team (in terms of reporting responsibilities rather than passports), the changing nature of their publicly-announced partnerships with global organizations. Bartlett and Ghoshal's transnational research owed much of its impact to its careful research design: three industries, each with three MNEs from a different home region. They demonstrated that MNEs in the same home region shared similar features across the three industries and differed from each other at the time of their study. But they did not seriously consider that Japanese and European and American MNEs might be evolving towards different organizational forms, postulating instead that all nine companies were moving to a single form, the transnational. Even earlier, a passing observation in Franko's HMEP-based study of European MNCs in the 1970s suggested the importance of geographic footprint: the best predictor of abandoning the mother-daughter structure was not geographic or product

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diversification but whether the company had a large and successful operation in the U.S. IB perhaps missed an opportunity to explore the influences of home country and geographic footprint on the trajectory of organizational change in MNCs when Alan Rugman put forward his argument that MNEs were regional in both footprint and strategic orientation (by which he meant one or two but not three regions), not global. IB scholars (and I plead guilty to this personally) tended to focus on Alan's somewhat polemical attack on the concept of global strategy. Why did we not engage in an organizational comparison to see if MNEs with different regional footprints might differ in how they were organized and how they changed as they extended and/or deepened their regional presence, and whether they differed from the small number of firms that qualified as "global" in Rugman's typology?

A recent editorial in the *Journal of International Business Studies* stated that understanding corporate globalization is a "missed target" in IB research (Verbeke et al, 2018). It also quoted approvingly Alan Rugman's assertion that if every member of the AIB studied just one internationally operating firm in great depth "the state of IB research would improve dramatically" (ibid., p. 1108). I would argue that, in particular, studying Japanese MNEs longitudinally holds enormous promise for understanding the interactions between the changing international business environment and MNE organizational form. Japanese MNEs were the first non-Western enterprises to expand internationally, emerging as MNEs in the 1970s when Japan's controls on outward FDI were dismantled. IB as a field has tended to see Japanese MNEs as "immature" and destined to become more like their Western counterparts over time, rather than recognizing the extent to which in the 1980s they represented a new organizational form of the MNE, the first to construct specialized local subunits instead of country subsidiaries and, especially in the motor vehicle industry, engaged in an unprecedentedly intense translation of domestic production organization into their foreign operations. How the Japanese MNEs that were the focus of such intense study in the 1990s have changed in the ensuing decades would be a potentially rewarding focus of study. Pragmatically, Japanese company-level data are often richer than in the U.S. or Europe, and we have seen how important this can be in the enormous contribution made by the analysis of Japanese MNEs on the topic of entry mode, thanks to Shige Makino's introducing the Tōyō Keizai database to the Ivey Business School (though once again, the IB field has rarely recognized that these are, in fact, Japanese data on Japanese MNEs).

In spite of *The Economist's* predictions, MNEs continue to dominate international business. Understanding how they have responded and continue to respond to the changing and increasingly unpredictable global environment remains a central challenge in the IB field. We need to do a better job of it, and an important first step is abandoning our longstanding assumption that all MNEs will converge on a single model.




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## Special Essay: Has Theodore Levitt Returned?

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Theodore Levitt's paper, *Globalization of Markets*, was published in the *Harvard Business Review* in 1983. The famous paper asserted the standardization of global marketing. Levitt argued that technological development in communication, transportation, and travel generated "Global Customers" who prefer standardized products to localized ones. In his opinion, every company should adopt standardized marketing for these homogenous global customers. Standardized global marketing is inevitable but can also remain selective. For example, Levitt leaned global marketing strategy toward standardization, whereas Bartels [1968] and Keegan [1969] retained the balance between standardization and adaptation of global (international) marketing. In another example, Drucker [1969] presented the idea of the "global shopping center," which Levitt seemed to have adopted, and Ohmae [1990] has called this interlinked world a "borderless world." Finally, Hisatomi [1991] demonstrated that when customers across Europe, the U.S.A., and Japan decide on which passenger car to buy, they consider the same five of the top six criteria to aid decision making.

As a matter of course, there were many opinions that went against Levitt, such as Fisher [1984], M & MD [1984], Boddewyn, Soehl and Picard [1986], Kotler [1986], Wind [1986], and Douglas and Wind [1987]. They pointed out that climate, culture, political systems, governmental regulation, competitive situation, consumer behavior, and consumer preference still varied greatly across different nations. Wind [1986] and Douglas and Wind [1987] wrote that Levitt's proposed homogeneous world was "myth," even though Levitt explained that the technological development in communication, transportation, and travel led to a somewhat homogenous world. These arguments were made in the era when there were no personal computers (PCs), internet, social networking services (SNS), smartphones, LCC, electronic money, mobile payment systems, etc. Even if, in Levitt's age, the world appeared to be moving toward homogeneity, especially when compared to the 1960s and the 1970s, it is argued here that this was not the case. It instead remained in the process of homogenization, that is, in the process of convergence.

Levitt's paper was a result of not only technological development but also popular Japanese products. In the 1960s and the 1970s, Japanese companies succeeded in mass production and mass sale of quality, inexpensive products. They sold to the world, in particular to the U.S.A. Many were products like textiles, apparel, calculators, transistor radios, TVs, cameras, and automobiles. Levitt perhaps incorrectly believed that because Japanese products were standardized, their marketing would also be standardized, and that this was inevitable and marketing would not be selective in the homogeneous world. Further, he felt that world consumers were willing to purchase standardized, quality, inexpensive products, in turn ignoring or deprioritizing their local tastes.




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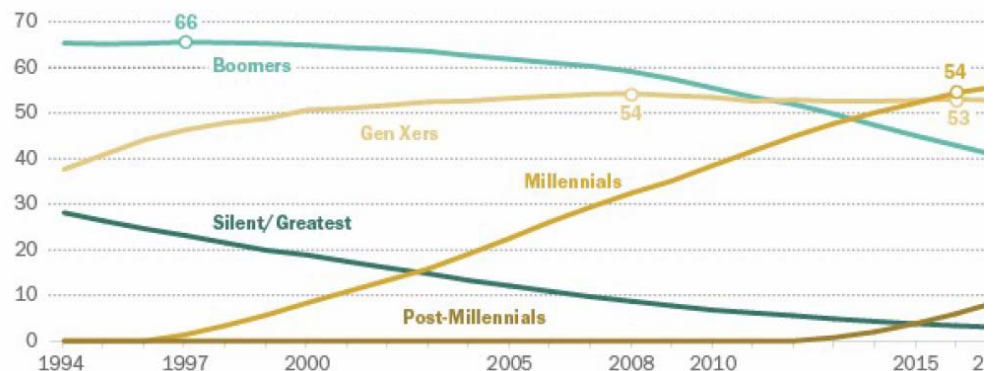
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In the first place, since they got homogeneous, they would love to buy similar products.

In today's world, high-tech products such as the internet, Skype, smartphones, SNS, Wi-Fi, Bluetooth, 5G, artificial intelligence (AI) and Block Chain have become commonplace. Technology has developed remarkably in the last 35 years. In addition to these technological changes, the modern world has given rise to the Millennials (Millennial Generation or Generation Y, young people who were born from 1980 to about 2000). This generation is increasingly global and has more in common than most other generations. Research shows that Millennials are digital natives. They use SNS frequently, check electronic word-of-mouth before purchase, buy products and services via their smartphones, and share their feelings before, during and after the use of these products. Millennials emphasize usage rather than ownership, cherish work-life balance, like ethical consumption and living, and respect diversity. (PwC 2015; ManpowerGroup 2016; Deloitte 2017 and 2018; and Mizho 2018).

Millennials have similar characteristics across countries and make up a large portion of the population in each country. Chart 1 shows that in 2016, Millennials became the largest generation in the U.S. labor force. Another report from the Pew Research Center predicts that the millennial population will reach 76 million by 2036 and will remain the largest population (Fry 2018a).

Chart 1: Millennials became the largest generation in the labor force in 2016 the U.S. labor force, in millions



Note: Labor force includes those ages 16 and older who are working or looking for work. Annual averages shown. Original source: Pew Research Center analysis of monthly 1994-2017 Current population Survey (IPUMS). Source: Fry [2018b].

This trend repeats across many other countries. Manpower [2016] predicts that the workforce share of Millennials will be 35 percent in 2020, the largest generation next to Generation Z (post-Millennials). Generation Z, however, is considered too young to purchase expensive products like houses, passenger cars, TVs and so on. Millennials will thus remain the most powerful consumers in many countries for a considerable period.

Research on Millennials, however, began only recently, and the field is still relatively new, whereas exploration into Generation X, Y, and Z have longer histories. Table 1 shows that research on Millennials began in

2015, and research on Generation X, Y, and Z started before 2010. As of 9th November 2018, 189 papers were written on Millennials, and 78 on Millennial Generation. This is in comparison to 4582 papers on Generation X, 709 on Generation Y, and 739 papers on Generation Z. It is widely known that Generation Y accounts for most of the Millennials or Millennial Generation, but, the words of "Millennials" or "Millennial Generation" did not become popular in the academic world until 2014.

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**Table 1: Number of "Generation X", "Millennial Generation" and "Millennials" on Web of Science**

(unit: single)											
year	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Generation X</b>	1,687	2,124	2,840	3,122	3,355	3,501	3,911	4,422	4,780	5,357	4,582
<b>Generation Y</b>	206	280	425	473	499	519	556	687	766	831	709
<b>Generation Z</b>	284	337	417	430	498	530	565	647	714	799	739
<b>Millennial Generation</b>	4	6	16	16	21	21	24	50	62	77	78
<b>Millennials</b>	1	2	25	16	23	28	30	81	136	208	189

Source: search on Web of Science, author conducted on 9th November 2018.

In 2018, DO-HOUSE Inc. (one of the leading research companies in Japan) partnered with me to conduct new research aimed at capturing the characteristics of Millennials. We concluded interviews with eight Japanese companies, and our counterpart in New York is conducting interviews with several U.S. companies. While we have accumulated qualitative data, we performed quantitative web-questionnaire research in Japan, the U.S.A., China, and Thailand, from 9th through 17th July 2018. Sample sizes were 602 in Japan, 592 in the U.S.A., 575 in China, and 533 in Thailand, 2302 responses in total. To compare Millennials to Generation X, we used similar samples from each generation, as well as from male and female participants.

Chart 2 shows the common characteristics of Millennials across four countries. As they are often referred to as Digital Natives, we eliminated questions that related to digital. Chart 2 reveals that, first, the overall shape of the four lines (representing each country) are almost similar. Second, Japan has a lower level of awareness across almost all question items compared to the other three countries. A contributing factor may be the tendency for the Japanese to answer questions in a moderate manner. The only exception to this is "I have lived in at least two countries." Third, individuals from China and Thailand have a higher level of awareness compared to those from the U.S.A., partly because individuals from these two countries are more likely to answer in a less moderate manner than those from the U.S.A.



Chart 2 Features of Millennials in four countries

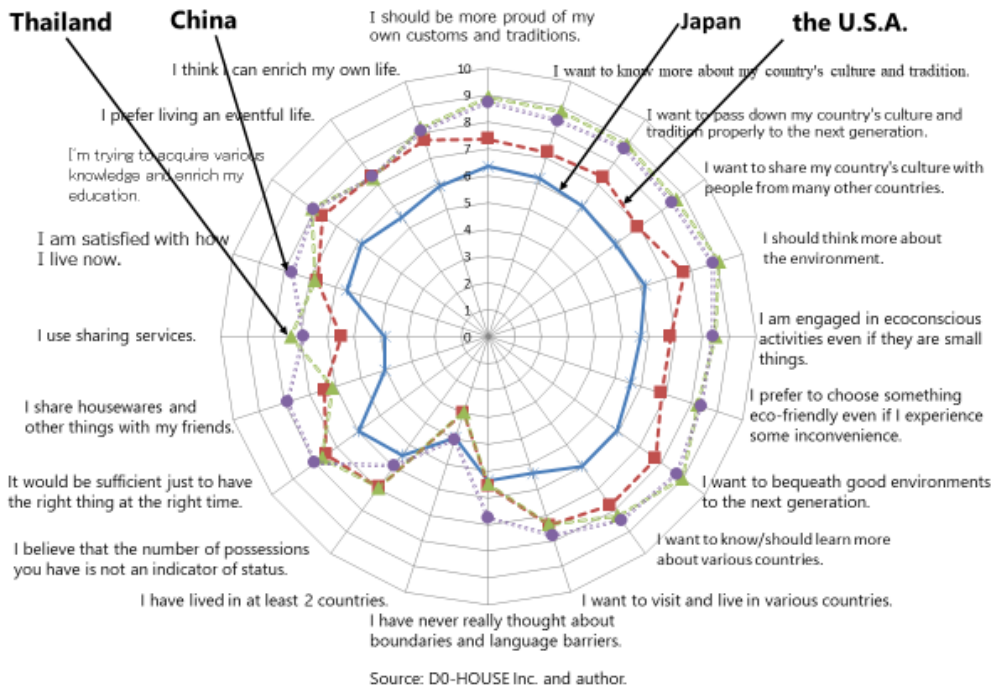
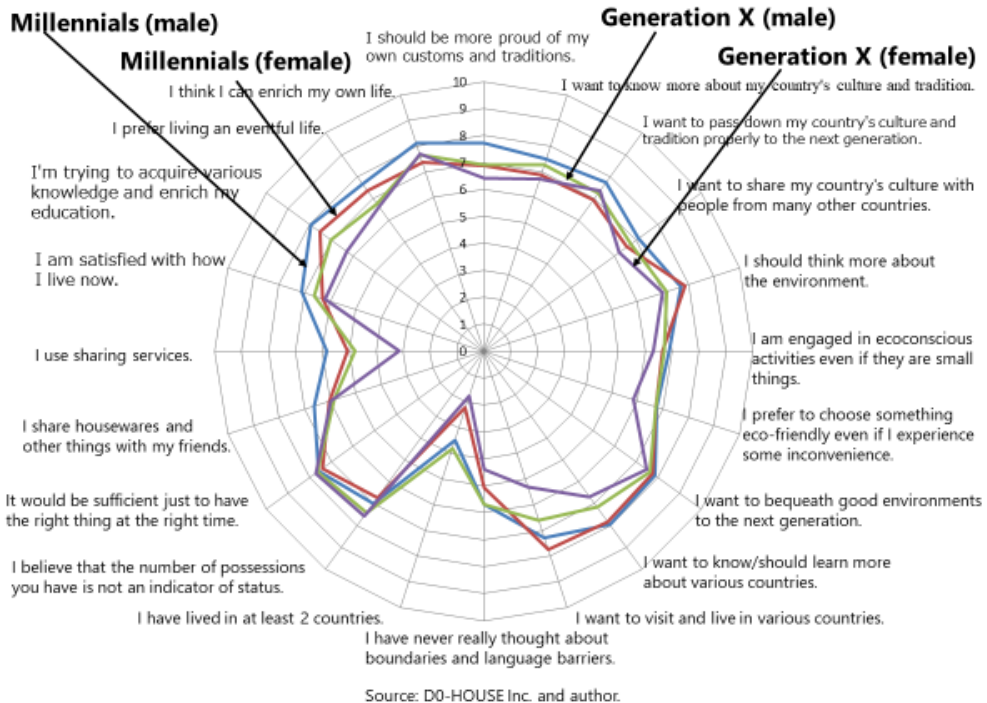


Chart 3 shows that U.S. Millennials (both male and female) have a higher level of awareness than Generation X. Our new book to be issued 2019 will explain those more detail.

Chart 3 Features of Millennials and Generation X in U.S.A.

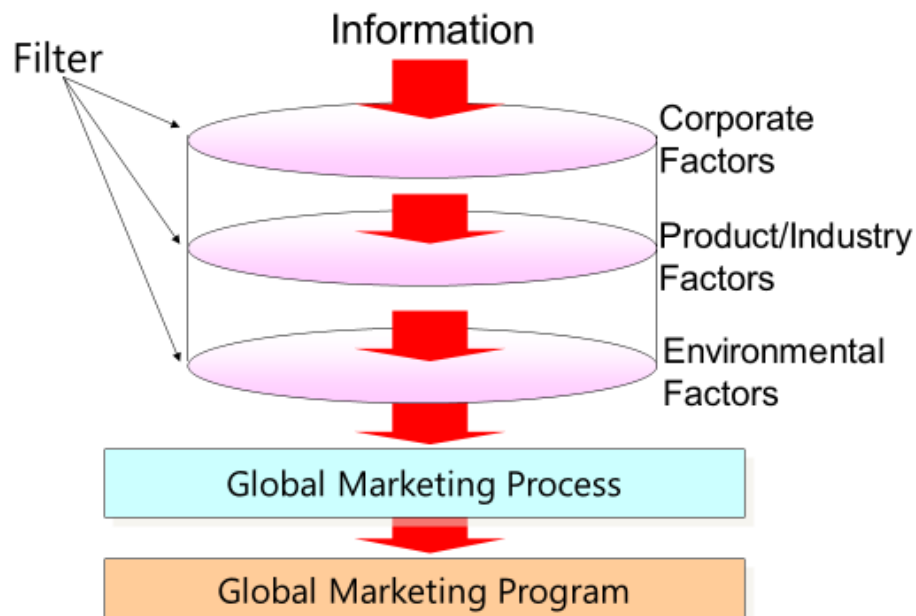


Although Millennials and Generation Z are becoming increasingly homogeneous (to be more precise, in the process of convergence) across the world, this does not mean that multinational corporations should adopt standardized marketing. Another misunderstanding of Levitt in addition to the

strategies of Japanese companies is that he thought homogeneous consumers led to standardized marketing. Environmental surroundings and other macro factors should not always dictate marketing strategies (Takeuchi and Porter 1986). Even if consumer “needs” are homogeneous, their “wants” are different. Moreover, companies can determine their marketing strategies along with their corporate philosophy and policy in addition to their products and environmental issues. Companies such as Apple, IKEA, MUJI, and UNIQLO prefer standardized marketing all over the world. Although they know each country (market) has unique and various wants, they continue to strive for standardized marketing.

Chart 4 presents my analytical perspective on global marketing. Initially, the environmental decision model was dominant (Cateora and Hess 1966). In later works, the relationship among environmental factors, product or industrial factors, and corporate factors have been frequently discussed (Rau and Preble 1987; Jain 1989). My opinion puts stress on corporate factors, which precede other factors. Corporate factors, especially the intent of top management or corporate DNA, takes the most critical role of global marketing.

Chart 4 Oishi's analytical perspective



Source: author.

Since Samiee and Roth [1992], significant empirical research on global marketing has been conducted. It is still not clear, however, which strategy is more successful – standardization or adaptation. This may be an eternal issue for global marketing. It is well known that neither standardization nor adaptation can succeed in isolation, and the optimal choice is somewhere on the spectrum between standardization and adaptation. We have already found several strategies for success, such as Hybrid Measures (standardizing part of marketing mix and adapting others), Common Factors Measures (standardizing core factors and adapting sub-factors), Multi-Pattern Measures (foreign affiliates can select one of multi-pattern, and can adapt some contents), Supply Chain Management Measures (meeting the change of host market via good SCM, that is, fastening the lead time and simultaneously minimizing the inventory) (Oishi 2017). Of course, other measures may remain. I cannot refer them in detail here because of width of paper.

Although Levitt cannot return, his contribution to the field is significant. Companies must stare at

homogeneous markets or segments like Millennials across the world. Levitt is right when he insists that adaptation is not the only answer. Companies can, and should, select their own strategies according to their philosophy and policy.

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