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The Hierarchy and Innovation Competitive Strategy of Multinational Enterprise: the Case of Cisco

The role of hierarchy in the multinational enterprise (MNE) and corresponding role of subsidiary autonomy is a core question in global strategy. It has been the subject of an ever growing literature since Coasian analysis was first brought to bear on the subject by Buckley and Casson (1976). However, it have changed almost beyond recognition. Even such fundamental concepts as hierarchy and coordination have been altered in fundamental ways (e.g., Tallman and Chacar, 2011). As recently as the late 20th century the archetypical MNE was a hub and spoke system with the main challenge being balancing local responsiveness with global integration (Bartlett and Ghoshal, 1989). This was largely a coordination challenge that became a critical issue mainly in large organizations, where complexity can rapidly get out of hand, leading to problems of bounded rationality. The roles of headquarters and subsidiaries were defined as in terms of the classical Coasian hierarchy, where the alternative was the use of market transactions. Leading MNEs are part and parcel of this trend so that the MNE of 21st century is becoming a multi-hub organization (Prahalad and Bhattacharyya, 2008). This transformation gives rise to a subsidiary challenge of increasing local entrepreneurship and innovation and a concomitant HQ challenge of integrating the diversity of innovative outputs that arise within its far flung network. This is based on the recognition that the fundamental differences across regions are so large that attempting to coordinate all functions from a single location is impossible. Some MNEs, like Cisco, have taken this a step further, establishing a parallel global headquarters located in an emerging economy (Kumar, 2010).

This paper choice Cisco as an example to analyze. When many multinational companies select its outsourcing products and services to be produced by Asian’s manufacturers, Cisco established a large R & D center in India and implemented a global brand strategy. Specifically, Cisco set up the public business department in Singapore, the manufacturing centers in Shanghai and Chicago, and set up financial departments in London, New York and Dubai. In addition, Cisco designs these products and services according to local conditions. If the relationship between the products and markets is strong enough, then the company can export products and services to a more mature markets.

What’s more, unlike Intel and Microsoft, Cisco faced many competitors in its area of business and the strategy it adopted to be a platform leader was to acquire its competitors and substitutes. By doing these, Cisco became a classic example of managing acquisitions effectively and in the process became the platform leader in Internet networking services.

キーワード：
Hierarchy and innovation
Multinational enterprise
Cisco

報告言語：英語