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Question 1:

To assess the strategy and staffing policy, one can consider the staffing approach and thereby create links to the corporation's overall strategy of the corporation. The strategy will be assessed in the light of Lenovo's staffing approach. The decisions of staffing and strategy will be assessed with the Dunning eclectic paradigm, the OLI-paradigm, a framework that can be used to assess the internationalization of multinational corporations (MNEs) given their inherent ownership advantages, choice of location, and entry mode into the new market.

A well-recognized framework to assess the strategy of an MNE is the Global Integration – Local Responsiveness Framework (I-R Framework) of Cavusgil et al.

The framework asserts that activities and operations of an MNE can be characterized in terms of strategic decisions by either conforming to local pressure or pressure to adopt a universal strategy. Local pressure, i.e. local responsiveness, refer to a focus on catering to the local markets, whereas the universal strategy, i.e. global integration, refers to the standardization of products to reduce costs e.g. by exploiting economies of scale. The

framework combines the degree to which the MNE conforms to either pressure to create four different strategies MNEs can pursue:

- **Home Replication Strategy:** Low conformity to both types of pressures.
- **Multidomestic Strategy:** High conformity to pressures for local responsiveness, but low conformity in terms of pressures for global integration.
- **Global Strategy:** High conformity to pressures for global integration and low conformity to pressures for local responsiveness.
- **Transnational Strategy:** High conformity to both pressures for local responsiveness and global integration

To consider the staffing policy of Lenovo, the framework to assess staffing approach presented by Daniels et al. (2019) will be used. The framework suggests three types of approaches to staffing, which an MNE can pursue, and these approaches are based on the country-orientation of the staffing decision. From this, three different staffing approaches emerge:

- **Ethnocentric:** Staffing oriented towards home country
- **Polycentric:** Staffing oriented towards the host country
- **Geocentric:** Staffing oriented towards hiring the best people, regardless of nationality.

Having accounted for the central aspects of these two frameworks, they can now be applied to the case of Lenovo. Despite Lenovo being a Chinese firm that acquired IBM, the company still moved its headquarters to the United States. Whilst this decision may be questionable from perspectives such as risk of being unable to exploit ownership advantages of Lenovo when entering a new market aggressively. In reality, however, the focus of Lenovo was to be a head-to-head competitor to Dell, an American company. Thus, the large focus skew towards the United States can be explained by this focus. Considering this perspective in the staffing approaches, one can assume that the staffing approach was polycentric. However, the focus was indeed very geocentric, which is evident on the MNEs staffing philosophy of

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“Hiring the very best people, wherever they might come from”, in addition to the initial decision to split the management team: Half Chinese and half American. Considering the geocentric staffing approach, the move of the headquarters to the US, and a management team consisting of half Chinese and Half American, it can be concluded that the strategy of Lenovo is transnational. They attempt to simultaneously differentiate its staff dependent on presumed new largest markets (China and the US), which is most likely to foster a flow of skill and knowledge between the new US-headquarters and the former, pre established Chinese Headquarters, which is crucial in the Information Technology Industry. Hence, the staffing decisions and strategy are made to be a strong, global competitor by taking advantage of the strengths of both the US-department and the Chinese department.

Taking this approach whilst moving the headquarters to the United States whilst ensuring employees that they can keep their job, Lenovo enables itself to focus on the objective of being a strong competitor to Dell in the US. Thus, pursuing a geocentric staffing approach whilst attempting to exploit location advantages by moving closer to its competitors in the

US allowed for Lenovo to harness the ownership advantages of both of the former management teams. However, given the internalization decision of acquiring IBM, Lenovo may have made questionable staffing decisions. When a Chinese firm such as Lenovo acquires a company such as IBM, it is an MNE from an emerging market acquiring an MNE from a developed market. Hence, the internalization can be seen as a springboard for Lenovo to catch up on innovation and technology with competitors such as Dell, whilst having a strong entry point into the US market. The dangerous aspect of the aggressive transfer to the US, however, is the enormous psychic distance between the two countries, and thereby a large split in the new management team, in which many factors can be considered. To be as concise as possible, there can be language barriers, cultural differences, and many other aspects that can cause large disagreements within the management team, causing time-consuming discussions in a fast-moving industry. Hence, the staffing decision is great in terms of attempting to harness all the ownership advantages in addition to exploiting the location-based advantage in the US, but it is a highly risky approach, which directly contradicts the original Uppsala model, which encourages incremental international expansion. To mitigate the possibly devastating consequences of cultural clash, the human resource department must pressure for internal consistency, enable communication, and foster social relationships. This is exactly what the revised Uppsala model encourages, which is presumably more relevant in today's world. To achieve a unified company from the merger of two major MNEs, the company must engage in a lot of employee rotations to ensure a unified company, which can be achieved with a high level of expatriates. The company can also ensure common goals and values in the firm to ensure unity. Furthermore, the company must ensure that the Chinese department acknowledges the new business language of English, and the US-department must take the limited linguistic abilities into account. In order facilitate communication, the company must encourage learning of new language to the employees.

In conclusion, Lenovo had a geocentric approach to staffing, thereby attempting to achieve a transnational strategy. They did this in order to keep employees from both companies, whilst exploiting ownership- and location-advantages. Lastly, the company must be very careful with its staffing approach, as it is hard to maintain a unified company with such a split up MNE. They must unify the company with a sense of common values despite the

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major cultural differences, whilst taking communication barriers into account by addressing the differences in language.

Question 2:

To assess the possibilities of organizational structure in the light of AlumCo's growing international activities, the Stopford and Wells' model. The model assumes that an increasingly internationalizing MNE can choose between two types of focuses during its international expansion, which will lead to different kinds of evolution paths. The two types of focuses are respectively a focus on product diversity or a focus on global sales, initially translating to the two types of structures:

- **Area Division Structure (ADS):** Expanding sales without significantly increasing product diversity, and
- **Global Product Division Structure:** Increasing product diversity with limited change

on sales.

The two different kinds of evolution paths will now be considered in the light of the aluminum industry in the case of an MNE.

Given the homogenous nature of the aluminum industry, the product differentiation of aluminum is already very limited. Hence, the most rational evolution path for AlumCo will be the Area Division Structure. The organizational structure will thereby consist of a centralized management in each geographical region, which will control operations in its given location. It is crucial for AlumCo to have regional facilities to exploit the location of natural resources to produce aluminum, whilst reducing potentially enormous transportation costs from transporting raw materials and metals. The implications of these two factors, in addition to the high entry barriers in terms of large initial investments are that the aluminum industry is highly dependent on being able to exploit economies of scale. The central regional management of the ADS therefore allows AlumCo to exploit some of the beneficial characteristics of the aluminum industry. Given the regional centers, and thereby relatively simple, organizational structure, the communication and coordination within the company will also be relatively easy to facilitate, and the danger of duplication of activities will be mitigated by the large regional management, which will be in charge of a relatively large region to exploit economies of scale in addition to possible smaller subsidiaries in their region.

Despite the centralized, regional organizational structure that ADS and the economies of scale perspectives argue for, the management of AlumCo must also take the local responsiveness into consideration. Whilst aluminum is a uniform product as a metal, it can be used to create consumer products that can be customized to local tastes. In addition, the access to critical resources is crucial for the aluminum industry, which thereby forces AlumCo to gain legitimacy by engaging in the external local environments. Given the proposed organizational structure of regional headquarters and smaller subsidiaries under their management, one must take into account the subsidiary network and subsidiary roles of each unit. Thereby, communication must be strong from headquarters to regional headquarter, and from here the regional headquarter will be in charge of the communication to small subsidiaries. This is a crucial aspect as the ADS can easily lead to fragmentation within an MNE, so the interdependency between HQ and regional HQ is vital. Apart from communication, the need for local responsiveness to achieve legitimacy in the

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external environment will be the role of the regional headquarters. As mentioned previously, this is highly relevant in terms of access to raw materials, but also for central aspects of an MNE such as employment and brand reputation. The regional HQ should have a relatively large amount of freedom for the regional management to act autonomously in each regional headquarters.

To assess the role of each subsidiary, the contributor/non-contributor categorization presented by Birkinshaw et al. (1998) will be used. The regional headquarters must have a contributory role: They must create competences and assets available for the entire MNE by gaining access resources within their region whilst possibly developing new products made of aluminum. As mentioned earlier, this requires a great deal of autonomy for the regional divisions, as well as a high parent-subsidiary communication. The contributory subsidiaries

must thereby engage in proactive behavior within their own marketplace, which is also called subsidiary initiative.

When expanding further into each region, AlumCo may consider having a small subsidiary for each country within the region, thereby allocating their resources more to reduce transportation costs: This spread will be limited though, due to the advantage of economies of scale in the industry. However, if AlumCo decides to make smaller subsidiary units within the region, these will take the role of a non-contributing subsidiary or an implementer, which is essentially exploit the competences of the MNE. The non-contributing subsidiaries will report back to the regional headquarters. Thus, the role of the smaller subsidiaries is likely to take on smaller responsibilities and thereby not develop new products and services.

Question 3:

To assess Intel's R&D activities in China, Kummerle's framework of Home-based augmenting (HBA) and home-based exploiting (HBE) units will be employed. To consider the general operations in China, the OLI paradigm with an emphasis on the transaction cost aspect of internalization theory will be employed.

Kummerle's framework is based on the categorization of foreign subsidiaries and can be applied very well in the context of foreign R&D units. The objectives differ drastically, and thereby the characteristics of the two different types of units also differ. Whilst the HBE unit attempts to serve local needs and benefit a nearby operation such as manufacturing, the HBA unit attempts to absorb knowledge to benefit the entire MNE. Given these two distinctions in objectives, Intel's R&D operations in China can be classified as home-base augmenting. To elaborate on the implication of this, the characteristics of the HBA must be taken into account. Firstly, the Chinese R&D facility focuses 80% on worldwide production and 20% on local differentiation, which is most likely the minimum requirement for Intel. The implication of this is a focus on developing resources that are useful for the entire MNE. In order to achieve this, Intel has placed an emphasis on creating ties to local universities, so that the pool of employment available to the HBA is highly developed, which is highly favorable in the IT-industry. China is also a very fast-moving country in terms of innovation, thereby allowing the HBA to be located nearby clusters of technological innovation. In conclusion, the HBA structure of the Chinese R&D facility is crucial to tap into local knowledge for the benefit of the entire MNE, thereby affecting Intel's long-term value creation, as it allows Intel to tap into local skill and diversify its competences.

The implication can be viewed from the perspective of the OLI-paradigm in that Intel uses the location advantages in terms of diversified skill and clusters of highly educated employees whilst exploiting their ownership advantages in the semiconductor industry, which is both their brand that they need to maintain by continuously developing their technology, but also the ownership advantage of being able to do this itself, which Intel has done for many years. These exploitation of ownership- and location-advantages can also be seen in the R&D activities in India and Russia, thereby enhancing the ability to tap into local knowledge by diversifying knowledge across environments, thereby achieving cross-fertilization. The HBA-structure thereby constitutes the internalization of Intel into the Chinese market in terms of R&D, a crucial aspect which has not yet been mentioned is the large degree of autonomy

that an HBA requires in order to be successful. The transaction costs of this can be devastating for a market leader such as Intel and must therefore be carefully assessed when engaging in the environment in China, as the patent protection laws are less strict than those of the United States. The main risk of the R&D activities in China, India or Russia are the possible costs of imitation that must be minimized in order to maintain the leading position in the market. Intel's top management has taken this into consideration by avoiding conducting any chip design activities in China, which is presumably a crucial part of the semiconductor industry. The implication herein is that Intel can keep those activities in facilities with strong patent protection laws, thereby achieving minimized transaction costs in terms of cost of imitation.

This does, however, incur a further transaction cost: The cost of codification. The knowledge developed in the foreign R&D facilities must be implemented in the headquarters in order to be exploited optimally, which can be a difficult task as it is tacit and complex knowledge which is being developed. To minimize this risk, Intel must ensure the development of knowledge which is limited in terms of asset specificity and in terms of being transferable. This must be achieved whilst ensuring a minimization of cost of imitation i.e. safeguarding their interests. There are a few measures Intel's management can emphasize to achieve these aspects. Firstly, Intel must ensure transferable knowledge and willingness to communicate, which can be done through sending expatriates from the Intel HQ. This does not only create a social relationship between the departments which should enhance willingness to communicate, but it should also enable Intel to be present in the R&D and thereby safeguard their interests. This must, however, be done in a relatively passive way as the HBA requires autonomy to engage in the local environment and to minimize the liability of foreignness, which is crucial for employment and for protecting its ties to the Chinese government, which is also important in a relatively authoritarian country such as China. Thus, Intel can safeguard their interests whilst facilitating communication by using expatriates, but they must do so in a limited fashion. However, this limitation of control over the HBA is most likely the reason why Intel does not conduct any chip design activities in China. Therefore, Intel's management is already taking the right measures, but improving communication to their foreign R&D facilities and creating social relationships will further enhance the benefits.

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Question 4:

To assess the key sources of competitive advantage, the OLI-paradigm will be used to assess the benefits of engaging in international business relative to purely domestic activities. This will be emphasized by the four motives of internationalization, wherein the possible advantages of engaging in international business can be derived. The challenges of engaging in international business will be assessed CAGE-framework and the internalization theory.

The key sources of competitive advantage for any firm is their ownership advantages: How they differ from their competitors in terms of production efficiency, superior technology, product diversification, etc. These advantages can both be exploited by a purely domestic firm, or by an MNE. However, the extent to which they can be exploited domestically is limited. An example of this is the ownership advantage of economies of scale: A domestic company will have a limited market to supply, whereas an MNE can continuously expand, thereby exploit the advantages of economies of scale. The same goes for technology and tapping into diversified, local knowledge which is evident in the former case of Intel, or the ability of e.g. Coca Cola to develop new products in various local markets that are transferable to other markets. Thus, domestic markets do not enjoy the benefits of engaging in multiple markets and are thereby limited in exploiting their ownership advantages.

Domestic firms are also limited in terms of location-advantages, as they are only operating in one country. Whilst the e.g. United States is a large country, other countries provide location specific advantages that can enhance the ownership-specific advantages of a company. For instance, if a US-company such as a clothing company is highly labor intensive, it can move its production and manufacturing facilities to a country with cheaper labor, whilst keeping the operations that are enhanced by the location-specific advantages in the United States, ultimately leading to a maximization of output and a minimizing costs. There are many examples of how a domestic country would be able to benefit from exploiting its ownership advantages in foreign markets. The OLI-paradigm presents four motives from which the benefits of internationalization can be derived: Market seeking, resource seeking, rationalized/efficiency seeking, and strategic asset seeking.

The four motives describe the principal reason for internationalization and thereby advantages that MNEs enjoy over domestic firms. Market seeking is a demand-oriented motive, which essentially leads to a larger reach of customers, which thereby enables the MNE to exploit its advantages in foreign markets leading to increased sales and thereby higher profits. Resource seeking is a supply-oriented motive, which bases itself in the search of cheaper resources such as raw material or labor in the example of the clothing company. The implication here is lower cost and thereby an increased competitive advantage. Rationalized/efficiency seeking is for instance the ability to tap into diversified local knowledge, which is an example of Intel's R&D facility in China. Using Intel as an example, they can have activities in both Silicon Valley, Beijing, and Bangalore, thereby reaching a larger talent pool in an industry which is highly dependent on highly educated and innovative employees. Lastly, the motives for foreign expansion can be strategic asset seeking, which is essentially an attempt to augment the ownership-specific advantages or to reduce the competitors' ownership advantages. The essential point of this motive is to be present where the competitors are or where the fastest innovation is present. Thereby, Intel can be used as an example again: Intel has a successful R&D facility in China, where its main competitor, Advanced Micro Devices, may want to establish a similar R&D facility to ensure its competitiveness to Intel.

To assess the challenges of international business, the CAGE-framework can be used. The framework is based on 4 different kinds of distances from the home country to the host country:

- C: Cultural

- A: Administrative
- G: Geographical distance
- E: Economic distance

To avoid simply summing the framework up, the provided case of Lenovo will be used to assess possible challenges. Firstly, the cultural differences for Lenovo when acquiring an American firm are the cultural challenges such as language barriers, different social norms or product preferences. These challenges can be enormous: The 50/50 Chinese-US management may not be able to communicate properly without a translator, and the ways of doing business may vary significantly. Hence, these differences must be taken into account when merging the businesses. The administrative distances encompass trade agreements, currency and varying institutions. These can also provide major challenges: there are expenses in exchanging CNY to USD, and the government policies vary drastically: One country is authoritarian, the other democratic. Geographical distance is also of great matter. For instance, the management board will be on each side of the planet: Time-zone differences will be enormous, and the value-chain will inevitably be fragmented compared to a domestic firm, leading to much more complexity in the organizational structure. Lastly, the economic distance can have very large implications as well. For instance, a financial crisis may be more devastating in one part of the world, thereby leading to a major restructure of the organizational structure. Some operations may need to be relocated. Thus, international expansion of a company leads to many benefits, but it also comes with a great deal of risk involved, as it presents many challenges whilst inevitably causing a more complex organizational structure.