Question 1

To best discuss the conduct of Burberry on how to operate in Japan through time we can look to the eclectic paradigm – the OLI framework. This framework is divided into three distinct categories that allows for a comprehensive analysis of Burberrys choices and strategies throughout time.

The first part, describes the Ownership specific advantages, "O-advantages". Put shortly these describe the specific advantages that a company might have towards it competitors, be it unique knowledge, superior production facilities or a strong brand.

The second part is the Location specific advantages which further looks at where an MNE with an owner specific advantage is to expand. Shortly put, the location must have some sort of advantage, be it access to superior infrastructure, transport, raw material, qualified or cheap labor, or an attractive market with many customers with a strong purchasing power.

Lastly there is the Internalization advantages. This aspect looks into the advantage of internalizing a part or all of the activities of the MNE, instead of using the market. This could be in a case of small numbers issue, where an MNE gets there inputs from a very small number of firms and thereby can be easily pressured to pay higher prices as it is dependent on the small number of providers. This type of market failure can lead the MNE to internalize these inputs.

In the case of Burberry in Japan, it is clear that sometime in the 1950's Burberry pursued a strategy of licensing their products to a Japanese company, Sanyo Shokai. As we are not given any further information about that period it must be assumed that Burberry made the choice based on the parameters of the internalization theory by Hennart, J-F. (2009) which is a theory that stands to itself and is incorporated into the I-advantages of the OLI framework. The fundamental idea of the internalization theory of MNEs is the choice between an equity based entry modes of FDI or a non-equity based approach of franchising, licensing etc. What determines the choice is based on the concept of transaction costs of using the markets and consequently if these costs are perceived higher than using FDI. As stated earlier we must assume that Burberry thought these transaction were lower than doing FDI. This could be of multiple reasons. The perceived transaction costs of Japan must have been rather low, meaning there was little costs of finding the right partners, ensuring products of imitation risks and a relative ease of codifying production and knowledge, furthermore all marketing, salary etc. costs fell towards the licensees, removing much of the possible risk from HQ. All of this is however relative, as the decision is made in the 1950's by a British company expanding to the other side of the world, it must be assumed that the Liability of Foreigners could be considered substantial by Burberry. Meaning that even though transaction costs might have been much higher than previously described, they might still be outweighed by the cultural, administrative, geographical and economic differences between the countries, described by the CAGE framework.

As described in the text the strategy chosen by Burberry had its disadvantages and limitations. As we do not know how contracts or other legal aspects were designed we can only assume from the information we are given. By this information though it is apparent that Burberrys HQ has a difficult time managing and controlling their licensees. This is a common problem of the strategy chosen by Burberry, which comes from a market failure of rational subsidiaries that pursue their own egoistic goals. This consequently can result in licensee's free riding on the brand created and managed by the HQ, which seem to be the case of Burberry in Japan. Sanyo Shokai chose to extend the product line including various products not normally sold by HQ and lower prices significantly, thereby cashing in on selling a much more expensive brand for a much smaller price. This can be seen as a direct problem to the O-advantages of the company, which is mostly based on its brand value.

When the decision was made to license the Burberry brand to Sanyo Shokai, it must have been expected from the HQ that such issues could appear. However, differences in legal systems or other legal aspects could have made it very hard for the HQ to ensure this type of control, and furthermore it could very well have been expecting such an issue to arrive at one point, but still outweigh the gain of an early and strong entry to the Japanese market over the possible issues of brand control. This speaks to the L
advantages of Burberrys decision. Even though the issues were to be expected the management considered a possible huge growth in market and high level consumers, resulting in a strong L advantage on entering the market on all costs.

The new investment decision made in 2015 by Burberry HQ can be seen through the eyes of the O advantages of the OLI paradigm and the internalization theory. As we have previously mentioned, the O-advantage of Burberry relies heavily on their international brand, which have been put under significant pressure in Japan. This leads us to the internalization perspective. As the costs of using the market is now being perceived much higher than they did some time in the 50’s, Burberry now looks towards an equity based approach, FDI. The market costs have risen as a consequence of the brand damage done in Japan, is much more problematic in a digital and globalized world, where Japanese customers are able to buy from the UK and UK customers easily spot their expensive apparel being sold much cheaper in Japan. The advantage of the FDI approach is that it retakes control over their brand and hopefully restore their O-advantage. However, the disadvantages must be a significant loss of sales in the short term as prices are more than doubled and many stores closed. Furthermore, much higher expenses has to be undertaken to buy stores, establish production chains, for salaries, and local marketing.

Question 2

As proposed by Westney, D. E., Zaheer, S. (2001) we can dive into to the organizational structure of a MNE by looking at two distinct metrics. The relative amount of sales done in foreign markets, to the entire sale. And the amount of products sold in a foreign market. These two pressures create a matrix with four different way of organizing the MNE.

If the number of products sold internationally is low and they account for a low percentage of accumulated sales, it is very likely according to this model that a MNE will develop an "international division structure". This means that a new department in the organization is created and this department alone handles all foreign market activities. This is typically seen when MNEs are first starting to expand to foreign markets and are often in a context of ad hoc exporting or relative small commitments to a foreign market yet.

If the number of products sold in different market increases, but still remains a relatively low fraction of the total sales it is common to see a product focused organization. This would mean that an MNE would have distinct departments that have their own category of products. This would also mean that different departments might operate distinctly from each other in the same markets selling different products.

If the number of product sold decreases but the share of sales importance in foreign markets increase, an area division structure is likely to emerge. This is simply put a department structure of all products and services managed being divided into the geographical areas they are sold in. If a MNE sells pharmaceuticals and cars, the same department would manage both products but only in there geographically determined area.

Lastly if both the number of products sold in the international market is high and the importance of the sale, we can see a matrix division structure where both area specific and product specific departments overlap and communicate extensively between each other. This organizational structure can be very beneficial as it enables advantages from all approaches, however many disadvantages follows. Firstly, the sheer amount of communication can become a problem, making the organization very bureaucratic and hard to navigate in. Furthermore, this might cause internal conflicts and managers might bypass others that feel they were entitled to get information or participate in decisions.

Looking at the knowledge flow in organizational structures like the Product division and Area division we can describe some patterns. To best do so, I incorporate the IR framework of strategies into Goshals theory. From this theoretical perspective the product division structure chosen by a MNE can be seen as a result of a globalization strategy, with high cost pressure and relatively low pressure for local specificities. This intern gives us an insight into the flow of knowledge in such an organization. Because most pressure is on standardization and costs there would likely be power centered on the HQ therefore rather little communication and knowledge transfer in the direction from production subsidiaries to the HQ. Rather a lot of knowledge might flow downwards from HQ to the subsidiaries depending on the need of knowledge in order to sell the product.

Applying the same approach to the area division structure we see that an MNE that feels a high local accommodation pressure compared to high cost pressures will chose a multi domestic strategy. This entails much more subsidiary control and ability to change and alter, products, knowledge, marketing etc. to the local need. As much knowledge is created in the subsidiaries there must be a high value of incorporating this knowledge to the HQ. This means that a skilled HQ would increase the communication between subsidiaries and the HQ. Furthermore, this strategy and organizational structure opens for the possibility of Global Learning. Conceptually it describes a MNE to acquire knowledge from different parts of the world through their subsidiaries. However, there are quite a lot

of challenges in doing so. Firstly as in the case of the area specific division and multi domestic strategy each subsidiary can be seen as the leader of that area, which might include having privileged access to local markets, suppliers etc. and perhaps poses specific knowledge that is of value for the HQ. As described the sender-receiver framework there are many issues, halting the flow knowledge and restricting the Global Knowledge Management. As previously described, subsidiaries might have an self-centered reason to hold onto advantages and information to protect their importance in the MNE or use it as leverage. Furthermore, even if the subsidiaries were inclined to share such knowledge, the absorptive capacity of the HQ or other subsidiaries might be lacking. If the MNE succeed in transferring knowledge effectively throughout the organization another aspect comes into play. If the knowledge is predominantly from one subsidiary that enables the other or HQ, they may develop personal resentment towards other in the MNE for *free riding* on their contribution. However, this can be avoided or at least minimized by attempting to integrate the employees off the MNE trough subsidiary overlapping projects, job rotations between subsidiaries or social events that introduces people to each other. Furthermore, giving a part of the gain achieved for the MNE by transferring their knowledge, could be transferred back to the subsidiary in some form.

Question 3

To best possible understand and analyze the choices made by Lenovo we must utilize the Springboard theory, as it is a vital part of understanding the Emerging markets MNEs (EMNEs).

The theory in short describes how EMNEs behave differently than MNEs when they chose to internationalize. Firstly, as the name of the theory suggests they often utilize their internationalization as a springboard. There can be multiple reasons and ways of doing this, however as we focus on the case of Lenovo and IBM PC division there seem to be a clear description for the theory. The reason to internationalize by buying a larger company than itself rather than, exporting, franchising or any other much less risky strategies, is described in the springboard theory as asset seeking. This shifts the focus from internationalizing as a mode to sell computers in the international markets, which would have been to follow an opportunity seeking strategy, to a much more compressive approach that focuses on augmenting new knowledge through the IBM PC division. Furthermore, the theory describes that it quite common for EMNEs to take larger risks than normal MNEs to even out the disadvantages and catch up to their MNE competitors.

As we have now understood why Lenovo chose IBM PC and to buy instead of non-equity approaches we can look further into why they chose such a global and diversified value chain. As we have limited knowledge from the case description, but the case have been discussed in class, we know that Lenovo managed to utilize their specific o-advantages from China when establishing their value chain. They managed to move very expensive, 24$ production per unit to China, where it was done for something around 6$. This advantages was only possible because Lenovo now operated in a global market, with access to labor, materials etc. from different countries. If we look at the dispersed nature of the value chain in general and especially the R&D department, the theories presented by Santos and Kuemmerle is most prevalent. The value chain created by Lenovo shows a desire for Global learning. As mentioned previously this approach is characterized by attempting to tap into local knowledge wherever possible and utilize it to the MNEs advantage. This means if an efficient communication and thereby knowledge transfer from worldwide subsidiaries becomes a reality, there might be a possibility for the MNE to develop collaborative advantages. This goal of the global learning perspective is further substantiated by the springboard theory which argues that it is very common for EMNEs to focus on these asset seeking opportunities where they can gain experiential knowledge and catch up to their competitors. This of course rests on the assumption that knowledge transfer through the MNE of Lenovo runs smoothly and efficiently. This is almost never the case for many reasons which I have chosen not to dive further into here, as they are described in depth through question 2.

Expanding on the benefits Lenovo might have acquired by utilizing this value chain, we could bring in the IR framework to describe the strategy approach. It would seem like Lenovo has attempted to follow a transnational strategy to gain the best of both worlds. This means lowering costs by utilizing economies of scale and centering marketing and support in the two headquarters. Furthermore, they have attempted to meet a high local demand and spread out some areas of their MNE to areas that could be argued to have specific location advantages, such as the previously described cheap labor of production in China. Furthermore, Lenovo has placed R&D centers in very different and knowledge heavy locations to acquire the advantages of close connection to the local knowledge and understanding. The R&D centers could be classified as an HBA department of Lenovo that is strategically placed and designed to augment knowledge from it local environment and transfer it back to the HQ.

I will instead introduce an institutional perspective to elaborate on why Lenovo has chosen the design of their value chain and the gains from it. Specifically, the theoretical perspective of organizational institutionalism allows us to further explain the decisions made and the consequences. As the theory suggests MNEs can feel different types of pressures to adapt their organization in order to achieve legitimacy on the local market. These are, coercive, isomorphic, and normative- pressures, which the isomorphic pressures I believe is the most relevant. To ensure that they are accepted by consumers in different local markets, Lenovo chose to "fit in" and disperse themselves far and wide. In contrast to pulling everything back to China and this identity, Lenovo acquired an international identity were very quickly accepted in the local markets around the world.

This theoretical perspective further allows us to explain the sudden change in company culture and language. As previously described there must have been perceived an isomorphic pressure to gain legitimacy within the new markets it had suddenly entered. As the company is Chinese and had been acting as a "state-owned enterprise" many European and American customers might be hesitant and reluctant to engage with the firm. Furthermore they would have continued to be seen as an outsider in the market, when they needed international employees, western suppliers or any other perspective that might clash with a state-run style enterprise. Consequently, to attain legitimacy in the newly entered markets they adapted to the institutional pressures by changing their language and company culture.

A further perspective of this could be the potential issues of HRM strategies in an EMNE. If Lenovo continued their Chinese state owned style of operating, they might only be able to utilize an ethnocentric staffing policy and expats which could be a major challenge for them, if they wish to expand internationally. This is fundamentally due to the lack of local understanding, described as the psychic distance by the Uppsala model between the home country employees and their foreign operations. Such a major expansion is not supported by the Uppsala model and the psychic distance without any alteration of the EMNE would be very big.

Question 4

The approach chosen by Unilever to prefer local host country managers can have many potential benefits for Unilever. To explain such benefits I will mainly focus on the subsidiary contributor framework presented by Birkinshaw. Following the logic of the theory we assume the Unilever wanted and still want to gain as much possible value from their subsidiaries – thereby creating and altering them depending on the results. In this case we see that Unilever must benefit from this type of subsidiary structure as they continue to pursue it. We must assume that Unilever perceives that their subsidiaries live up to the demands created by the subsidiary contributor framework. Firstly, by having a specific advantage that ensure they some type of knowledge that is superior to the rest of the MNE, secondly that the advantage can be transferred across the MNE and therefore is not location specific. Lastly, that the MNE acknowledges this advantages and is willing to utilize it. When these criteria are met the choice to prefer local management can have many different benefits. Such as legitimacy in the local market, and better understanding of the local market. Furthermore, within the previously mentioned framework, there is also a possibility for a subsidiary initiative role. As suggested by the model subsidiaries with local management are more likely to take upon them a subsidiary initiative role instead of a subsidiary exploiting role, where main focus is to commercialize already developed products and strategies. As Unilever is looking to develop talent they might be of interest in the creating a subsidiary initiative, as the theory predicts these subsidiaries are much more likely to have an entrepreneurial and innovative agenda, that might lead to developing new knowledge.

Just as there can be many advantages of designing a subsidiary contributor that takes initiatives, disadvantages and challenges might follow. As managers are local and have high autonomy over their subsidiaries they are very likely to have their own rational goals and motivations which not necessarily align with the HQ. We do not have any information about the internationalization structure of Unilevers subsidiaries, however the previously described case of Burberry in Japan illustrates the potential control HQ might lose over time if the market failure of diverging interests become big enough. Over time the success of the subsidiary can become an issue as their asymmetrical information might rise and they gain power and influence over the HQ. Having the upper hand in crucial local market information over the HQ can be classified as a critical resource in the power relationships of MNEs presented by Bouguet and Birkinshaw. Other ways in lower-power actors gain influence could be by achieving legitimacy in their local market or internally, and thereby become an invaluable player. Lastly by centering oneself correctly into the network of the MNE the subsidiary can take upon important roles and gain influence. Continuing on the issues of self-interested subsidiaries, they might utilize different strategies to obtain any of the three goals of influence. To position itself with critical resources the subsidiary might communicate less and transfer less knowledge between it and the HQ, which could be a big disadvantage and challenge for the HQ.

To best minimize the challenges and disadvantages of the strategy pursued by Unilever there might be an incentive to strengthen the bond and communication between the different subsidiaries and HQ. This could push the feeling and idea of one united MNE, where other subsidiaries aren't seen as competitors. This could be done by introducing projects across subsidiaries, introducing the thought being the same team. Job rotations or corporate visits to other subsidiaries could also strengthen the bond between them. Furthermore, the bond towards HQ could be helped by including subsidiary employees into HQ project and arranging social gathering that provides a sense of belonging in the entire MNE.

Taking an alternative approach to the question we could look analyze the strategy of Unilever in case of operating in a country with corruption issues. If we look at the preference and gain from choosing a host country national manager this is very much what is predicted when MNEs expand to corrupt

countries. As we are not given information about how Unilever entered these markets, the theory predicts if the level of pervasiveness is high, meaning that there is a cost of operating in the market, but it is predictable and relatively stable, Unilever would prefer not to give up any equity and control, thereby choosing either to acquire a company, greenfield operation, export etc. However, if it is the case that the level of arbitrariness is high, meaning that the corruption is very unpredictable and hard to navigate in Unilever would prefer to give up some equity and control to merge or license with a subsidiary. We assume that this has been the case of Unilever, as they prefer a local management which fits with a high level of arbitrariness and have perhaps merged or created a joint-venture with a local company. The challenges that might arrive in such a situation can be described by institutional theory and the corrupt MNE literature, which constitutes a pressure for companies to gain legitimacy to operate in a corrupt market. This can be a big problem for the MNE both for reputational and legal costs of being involved in corrupt activities. To address the challenge and problem the literature suggests many of the steps already taken by the HQ, to separate themselves from the subsidiary. This can be done to choose not to communicate with certain subsidiaries which the HQ are worried about potentially becoming involved in corruption. In this way they can distance themselves from the problem and any potential ramifications. The concept is called dissociation and has been employed regularly.