Managing across Borders: New Strategic Requirements

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Until recently, most worldwide industries presented relatively unidimensional strategic requirements. In each industry, a particular set of forces dominated the environment and led to the success of firms that possessed a particular set of corresponding competencies.

Take the consumer electronics industry. In an environment characterized by incrementally changing technologies, falling transportation and communication costs, relatively low tariffs and other protectionist barriers, and increasing homogenization of national markets, huge scale economies progressively increased the importance of global efficiency. The industry gradually assumed the attributes of a classic global industry. Important characteristics like consumer needs, minimum efficient a scale, and context of competitive strategy were defined not by individual national environments, but by the global economy.

Firms like Matsushita were ideally placed to exploit the emerging global-industry demands. Having expanded internationally much later than their American and European counterparts, they were able to capitalize on highly centralized scale intensive manufacturing and R&D operations, and leverage them through worldwide exports of standardized global products. Such global strategies fit the emerging industry characteristics far better than the more tailored country-by-country approach that companies like Philips and GE had been forced to adopt in an earlier era of high trade barriers, differences in consumer preferences, and pre-transistor technological and economic characteristics.

Today, it is more difficult for a firm to succeed with a relatively unidimensional strategic capability that emphasizes only efficiency, or responsiveness, or learning. To win, it must now achieve all three goals at one time, i.e., global efficiency, national responsiveness, and worldwide learning. These are the characteristics of what the authors call a transnational company.

A company's organizational capability develops over many years and is tied to a number of attributes: a configuration of organizational assets and capabilities that are built up over decades; a distribution of managerial responsibilities and influence that cannot be shifted quickly; and an ongoing set of relationships that endure long after any structural change has been made. Collectively, these factors constitute a company's administrative heritage. It can be, at the same time, one of the company's greatest assets-the underlying source of its key competencies-and also one of its most significant liabilities, since it resists change and thereby prevents realignment or broadening of strategic capabilities.

A company's administrative heritage is shaped by many factors. Strong leaders often leave indelible impressions on their organizations. Home country culture and social systems also have significant influences on a company's administrative heritage. For example, the more important roles that owners and bankers play in corporate level decision making in many European companies have led to an internal culture quite different from that of their American counterparts. These companies tend to emphasize personal relationships rather than formal structures, and financial controls rather than coordination of technical or operational detail. Finally, the internationalization history of a firm also influences its administrative heritage.

The companies that were slow to adapt to the new environment never seemed to recognize the importance of their administrative heritage.

The ability of a company to survive and succeed in today’s turbulent international environment depends on two factors: The fit between its strategic posture and the dominant industry characteristics, and its ability to adapt that posture to the multidimensional task demands shaping the current competitive environment.