Managing across Borders: New Organizational Responses

by Bartlett, Christopher A and Ghoshal, Sumantra , Sloan Management Review, Fall 1987, pp. 43-53.

Geographic management allows global companies to sense, analyze, and respond to the needs of different national markets. Business management capabilities with global product responsibilities help MNCs achieve global efficiency and integration. These managers can facilitate manufacturing rationalization, product standardization, and low-cost global sourcing. Functional management capabilities are needed to builds and transfers core competencies across a global organization.

Three simplifying assumptions block organizational development. There is a widespread, often implicit assumption that roles of different organizational units are uniform and symmetrical. Internal interunit relationships are assumed to be clear and unambiguous. One of corporate management's principal tasks is to institutionalize clearly understood mechanisms for decision making and to implement simple means of exercising control.

Successful global companies do not treat different businesses, functions, and subsidiaries similarly. They systematically differentiate tasks and responsibilities. Instead of seeking organizational clarity by basing relationships on dependence or independence, they build and manage interdependence among the different units of the companies. And instead of considering control their key task, they search for complex mechanisms to coordinate and co-opt the differentiated and interdependent organizational units into sharing a vision of the company's strategic tasks.

Independent units risk being attacked one-by-one by competitors whose coordinated global approach gives them two important strategic advantages – the ability to integrate research, manufacturing, and other scale efficient operations, and the opportunity to cross subsidize the losses from battles in one market with profits generated in other markets. On the other hand, foreign operations totally dependent on a central unit must deal with problems reaching beyond the loss of local market responsiveness.

It is not easy to change relationships of dependence or independence that have been built up over a long time. But some companies have done this by changing the basis of the relationships among product, functional, and geographic management groups. From relations based on dependence or independence, they have moved to relations based on formidable levels of explicit, genuine interdependence. In essence, they have made integration and collaboration self-enforcing by making it necessary for each group to cooperate in order to achieve its own interests.

A unit with strategic leadership responsibility must be given freedom to work in an entrepreneurial fashion. But it must also be strongly supported by headquarters. For this unit, operating controls may be light and quite routine, but coordination of information and resource flows to and from the unit may still require intensive involvement from senior management. In contrast, units with implementation responsibility might be managed through tight operating controls, with standardized systems used to handle much of the coordination. Because the tasks are more routine, the use of scarce coordinating resources can be minimized.

Developing multidimensional perspectives and capabilities does not mean that product, functional and geographic management must have the same level of influence on all key decisions. Different groups have different roles for different activities and these roles are likely to change from time to time. The ability to manage these multidimensional aspects in a flexible manner is the hallmark of a transnational company.