Evolution of Control, Coordination, and Organizational Crises in the Development of MNC

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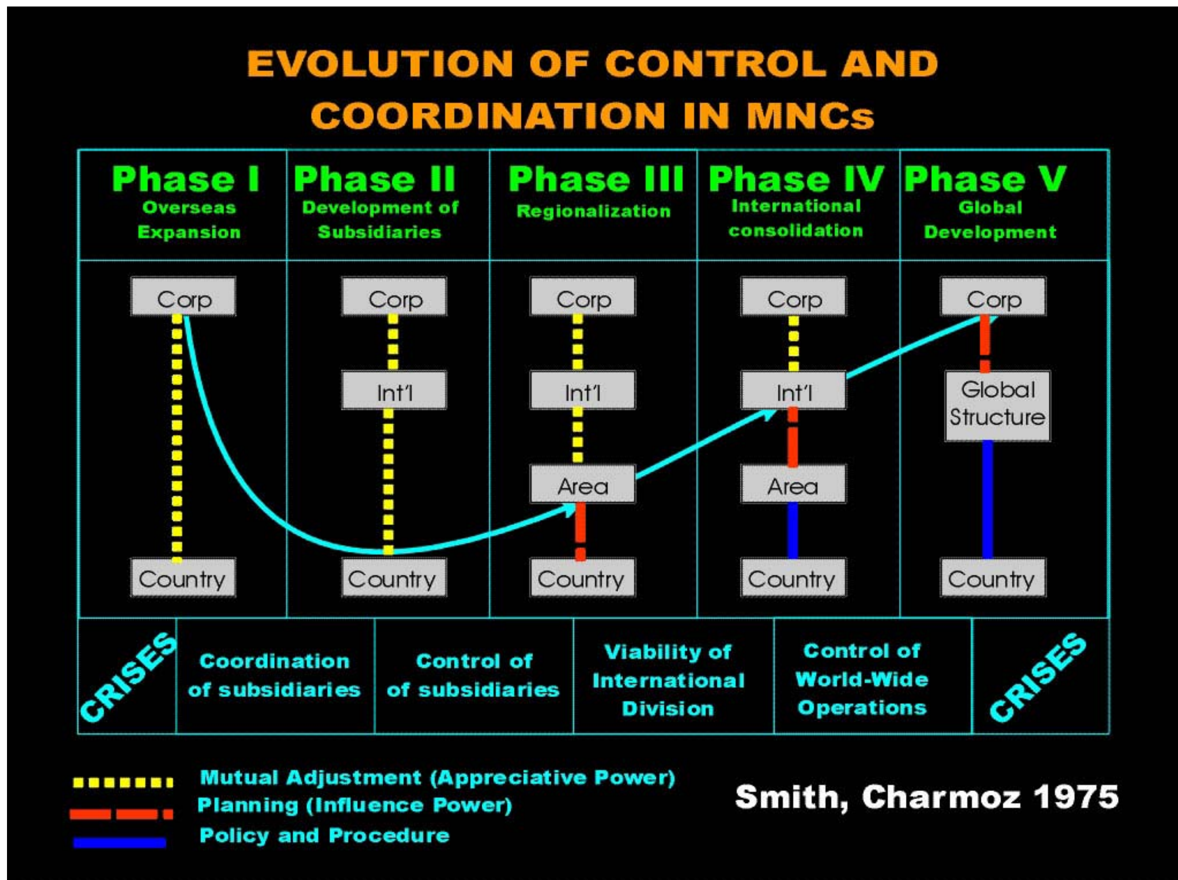
SMITH AND CHARMOZ MODEL

Smith and Charmoz report that predictable problems arise in the growth of the multinational corporations, because the U.S. organization must invent coordination and control devices in the international sphere, since the existing devices were designed for domestic operations. They invented control mechanisms for domestic operations before going international; therefore they must start again with Stages I, II, III on an international basis. The evolution is one of establishing control points that move from country to the corporate level, as the organization moves from the initial steps to a global enterprise. They propose a five-phase model for this evolution that is illustrated in Figure 8.1.



Phase I represents the first move into a new area, an action that is guided by an attempt to minimize risk. Using local distributors and participating in joint ventures minimize the capital risk. This allows the U.S. firm to "learn the ropes." Often, returns on the original investments are held as reserves against future losses. During this phase, there are no systems to process international information, no international staffs, and no plans or strategies. Decisions are made through direct personal contract as problems arise. Control is located at the corporate office, because new operations need cash. An overload at the top provokes a move to Phase II. Either too many decisions must be made, or not enough decisions are made. Whatever the case may be, the result is that the subsidiaries g-o their own way. Also, because of lack of time and expertise at the top, poor decisions often are made.

Phase II is marked by subsidiary development and the appointment of an international executive and staff. The executive acts to support the subsidiaries and allocates capital accordingly. Large subsidiaries therefore get the most attention, because they require most of the investment. Control now moves into the hands of the subsidiaries, which initiate, propose, and act. The domestic company is essentially left out of the process because of its lack of knowledge. Up to this point, there has been little movement of people to the international division, and U.S. centered thinking still predominates. Control remains on a basis of personal contact between the international executive and both corporate offices and the subsidiaries. By the end of Phase II, however, the international executive becomes overwhelmed. He is continuously traveling and has little, if any, time left to plan. Subsidiary managers begin to run their subsidiaries according to their own needs, not the corporate office's. Competition between subsidiaries develops over new areas and territories.

Phase III, then, can be called the phase of regionalization. A regional international executive is added, as well as staffs, and possible rationalizations are made for cross-border moves. These moves require a regional plan. Impersonal planning control replaces personal contact as control moves from subsidiary to region. By now the corporation recognizes the international group as a source of investment and is no longer satisfied with informal personal decision-making. Use of return on investment criteria is instituted either across the board or is modified for the differential risk levels of countries. The international president is now a politician, a buffer. Since little data is available for making decisions, the domestic executives are ignorant of the international affairs. The international president must simultaneously get support from domestic product divisions and ward off ignorant staff groups who want information and may flood the fledgling subsidiaries with procedures.

The international president may be seen as a block by both international and domestic subsidiaries. At this point, the domestic subsidiaries and corporate offices realize how little they know about the international group and notice that the international group is a competitor for capital, research and development, people, and so forth. The problem at this point, however, is to prevent a move to a global structure that would be premature, because staffs are still ignorant about international affairs, and there are no planning and information systems to provide a link with the corporate office.

Phase IV is marked by international consolidation. In this stage, control moves to the international CEO to bring order and rationality to the dispersion characterizing the previous three periods of development. This period is one in which the corporate officers take a real and direct interest in the international divisions. The size of investments and interdependency of areas dictate a greater degree of centralization. However, there are no blanket solutions here, because of the differential rate of development of the geographic areas and the firm's own product lines. It is in the establishment of distinctive patterns of coordination that most firms differ. International consolidation is marked by executive international committees, planning and evaluation systems, more sophisticated financial measures, and task forces. By now the international division rivals the domestic divisions even more. There is an increasingly greater need for worldwide data and for a global mechanism to overcome parochial local interests. The corporate staff wants more control and information at this point; the area managers resent the planning and control. The international executive may again moderate a still ignorant staff, since the corporate officers might press prematurely for the kind of "planning control" that is better suited for the next phase of development.

Phase V, which can be termed "global development," is marked by corporate control. Through the increased contacts of the previous phase, corporate and domestic product groups have a more realistic awareness of foreign operations. The "planning" coordination provided by the international division is now superfluous. The particular organizational format that evolves is governed by product diversity and proportion of foreign sales as presented by Stopford. Phase V is also marked by significant improvements in global information and planning systems. Most companies maintain some form of international specialist coordination. This role is more integrative than controlling.

Our view is that transition to a global structure constitutes a metamorphosis. There are changes in the financial control system designed to handle such factors as national variations, profits by product and region, and transfer pricing. Different and multiple standards of evaluation appear; careers and compensation practices are changed; new committees and staffs evolve. Most important, an international mentality gets created to various degrees. All together, we feel these changes constitute a different "way of life" and therefore a different form.

The global form is not, however, a single distinct form like a functional or holding company form. There is no single global form. In its different manifestations it resembles the multi-divisional forms which are all profit centers, but in which the profit center could be based on products, markets, or regions. Global structures can also assume any of those three multi-divisional forms, or they can take global functional or a holding company form. In fact Franko’s description of European mother-daughter forms is descriptions of global holding companies. Thus we conceive of four different types of organization, each of which constitutes a distinct way of life—the simple, the functional, the holding company (or conglomerate), and the multi-divisional form. Each of these, but probably only the latter three, can exist in a domestic or in a global form. We prefer to talk about these eight possible organizations as forms rather than stages. All the forms are

possible.