TYPOLOGY OF MULTINATIONAL COMPANIES HAVING A SUBSIDIARY IN THE CZECH REPUBLIC ACCORDING TO BARTLETT AND GHOSHAL

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Abstract

The paper deals with the typology of multinational companies (MNC) that have a subsidiary in the Czech Republic, according to the theory developed by Bartlett and Ghoshal. Typologizing was based on an extensive survey focusing on the special characteristics of the organization and management of MNCs. For the purposes of the classification of companies, three groups and three transition zones were determined. As only companies that consider themselves to belong to a coherent group took part in the survey, it only included the Multidomestic, Global and Transnational types, and transitions between them. It turned out that mainly MNCs of the transition type between the Global and Transnational Strategy are present in the Czech Republic. A total of 23 percent of companies that responded in the survey could not be included in any of the defined areas, because they showed a combination of elements of all the above-mentioned types.

Key Words: MNCs, international management, Bartlett and Ghoshal typology, Czech economy

Topic Groups: International business

INTRODUCTION

Subsidiaries of multinational companies are very important to the local economy. In particular in the case of small open economies in which the Czech Republic undoubtedly belongs, they are key players in the area of creation of gross domestic product and national income in particular. They are a non-negligible source of income for the state budget, and are also very important for regional employment, investment inflow and for increasing the innovation potential. On the other hand, many countries support multinational companies through tax and other incentives. Therefore, a survey was carried out within the framework of the Research Centre for Competitiveness of Czech Economy among the subsidiaries of multinational companies in the Czech Republic. The criteria according to which companies were approached included the number of employees exceeding 50, turnover over 30 million crowns (approximately EUR 1.2 million), and the legal form of a joint stock company or limited

liability company. No further narrower selection was made, and the whole target population was approached within the framework of the survey.

The questionnaire was divided into six sections: General, Organizational Structure, Centralization, Decentralization, Cooperation, Knowledge and Innovation, Ethics and Culture, Resources and Strategy. 403 companies out of 2 509 approached took part in the survey, however, 68 companies were excluded from subsequent evaluation because they did not meet the entry conditions, or did not classify themselves as belonging to a group in responding to the first sorting question. In such a case, they would be, for the purposes of Bartlett and Ghoshal's typology, included in the International Group. These companies only reported the presence of foreign capital without any practical application of management and supervisory competencies. The remaining 335 companies that completed the questionnaire and responded affirmatively to the sorting question

For the purposes of this questionnaire, the Group is defined as a community that is linked by ownership, hierarchical, or network ties. Do you think that your company meets this definition of group?

were classified into the Multidomestic (M), Global (G) and Transnational (T) Groups according to the Bartlett and Ghoshal's theory, while three transition zones, MG, GT and MT, were defined between the three Groups.

THEORY

Organizational structures of multinational companies are extremely large and complex. One of the starting points when approaching this field of research was a paper by Ando (2005), which was based on a relatively elaborate theory of Bartlett and Ghoshal published in 1989 (Bartlett & Ghoshal, 1989), and gradually developed in other publications and case studies (e.g. Bartlett & Ghoshal, 1995, and Bartlett & Ghoshal, 2003). These researchers investigated the relationship between the Headquarters of a multinational company and its subsidiaries, and defined four basic types of organizational structures organizational structures: International, Multidomestic, Global and Transnational. The above-mentioned types differ in the degree of closeness (or looseness) of relationships both between the subsidiary and its headquarters, and mutual relations between the subsidiaries from the loosest to the closest. Key characteristics of the individual types according to the above-mentioned researchers include

- The degree of centralization, or decentralization, of decision making within MNC, in particular in the field of product portfolio, marketing, financial management and others,
- Product and capital flows within MNC,
- Degree of closeness and the manner of functioning of relations between individual subsidiaries within the whole MNC,
- Presence, or rather absence, of companies that specialize in specific support activities across the whole MNC,
- Direction and intensity of knowledge transfer,
- General emphasis on the efficiency of functioning of the entire network of subsidiaries,

- Use of expatriates,
- Transfer of the dominant culture from headquarters to subsidiaries.

Harzing (2000) then summarizes the individual characteristics as follows:

Table 1: Summary of MNCs Characteristics

		M	G	T
Organizational design & subsidiary role	Decentralized federation	High	Low	Low
	Network structure	Low	Low	High
	Inter-subsidiary flows	Low	Low	High
	HQ's pipeline	Low	High	Low/ Medium
	Center of excelence	Low	Low	High
Interdependence	Total level of interdependence	Low	High	High
	Level of HQ dependence	Low	High	Medium
	Level of subsidiary dependence	Low	Low	High
Local responsiveness	Local production	High	Low	Medium
	Local R&D	High	Low	Medium
	Product modification	High	Low	High
	Adaptation af marketing	High	Low/Medium	High
Level and type of control	Total level of control	Low	High	Medium
	Level of personal centralized control	Low	High	Low
	Level of bureaucratic formalized control	Low	High	Medium
	Level of output control	Medium	Medium	Medium
	Level of control by socialization and networks	Medium	Medium	High
Level and type of expatriation	Extent of expartriate presence	Low	High	High
	Direct expatriate control	Low	High	Medium
	Indirect expatriate control	Low	Low	High

Source: Harzing, A.-W. (2000). An Empirical Analysis and Extension of the Bartlett and Ghoshal Typology of Multinational Companies. Journal of International Business Studies , Vol. 31, No. 1, 101-120.

Siew and Chin (1993) tested the strategy of Bartlett and Ghoshal and arrived at a conclusion that the Transnational Group includes a minimum number of companies. Most of the surveyed companies were classified in the Multidomestic and Global Groups. However, already in 1998, information technology starts to be applied in connection with the organizational strategy of multinational companies (Boudreau et al., 1998), and it was the information technology and its dynamic impact on the business processes between 2000 and 2010 that led to a shift of MNCs towards interconnected networks in which efficiency is increased by sharing of resources, knowledge and innovation.

For the purposes of this evaluation the following hypotheses were formulated based on literature searches, theoretical knowledge and results of performed researches:

H1: Most companies will be classified as distinct types.

H2: Approximately 1/5 – 1/4 of companies will be included in the grey zone.

H3: As gradual development occurs between the M, G and T Groups respectively, there will be no company in the MT Transition Group, or the number of companies classified in this Group will be statistically insignificant.

METHODS

Creating the Questionnaire

The questionnaire was developed based on extensive literature search in all mentioned areas of management of multinational companies. Both qualitative and quantitative research approaches were combined. Respondents either answered open-ended questions, or chose from several options, or, if appropriate, expressed their opinions using a ten-degree scale. The questions were chosen to be consistent with the general theory of questionnaires (Disman, 2000), and to provide data whose processing and editing will be possible without distorting the conveyed content (Hendl, 2009). The ten-degree scale was used in particular for issues related to the degree of centralization of individual companies, degree of redistribution of financial resources, degree of influence of the group headquarters on subsidiaries in different areas, and also in the case when the character of the environment in which the company operates was to be determined.

The reason for using a ten-degree scale was in particular the possibility of a subsequent transformation of the data into a five-point scale. The other reason was the fact that respondents often avoid extreme values, and thus a five-point scale is too coarse for obtaining relevant responses (Babbie, 2010). A seven-point scale was excluded as, in this case, it did not comply with the requirements for easy data interpretation and processing. Though the respondents had the opportunity to comment each reply, this fact was not taken into account when evaluating the types according to Bartlett and Ghoshal's model.

Štrach (2009) states that the results of researches conducted only in one country may affect the results depending on the subsidiary position in the hierarchy of the group. Therefore, the research was, with regard to this risk, designed in such a manner that the respondents answered both the questions related to the subsidiary, and the questions related to the functioning of the entire MNC.

Relevant Questions

For the purposes of company typologizing, only those questions were selected from the questionnaire that could be linked to individual types based on the study of the Bartlett and Ghoshal's model. Their summary is shown in the table below.

Table 2: Questions Used for Evaluation[1]

Question no.	Wording of the Question
2.1	Is there more than one company in the CR that belongs to this Group?
Within the Group…	
2.2.1b	...there are companies that specialize in a certain activity that is key for your Group (for example legal services, financial operations, logistics, innovation, etc.)
2.2.1d	...there are companies that supply other companies in the Group with components for the making of the final product.
2.2.1g	...there are function headquarters.
2.2.1i	...some companies work together closely, even though there is not a superior/subordinate relationship between them.
Our company...	
2.2.2d	...provides a certain internal activity for the other companies within the Group (for example legal services, financial operations, logistics, etc.)
2.2.2n	...fulfills the role of function headquarters.
2.3	Choose the market that is regarded as the field of activity of your company in the area its activities concern: own products, business representative, services, Internal activities within the Group
Indicate the degree of centralization of decision making within the Group according to the following scale: 1 – no centralization, 10 complete centralization	
3.1a	selection of main suppliers
3.1b	selection of other suppliers
3.1c	selection of main customers
3.1d	selection of other customers
3.1e	product portfolio
3.1h	marketing
3.1k	financial management
3.3	Are some of the service activities provided collectively for the whole Group or a large part of it by specialized organizations?
3.4	Mark on the following scale the degree of redistribution of financial resources in your Group: 1 – no redistribution, 10 – total redistribution
3.6	How is the strategy of your company determined?
3.7	Who monitors the implementation of your company's strategy?
3.9	Is the implementation of the Group's strategy part of the evaluation of your company's top management?

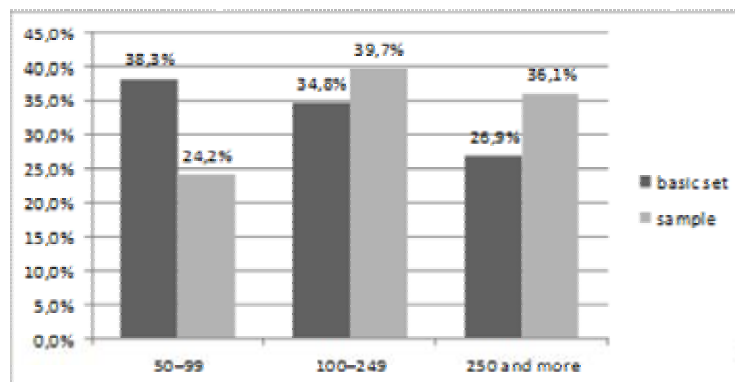[1] For the complete English version of the questionnaire see the following webpage: http://www.augur-consulting.cz/esf/english.php.

4.3	In what direction is knowledge shared within the Group?
5.1	Does your company have a code of ethics? If so, how was it created?
5.3	To what extent does the culture of the Group headquarters affect the culture of your company?
5.5	Are there expatriates sent by the headquarters currently working in the branches and management of your company, or in its superior management headquarters? If so, in what positions?
5.6	Are there expatriates from your company in the Group headquarters or in other management positions within the Group?
5.7	Are there expatriates from your company at other companies within the Group?

Source: The Author

Questioning and Sample Population

The survey was conducted in the form of an electronic questionnaire. The target population was approached by means of a registered letter and then by telephone, which resulted in a relatively high return of completed questionnaires. Thanks to the above fact, the sample population thus shows substantial compliance with the target population mainly in the field of legal status, line of business, and size of the share of foreign capital. It differed a little from the target population only in the size of enterprises by number of employees, as demonstrated in the following Figure.

Figure 1: Comparison of the Target and Sample Population by Number of Employees

Source: Blažek, Ladislav et al. *Nadnárodní společnosti v České republice II*. Brno: Masaryk Univeristy.

The reason is probably the fact that large companies are generally more amenable to cooperation with universities, sometimes they are even under an obligation to respond to similar surveys, and therefore their managers filled in the questionnaire more often.
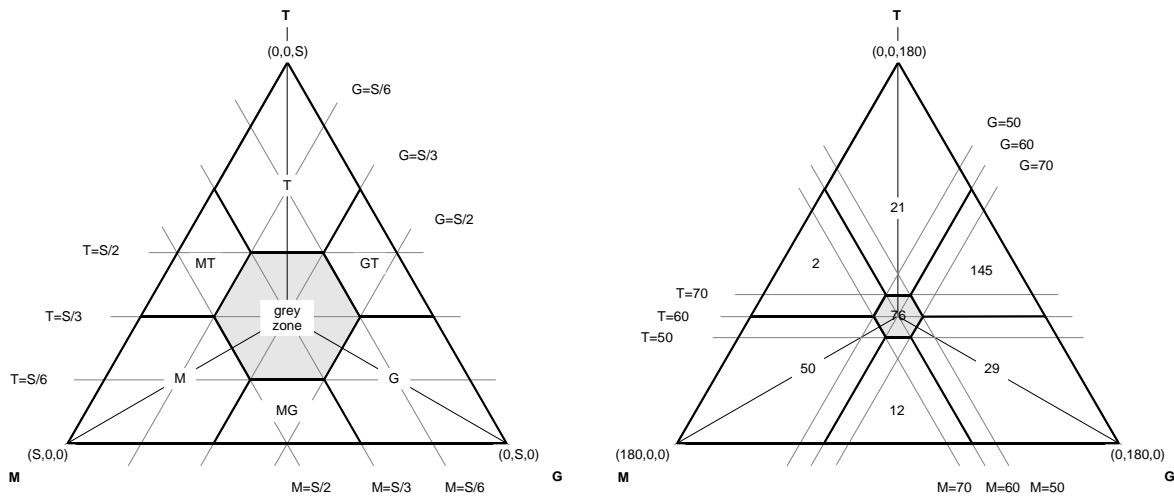
Evaluation of Responses

Each answer to a particular question was evaluated using six letters in order to represent the relationship of a specific response to the typology. If it was possible to unambiguously assign the answer to one type, then all the letters were the same (e.g. MMMMMM for Multidomestic). Transient responses favouring one out of two types had a string composed of three letters of the first type and three letters of the second one (e.g. MMMGGG for the transition between Multidomestic and Global). If a particular response did not provide information on the type of the company, the assigned evaluation string was neutral (MMGGTT). Using this procedure each company thus received an overall evaluation in the form of a text string consisting of a different number of the M, G and T letters. These quantities were determined and recorded in the form of coordinates in the three-dimensional space.

Given the uniform balance of responses, the obtained sum of all three coordinates is constant. If we look at the coordinate system projected along the cube diagonal, we obtain an equilateral triangle whose vertices are (S, 0, 0), (0, S, 0), (0, 0, S), where the S value is equal to the sum of coordinates of any point. Each point, whose sum of coordinates is equal to S, is then located on the plane section through a three-dimensional space, while the plane is determined by these points, which follows from an elementary geometric proof and the properties of Cartesian coordinate system. In the case of this analysis $S = 180$. The resulting triangle heights are M-, G- and T-axes, and their point of intersection is (0,0,0). This approach uses methods of graphical analysis of data. It is based mainly on the analysis using polar coordinates (Rencher, 2002), but thanks to the three-dimensional space of interdependent axes, even the projection of individual points has a geometric justification. Each company is defined in this system as a point plotted in space using three coordinates of the Cartesian coordinate system, but it is viewed through two-dimensional lenses. The interpretation therefore combines a three-dimensional graph with a projection into the plane.

In this triangle, the points that have the same value of one coordinate are located on the line segment that is perpendicular to the axis whose coordinates are constant. This makes it possible to delimit the different zones by the limit values of the coordinates. The properties of the geometric model are shown in the following figure. Based on the analysis of extreme variants of answers were distinctive character limit values set at 50, 60 and 70 points, which is diminished compared to the general scheme of gray zone in which it is not possible to assign a specific characteristic to the company (right). Values represent the number of companies in the zone.
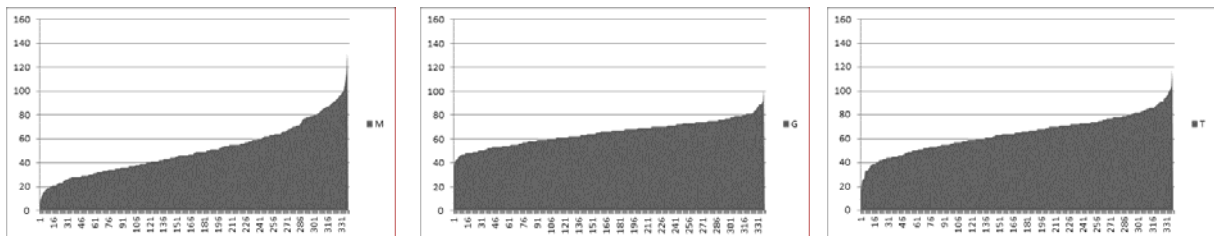
Figure 2:

Source: The Author

FINDINGS

The following diagrams show the sorted values of individual characteristics. It is evident from the graphs that the G characteristic is spread among the companies in the most even manner, while the M and G characteristics show more running values including extreme variants.
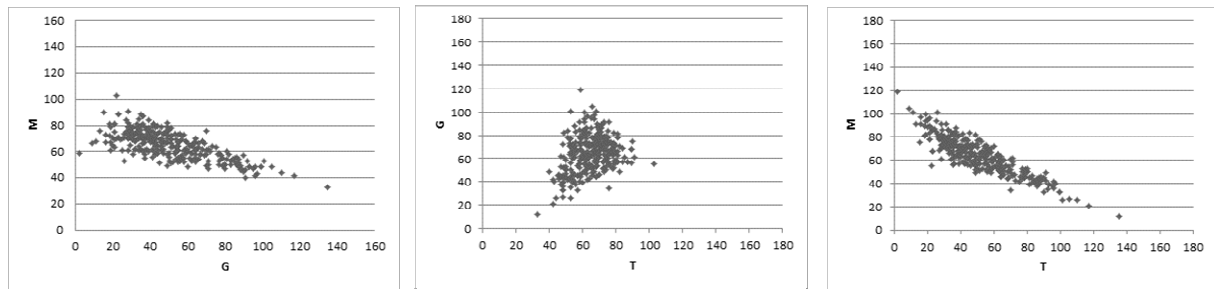
Figure 3: Representation of Characteristics

Source: The Author

Figure 4 shows that the M and T characteristics are reciprocally proportionate to a large extent, which complies with the Bartlett and Ghoshal's theory, while the other couples do not show a similar dependence.

Figure 4: Relations between Characteristics

Source: The Author

As shown in Table 3, the M group is the most represented one as regards the "pure" types, while considerably fewer companies were assigned to the T and G groups according to the given procedure. Thus the H1 hypothesis was not confirmed. The results showed that there were very little companies in the MG zone, while the GT zone is the largest group on the whole. By contrast, in the MT zone there are only two companies, therefore it falls below the limit of statistical significance. The hypothesis H3 was thus confirmed.

Table 3: Evaluation

Group	M	MG	G	GT	T	MT	grey zone
No. of companies	50	12	29	145	21	2	76

Source: The Author

76 companies were in the grey zone, which makes 22.7 %, which confirms the H2 hypothesis.

DISCUSSION

The above presented results show that the manner of organization of multinational companies cannot be strictly described in a general way, as different companies apply different degree and, consequently, different elements of integration within the network of their subsidiaries. If we start from the assumption that a company increasing in size in dependence on its activity makes its management more and more integrated and effective, the procedure from the International form, or rather Multidomestic, through the Global to Transnational organizational strategy is retained. The research results show that the Multidomestic form is, in the case of MNCs having subsidiaries in the Czech Republic, relatively stable. Once the company begins to implement certain integration and centralization approaches that lead to interconnection and more effective operation of the MNC as a whole, then the Global strategy is purely transient, and companies tend not to remain in a state where the network is strictly controlled by the headquarters but, on the contrary, they are connecting internally. They thus get into the GT transient group, but only a relatively small number of them can create a structure designated by Bartlett and Ghoshal as Transnational in its pure form in this transition phase.

The Bartlett and Ghoshal typology originated and developed at a time when corporate information systems were far from the level they are now. Organizational linking of subsidiaries was very problematic, and reporting was done separately from the company basic information system. Today it is very easy to create shared data within the group of companies with the help of a sophisticated information system, get reports at a specific moment via the information system and evaluate data on multiple levels simultaneously. Knowledge sharing within the network can effectively take place using data storage; thanks to reduced distances and the development of free movement of labour it is possible to make better use of expatriates, create project teams and exploit the synergic effect within the group of companies. If a company decides to move from the Multidomestic structure to a more integrated form, it usually uses procedures that Bartlett and Ghoshal included in the Transnational characteristic, simply because the acceleration of information systems currently enables it at a minimum cost and maximum effectiveness.

CONCLUSIONS AND IMPLICATIONS

The presented research has shown that very few MNCs are controlled by a centralized network where the main role is played by the company headquarters. The companies are either relatively decentralized and the management is carried out in an open manner on the basis of financial flows, or it includes a relatively complex integrated groups whose company headquarters are the main decision-making point, but the subsidiaries cooperate with each other, share knowledge and focus on a specific supporting activities in certain cases.

The typology of companies according to Bartlett and Ghoshal is the first step to understand the functioning of MNCs with subsidiaries in the Czech Republic. It is expected that during subsequent evaluation of the acquired data these typologies will be related to the financial performance of the company, the culture that affects the respective MNC most, the perception of the degree of centralization and redistribution of funds to local companies, and further characteristics obtained in the research.

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