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A CASE STUDY FROM THE AUTOMOTIVE INDUSTRY**

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THE CHANGING ROLE OF MIDDLE MANAGERS IN MULTINATIONAL ORGANIZATIONS: A CASE STUDY FROM THE AUTOMOTIVE INDUSTRY

Carlos García Pont*

Abstract

This paper discusses the role of middle managers in multinational corporations that are adopting new organizational forms as a response to competitive challenges. Results from a case study are provided as an illustration of the thesis. The conclusions highlight the importance of middle managers - i.e those who do not hold senior management positions- in the management of subsidiaries, and the value of these managers' networks of contacts.

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Trends in the management of multinational corporations

Numerous studies have searched for the most suitable organizational form for multinational corporations (MNC). Most of these studies focus on the competitive pressures that MNC face and how these pressures affect how MNCs are managed. According to the most authoritative studies on the subject (Doz & Prahalad, 1986; Bartlett & Ghoshal, 1989; Porter, 1986), competitive pressures can be grouped into three categories: globalization, localization and global learning.

From Perlmutter (1969) to Ghoshal and Nohria (1993) and Wolf (1996), literature has sought to identify organizational MNC typologies. There is a convergence towards four organizational models as types of response to those competitive pressures (Harzing, 2000), namely, the multidomestic, global, international and transnational organizations.

Multidomestic organizations focus on adapting to local markets. Subsidiaries enjoy a high level of autonomy in decision-making, as the MNC depends on them to identify the local market's distinctive features and develop products and services matched accordingly, with the backing of the MNC resources. Global organizations concentrate most of their activities geographically in order to obtain the economies of scale they need to compete, as customer demands are homogenous in all areas. "International" organizations have been posited on a theoretical level as organizations which have no major integration needs and in which global adaptation is not important, but none have been identified in the empirical studies carried out so far (Harzing, 2000). Transnational organizations seek to meet the demands both for globalization and for localization, that is the pressures to integrate and to concentrate the activities of the value chain, and the pressures to give specific responses to different markets. The transnational organization is described as a network of integrated and interdependent units in which the parent company does not play any special role. The subsidiaries act as strategic centers for particular products or processes, and therefore have specific roles in the company, which are integrated to contribute to the common business. This produces the growth of interdependence between subsidiaries, which will be greater than in the global organizations described above.

The widespread view (Doz & Prahalad, 1986; Bartlett & Ghoshal, 1989) is that all companies are moving in a transnational direction, because the demands for globalization and localization increase simultaneously. This indicates the increasing importance of coordination, specialization and integration between MNC subsidiaries.

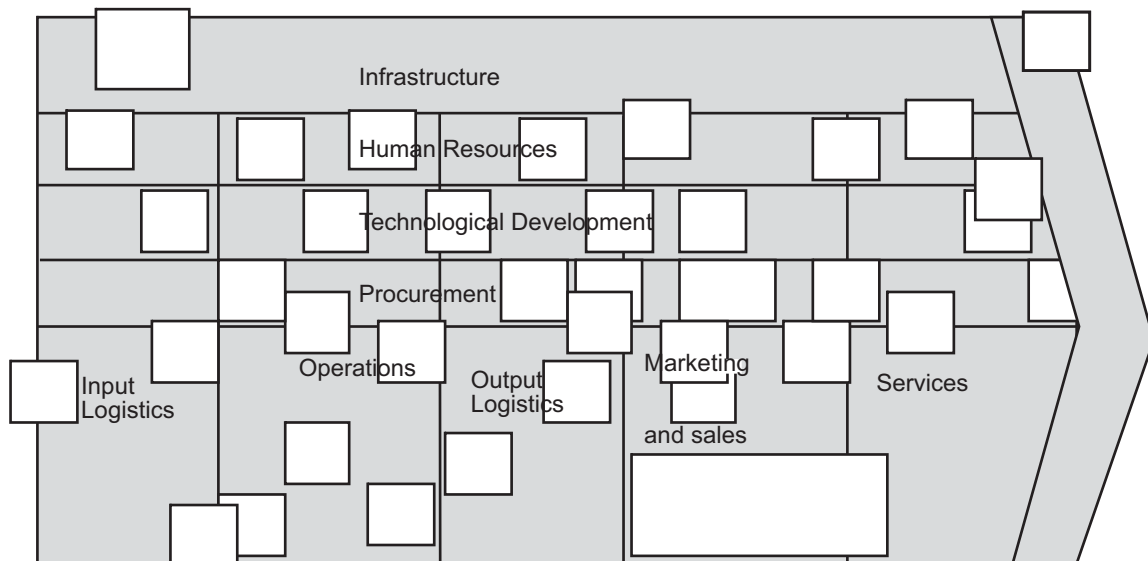
Organizational design as a competitive response

From an MNC headquarters viewpoint, the organization framework depends on two variables: its strategic position and its history and administrative heritage (Bartlett & Ghoshal 1989). Some MNCs have grown by replication of business units, others by acquisition of local companies already carrying out all the value chain activities. The need for global operations led MNCs to rationalize duplicated activities, reducing the number of operations performed in each local company absorbed as a subsidiary. The outcome is a value chain design divided up into the different geographical areas. The problem that the MNC corporate headquarters faces is in designing the coordination and control mechanisms so that this “distributed” value chain can satisfy the needs of the business. This design process usually begins with a centralization of services, such as human resources and information management systems. Subsequently, production strategy is coordinated globally or regionally, as are purchase, marketing and procurement policies. Thus, each of the local company’s functional areas is gradually organized under central coordination.

From the subsidiary’s point of view, the complete value chain that once was managed by local managers becomes filled with holes. The subsidiaries are no longer self-contained business but a series of activities within the entire value chain. When subsidiary managers reflect on their business, they might draw up a “hole map” (see Figure 1) showing the activities that are beyond their power of decision, being controlled, as they are, from elsewhere.

Figure 1

The subsidiary's hole map



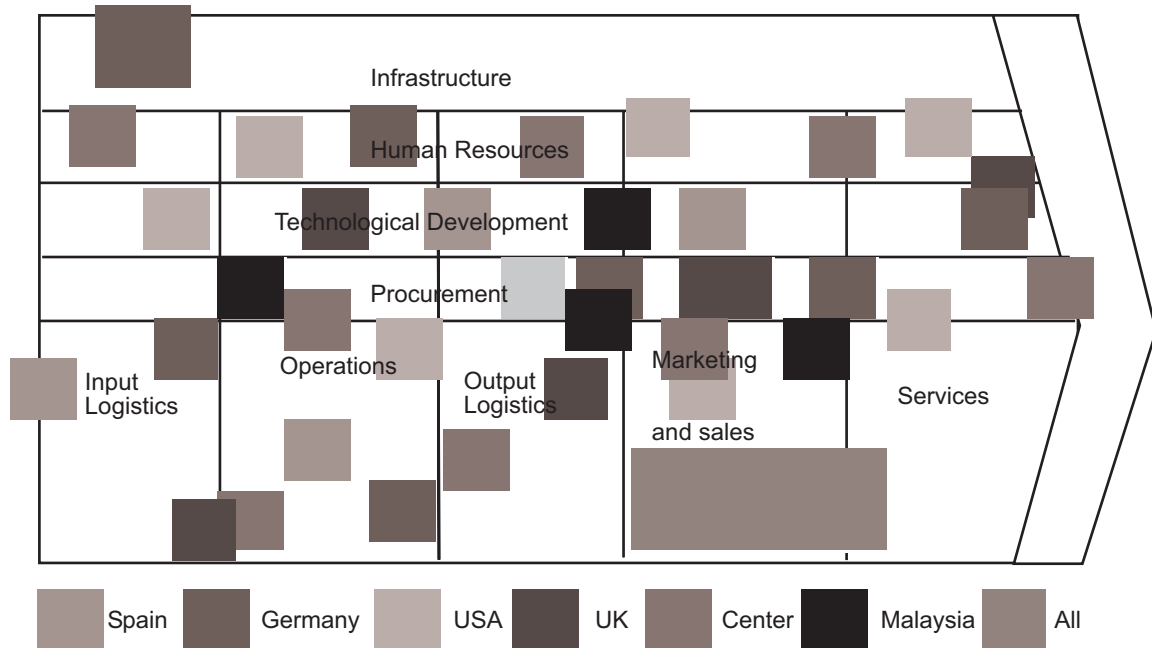
The subsidiary “complement map”

This view could lead the subsidiary managers to adopt a pessimistic attitude, feeling themselves mere implementers of decisions developed centrally. However, frequently do not want to transform subsidiary managers into mere executives. Meetings with senior managers from the subsidiaries multiply in which they are asked to contribute to the business’ strategic development, demanding more coordination. The result is that corporate headquarters foster negotiated decision-making between the subsidiaries on issues that are not purely operational.

Indeed, to think in terms of the subsidiary’s hole map is a fallacy. Each of the holes appearing in the local value chain is full, because other MNC units are doing the job. Therefore, the subsidiary’s hole map becomes the subsidiary’s “complement map” (see Figure 2). Instead of being self-contained, the subsidiary now becomes a collaborative business, since it forms part of the business’ value chain. The ability to develop the business will depend on the ability to cooperate with the different MNC organizational units, regardless of whether these are other subsidiaries or the corporate headquarters.

Figure 2

The subsidiary complement map



The subsidiary’s new function

Two challenges face the MNC: how to utilize the knowledge acquired in each local market, and how to coordinate the operational actions across subsidiaries to improve the organization’s competitive advantage. In doing so, the MNC must contribute to the management and development of all those activities which, while contributing to the company’s business, are not under the hierarchical control of a subsidiary.

This is why subsidiaries become “open” organizations. The view of companies as open organizations has been part of organization theory for many years (Thompson, 1967; Lawrence & Lorsch, 1967; Pfeffer & Salancik, 1978). The difference in the specific case of the MNC subsidiaries is that the “openness” is not only to customers and suppliers, but also –and ever-increasingly so– to the other MNC units.

The view of the subsidiary as a “cooperative” and “open” entity forces it to adopt, within its hierarchical limitations, a proactive attitude towards the management of the rest of the MNC. Significant parts of the activities in the value chain do not depend hierarchically on the local organization, yet the subsidiary’s income statement does depend on their outcome. In consequence, the subsidiary tends to participate in and contribute to the management of activities over which it has no direct responsibility.

The function of the subsidiary managers and the importance of the middle manager

As a result of these processes, what is actually changing is the role of the managers of the subsidiary. Although their main goal is still getting results, the way these results are obtained changes dramatically.

Roure et al. (1997) studied the internationalization of the managerial task within MNC subsidiaries. They identified two dimensions of the managerial task: “executive” and “advisory”. The former grouped all the tasks for which the manager had a direct executive responsibility. The latter included all those tasks in which the manager contributed to the MNC development, or had a “shared” executive responsibility with other subsidiaries. Their conclusion was that internationalization increased “advisory” work much more than “executive” work. This is so for middle managers too.

Middle managers usually perform a coordination task between subsidiaries, since they mediate, negotiate and interpret the organizational connections with the operational levels of the other subsidiaries. In practice, the company’s strategic direction is basically implemented at the middle manager level.

Thus, as the activities of the MNC value chain undergo geographical redistribution, the middle managers’ role starts to change, their relational activities acquiring an increasing importance.

There is a significant body of research suggesting that middle managers make significant contributions to the firm’s strategy (Bower, 1970, Burgelman, 1983). Floyd and Wooldridge (1997) propose that middle managers holding interface positions in the organization are more likely to exert greater levels of strategic influence because their formal role offers them greater opportunities for mediating between the organization’s internal and external environment. They mediate between the organization, its customers and its suppliers. Particularly, certain units – such as sales, marketing, and R&D- have a greater external relations activity than others. The managers in these units find themselves acting as mediators between the internal and external environments.

The relationship between the organization and its environment, internationalization, and the growing need for cooperation lead us to consider the importance of the different organizational

levels according to their responsibilities beyond the limits of the organization. For this reason, understanding the work of middle managers –particularly those who hold interface positions in the subsidiary- in a different way, is vital for aligning the subsidiary with its external environment. The middle manager that is able to gather information from the environment and communicate a personal evaluation to senior management is able to redefine the strategic context and have a voice in the implementation of the strategy chosen. This kind of middle manager has a capacity for divergent thinking, which is vital for the organization's adaptation process, particularly in dynamic environments. Under these circumstances, middle managers become change agents for the organization.

Thus, when managing an organization from the perspective of the network, it is important to nurture the relational positions of people that have crucial contacts with the environment, i.e., valuable relationships with customers, suppliers, and also within the organization itself.

The case of WEA España Sistemas de Frenos

To illustrate this reasoning, we shall introduce a company whose details have been disguised so that it will not be recognized, but not to the extent that the example ceases to be illustrative. WEA España Sistemas de Frenos has three plants in Spain, located in Llinars (Barcelona), Reus (Tarragona) and Tarrasa.

The Llinars plant started as a family business, licensing the products manufactured by a French company. In 1982 the company was purchased by WEA, an Anglo-Saxon MNC. In response to the growth of the automobile industry in Spain, WEA decided to purchase two other companies in Tarrasa and Reus, in 1986.

Since then, WEA España has increased its contribution to the MNC. The possibility of manufacturing at lower costs enabled it to grow significantly. But it also adopted an explicit strategy of increasing the "knowledge" added to its products. Thus, WEA España progressed from being a group of factories to contributing to value-added activities of the business.

Like most companies in the industry, WEA España was facing a progressive centralization of its customers. By the 90's WEA España realized that it had no customer decision center within its home country. This forced it to develop outwards to keep in contact with the customers. WEA España's attitude enabled it to find new customers, mainly in Japan and Korea. It should be noted that this subsidiary offered consistently better performance parameters, such as efficiency, return on sales, etc. In other words, it is an organization that has excelled for its performance.

WEA España identified two main business processes: mass production and the launching of new products. WEA España had a functional structure, but it developed multifunctional project teams for new product launches that counted on the assistance of people in the traditional organization. The internationalization of both business processes led the company to have increasing contact with other subsidiaries of WEA both in Europe and in America.

a) Research plan

The first aim of our study was to grasp the level of process openness at WEA España. We planned a set of in-depth interviews. To identify the people to be interviewed, two lists were

made. Researchers drew up the first, and the company's human resources manager the second. In a series of meetings with plant managers and four members of the executive board, the two lists were fused, adding or removing people depending on their importance in the company's business processes. The final list consisted of 60 people who were considered to be those who contributed most to the development of the company's activities. It included personnel ranging from top-level managers to specific plant employees. In doing so, we focused on the company's "real" structure which is, as is not unknown, not necessarily the same as its formal version.

A questionnaire was designed identifying these 60 managers' most frequent contacts to determine the organization's openness, both in terms of customers and suppliers and towards the other subsidiaries and the division. The basic assumption was that the more open the organization, the more open or outward-looking are the tasks performed by its managers. The questionnaire included variables assessed subjectively by the manager, which enabled us to weight the "strength" of the relationship.

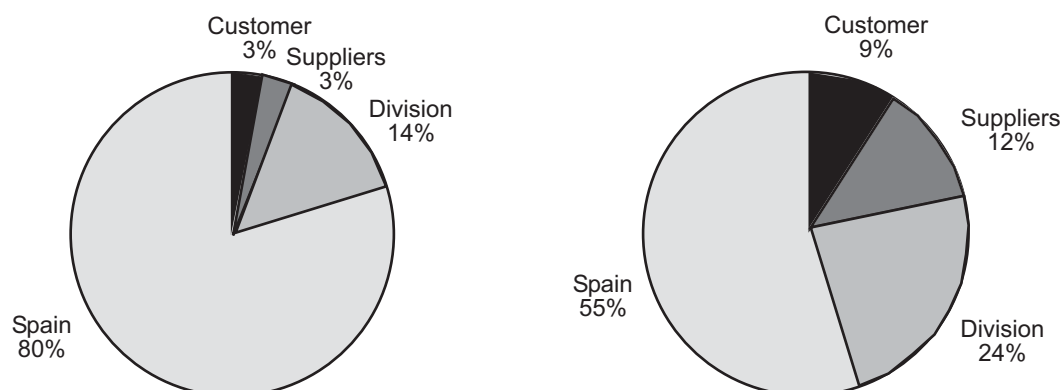
We also wanted to find out to what extent the company's executives were aware of the degree of openness required. Therefore, we distinguished between contacts identified spontaneously or forcedly. The former included questions as: *A priori, in what relationships do you spend your time?* The latter referred explicitly to external contacts, e.g.: *With whom do you relate outside of the organization?* Control questions were used to validate that the contacts identified were sufficiently important and of comparable intensity. As a result, only "close" contacts were considered when presenting the results.

b) Results

The first issue was to what extent the subsidiary's managers were aware of the change that had taken place in their work environment. To answer this question, we compared the contacts elicited spontaneously with actual contacts (see Figure 3). When asked spontaneously, company managers said that 80% of their contacts were inside the Spanish subsidiary. However, we found that actually the percentage was only 55%.

Figure 3

Spontaneously identified versus actual contacts

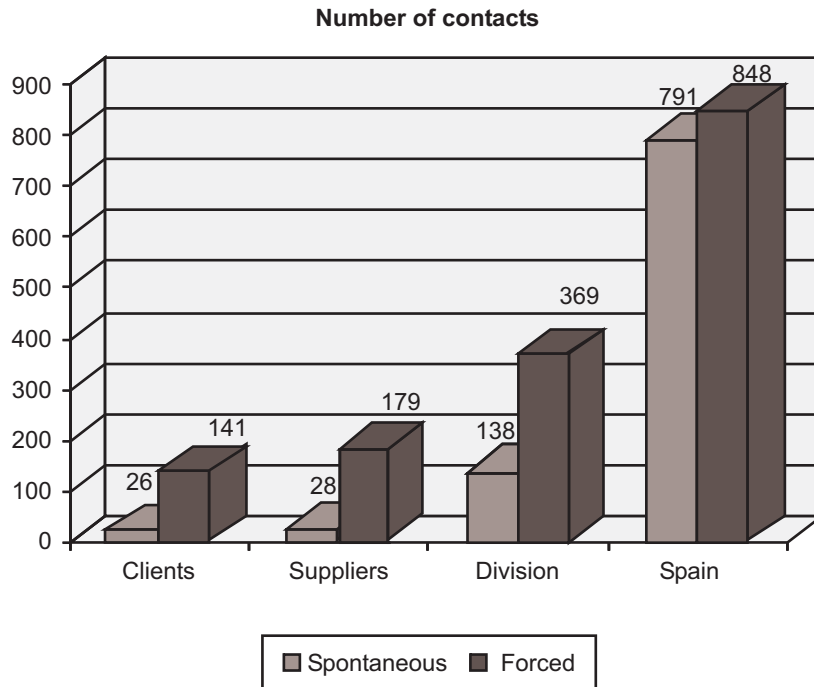


Managers underestimated the effort involved in operating internationally. When comparing the absolute values of the number of contacts (see Figure 4), we can see that the contacts outside of the organization increase significantly. Although all contacts with customers, suppliers and the division increase markedly, the highest increase in absolute terms relates to the division. This is explained by the growing integration as the business becomes increasingly centralized. We can

conclude from this first analysis that the organization we are studying is much more open than even the company managers think.

Figure 4

Absolute spontaneously identified versus actual contacts



Turning to **customers**, it was found that all of the respondents had at least one relationship with customers. Table 1 shows the number of contacts with customers. All customers, European, American or Asian, had a direct relationship with WEA España, despite the centralization of the purchasing decision in main customers, i.e. GM, Ford, and the presence of another WEA unit in their home countries.

Table 1

Number of contacts with customers

		CL1	CL2	CL3	CL4	CL5	CL6	CL7	CL8	CL9	C10	C11	C12	Total
WEA Esp	Purchasing	1		1										2
	Sales	1	6	7	5	4	1	2	3		1			30
	R&D	3	2		2		2			2				11
	Dev. Eng.	4	13	13	13		6	2	10	6	3	1		71
	Quality		1	1		1		1						4
Plant 1	Man. Eng.	2			1	1		2				2		8
	Quality				1	1		1						3
	Factory						1							1
Plant 2	Man. Eng.		1											1
	Quality												1	1
Plant 3	Man. Eng.	7	1	1										9
	Total	18	24	23	22	8	9	8	13	8	4	3	1	141

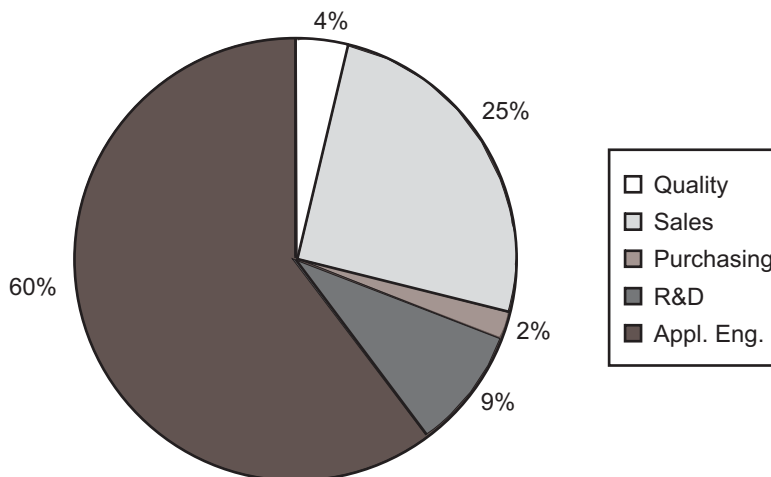
The launching of new applications required frequent contact between the customer and supplier engineering departments. The creation of project teams for the launch meant that the team members were in contact both with other subsidiaries –responsible for other components- and with the final customer. This started as an initiative of the Spanish subsidiary. The subsidiary often set contacts apart from the formal organization design in order to ensure a rapid response to the customer.

In the mass production process, the direct relationship between the subsidiary and the customer factories improved the quality of service delivered. The absence of intermediaries helped to solve more easily the typical problems that inevitably arise in a relationship.

Most of the contacts with customers initiated not from the sales department but from the product engineering department (see Figure 5). As an example, there were 24 contacts with a European customer. 90% of them were generated by a new application launch process and focused on engineering and customer purchases.

Figure 5

Percentage of contacts with customers from the subsidiary's units



The frequent relationship between Spanish subsidiary and WEA customers is all the more striking considering that the subsidiary has no customers of its own, that is, customers with decision centers in Spain. Therefore, the customer contacts arise from the initiative of the subsidiary's personnel.

We now turn to the relationships with other WEA units. Given the tendency towards centralization, the greatest level of contact (50%) is with the division's central services (see Figure 6). Within the central services, the most important relations are with the corporate process engineering departments, the applications engineering departments, and the R&D department. So the activities performed by means of these contacts have basically to do with developing the company's industrial strategy, launching new projects, and coordinating international research projects.

Contacts with other subsidiaries focused on those that share the same customers, for example, WEA USA and France. All of these relationships deal with specific projects with these customers and are performed mainly by operational personnel (see Table 2).

Figure 6

Percentage of relationships with other WEA units

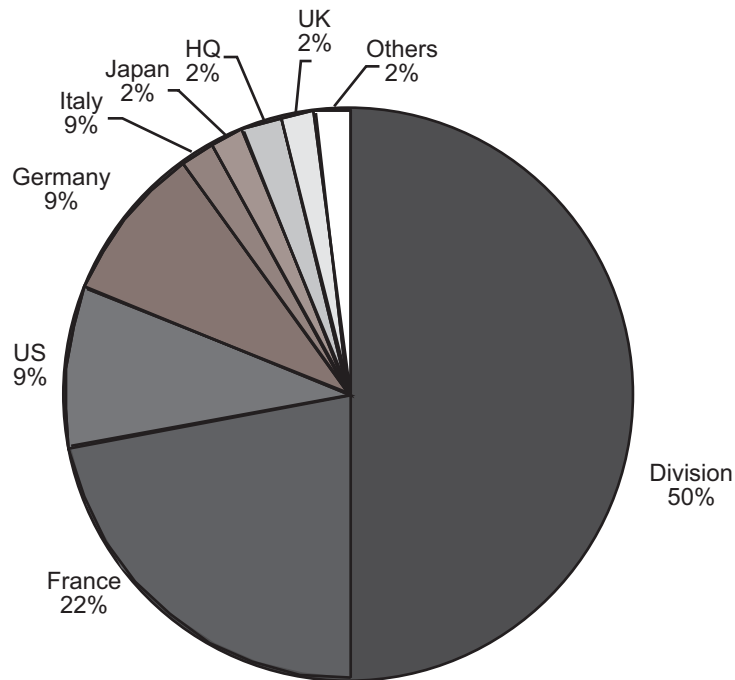


Table 2

Relationships with other WEA units from WEA España

Plants	86	23%
Central Services		
Quality	7	2%
Sales	38	10%
Purchasing	40	11%
Control and Management	47	13%
Testing	6	2%
R&D	39	11%
Applications Eng.	106	29%
	254	77%
TOTAL	369	100%

c) Discussion

Although our analysis is based on a single case, it has allowed us to illustrate the trends in the management of MNC. WEA operates in a global industry, even though the global coordination of activities within the company is still incipient.

The example suggests some ideas on the nature of MNC; on the nature, organization and strategy of subsidiaries; and on the characteristics of the managers who work in multinationals.

Firstly, we can say that MNC tend to be managed in networks. Regardless of the organizational structure, there are certain key activities that are carried out in cooperation by different, geographically separated units. Trying to organize from the center without including the initiative of the local organizations is a hopeless task. There are too many issues to be borne in mind, and the number of contingencies is limitless. Therefore, the MNC organizational design must take into account the initiative of unit managers. This is why Ghoshal and Bartlet (1997) say that the task of field managers basically consists of developing an “entrepreneurial” attitude that will enable them to gain maximum benefit from all of the organization’s resources. Van der Velde et al. (1999) point out the importance of managing the personal networks within the organization.

Although the results of the study indicate that senior-level managers give much more importance to network management than the middle managers, the data obtained from WEA España leads us to venture that the task is just as important –or even more so– for middle managers. Middle managers’ relational activities take on particular importance when managing the resources of a MNC, where managers interrelate significantly with other middle managers in the performance of their tasks.

As conclusions to this study, we can say

1. Subsidiaries move from being self-contained businesses to being part of “complement maps”.
2. The coordination of the subsidiary’s resources is basically managed by middle managers.
3. The need for relational management capacity in middle managers increases as the company internationalizes or integrates its operations.
4. The subsidiaries’ middle managers are those who really manage resource coordination between the company’s different subsidiaries.
5. It is advisable to manage the networks between subsidiaries. On the one hand, it provides access to the resources distributed by the multinational company, and on the other, it encourages an international attitude on the part of the subsidiary’s managers.
6. Middle managers are usually not sufficiently aware of the importance of relational capacities when assessing their activities.
7. An increasing number of company managers have, as an important part of their work, the responsibility for managing the subsidiary’s relationships, in particular the relationships with other subsidiaries of the company.
8. Relational capacity becomes one of the chief assets of an organization and, therefore, of its managers.

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