

National Research University Higher School of Economics

**Russian manufacturing subsidiaries of  
MNCs - competitive position, key elements  
of organizational design, strategic misfits  
and subsequent problems in management of  
innovations**

**Gurkov I. with**

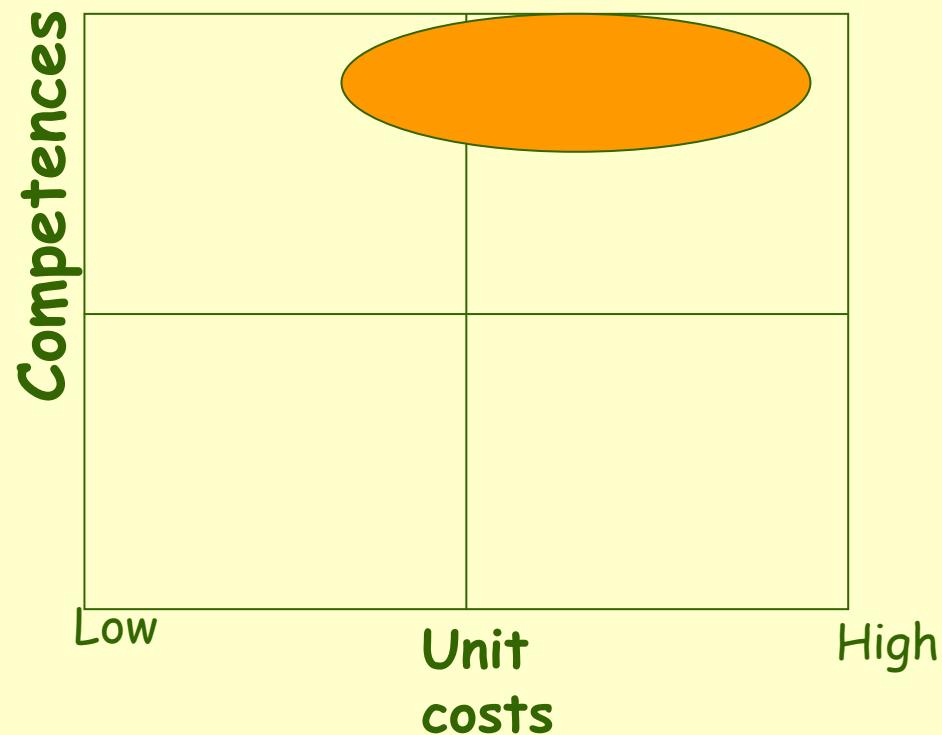
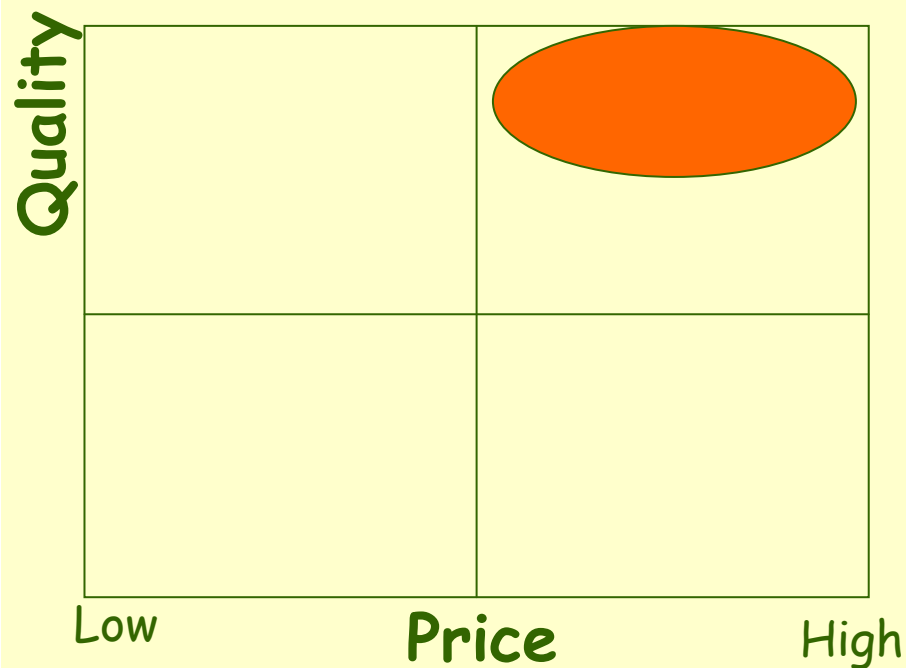
**Kossov V., Morgunov E., Saidov Z.**

**Moscow  
October 2012**

# Companies Observed in Summer-Fall 2012

Company	Country of Origin	Line of business	Ownership type
AVON	UK	Cosmetics	Traded
GE	USA	Energy equipment	Traded
Knauf	Germany	Construction materials	Private
Lactalis	France	Diary	Private
Lafortezza	Italy	Retail equipment	Private
Mapei	Italy	Construction materials	Private
PepsiCo	USA	Dairy, carbonated drinks etc.	Traded
P&G	USA	Consumer goods	Traded
REXAM	UK	Aluminum cans	Traded
ROCKWOOL	Denmark	Construction materials	Traded
Rhodia Acetow	Germany/France	Acetate products	??
ROCKWOOL	Denmark	Construction materials	Traded
Siemens	Germany	Energy, electronics and rail equipment	Traded

# Competitive positioning of the observed companies in RUSSIAN MARKETS



# Sources of competitiveness (versus other local firms)

## Competences/Quality

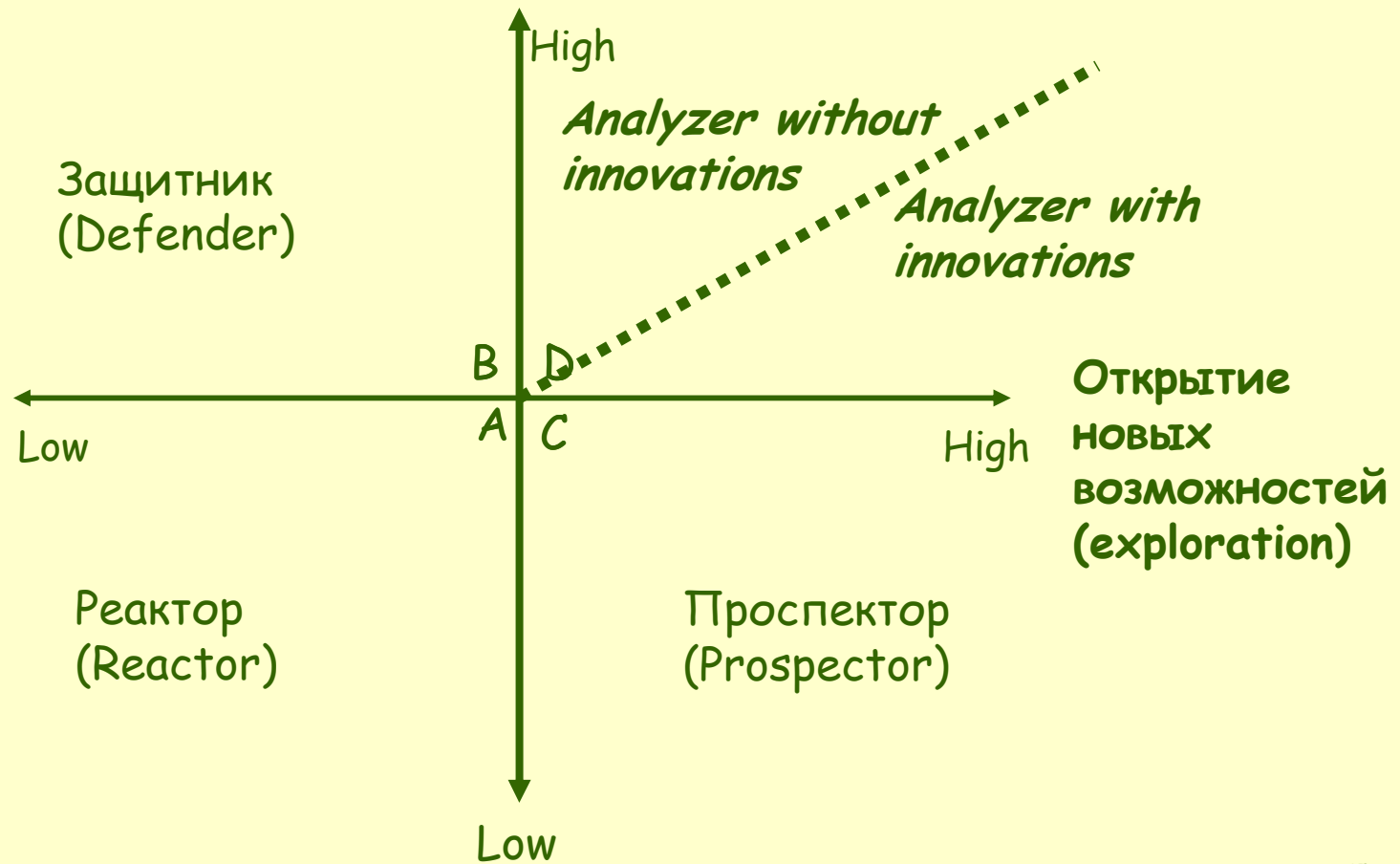
- Accumulated pools of patents, know-how and know-why in the corporation
- Portfolios of trademarks
- Access (through grants or internal credits) to corporation's funds for major investments and acquisitions
- Concern for quality
- High "internal decency" standards

## Unit costs

- Relatively new production assets (results of greenfield investments in 1990-2000s or/and acquisitions of plants built in 1980-1990s)
- Economy of scale in equipment and other supplies
- Economy of scope in process solutions
- Relatively low cost of capital

# Competitive position of the observed firms - "Analyzer" in Miles-Snow typology

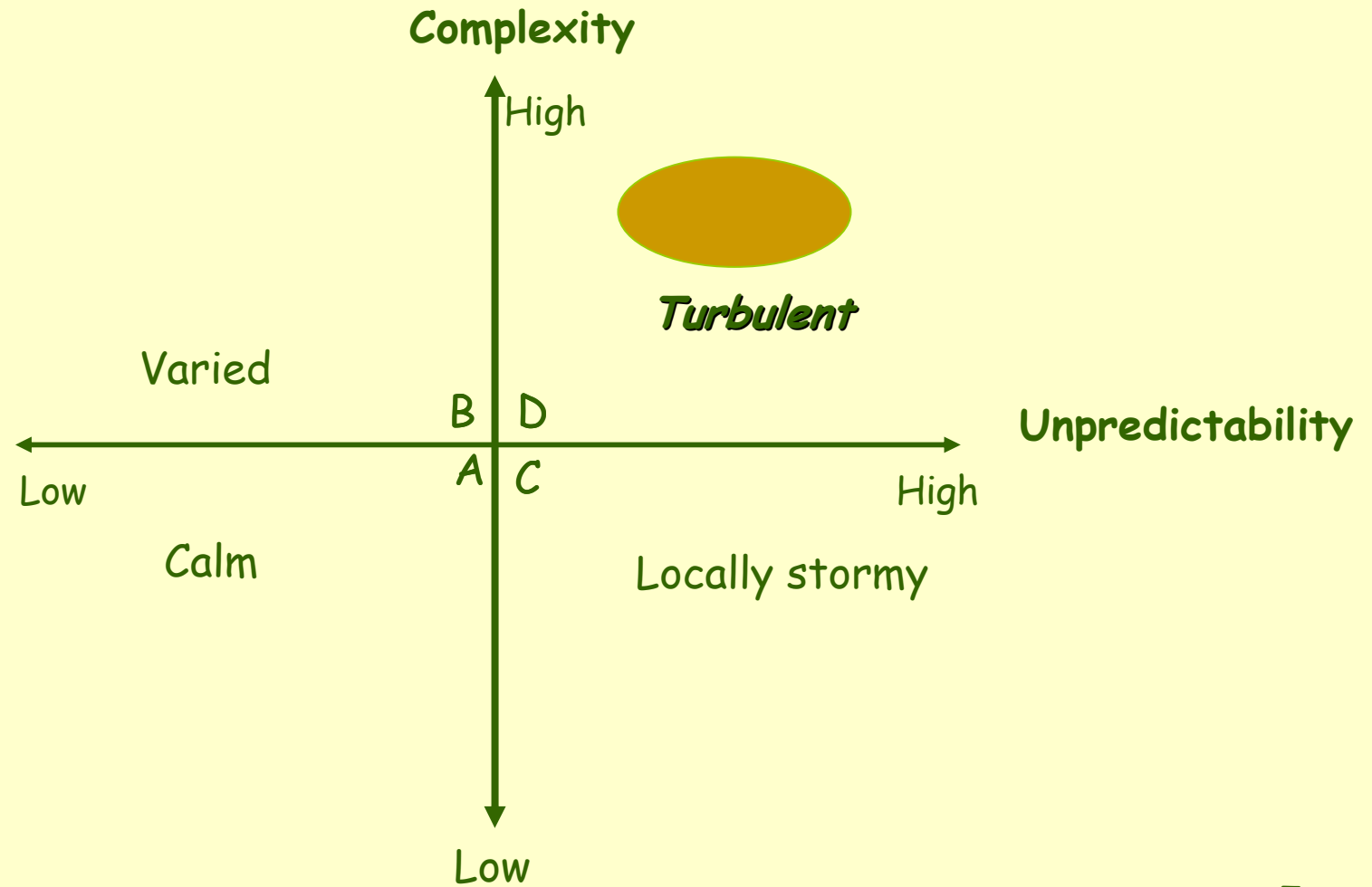
Использование отрывающихся возможностей (exploitation)



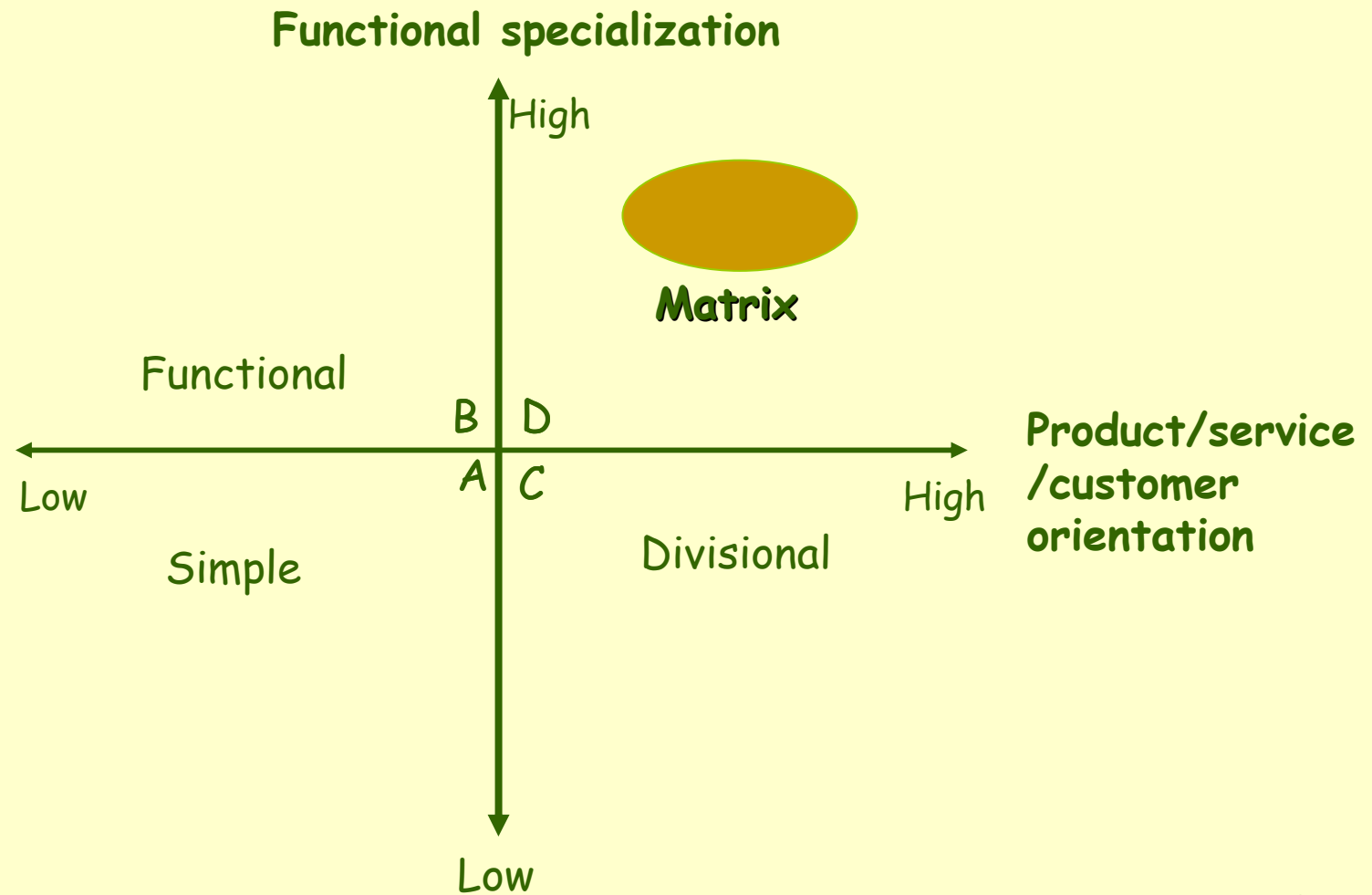
## Prescribed parameters of organizational design for "Analyzers" (Burton-Obel model)

Parameter	Strategic type			
	Reactor	Defender	Prospectors	Analyzers
Goals	No	Efficiency	Effectiveness	Efficiency and effectiveness
Environment	Calm	Varied	Locally stormy	Turbulent
Configuration	Simple	Functional	Divisional	Matrix
Coordination	Family	Machine	Market	Clan/Mosaic
Information systems	Event-driven	Data-driven	People-driven	Relationship-driven
Leadership	Maestro	Manager	Leader	Producer
Organization climate	Group	Internal process	Rational goals	Development
Incentives	Personal pay	Skill pay	Bonus-based	Profit sharing

# Environment (observed)

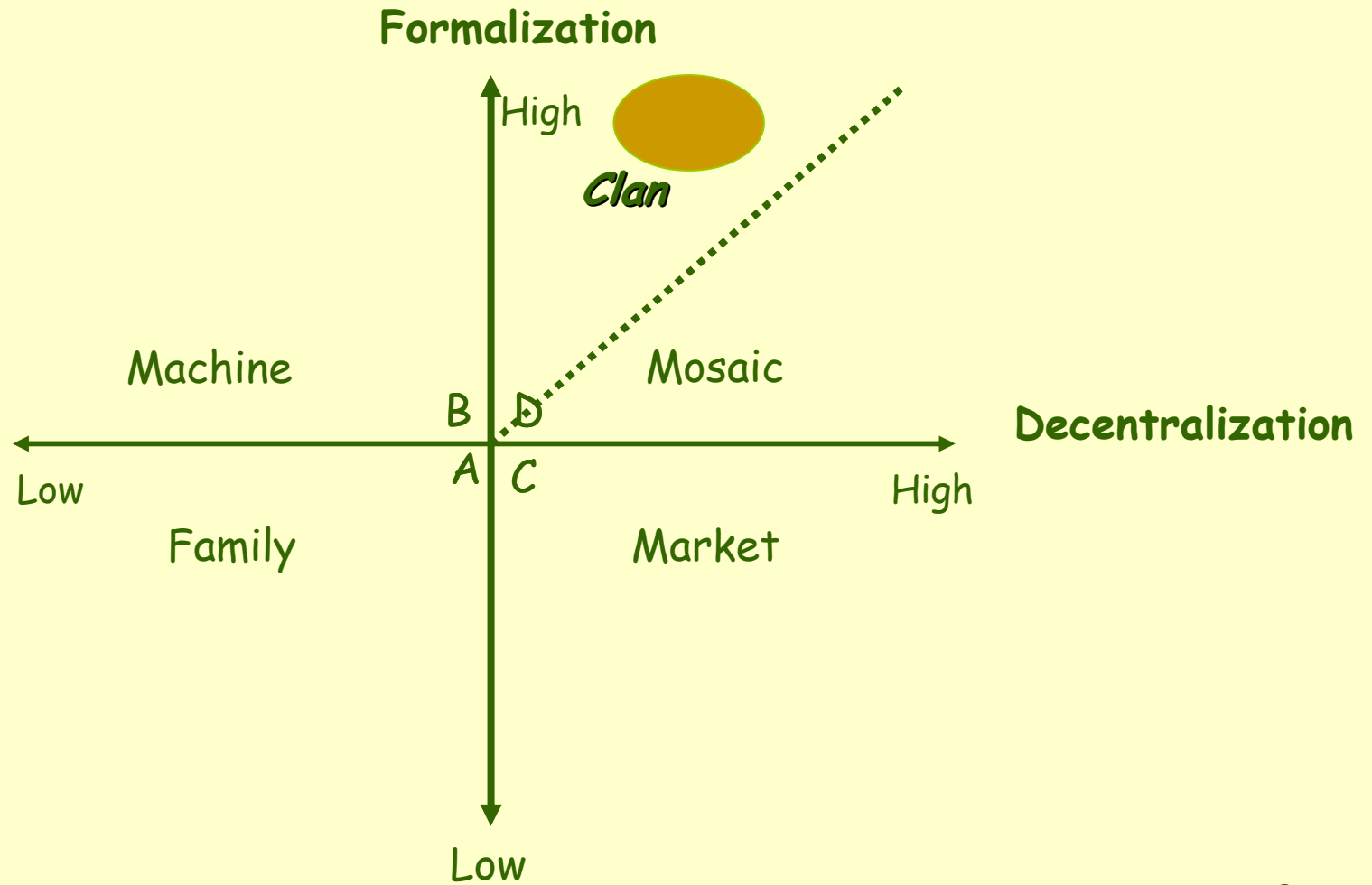


# Configuration (observed)

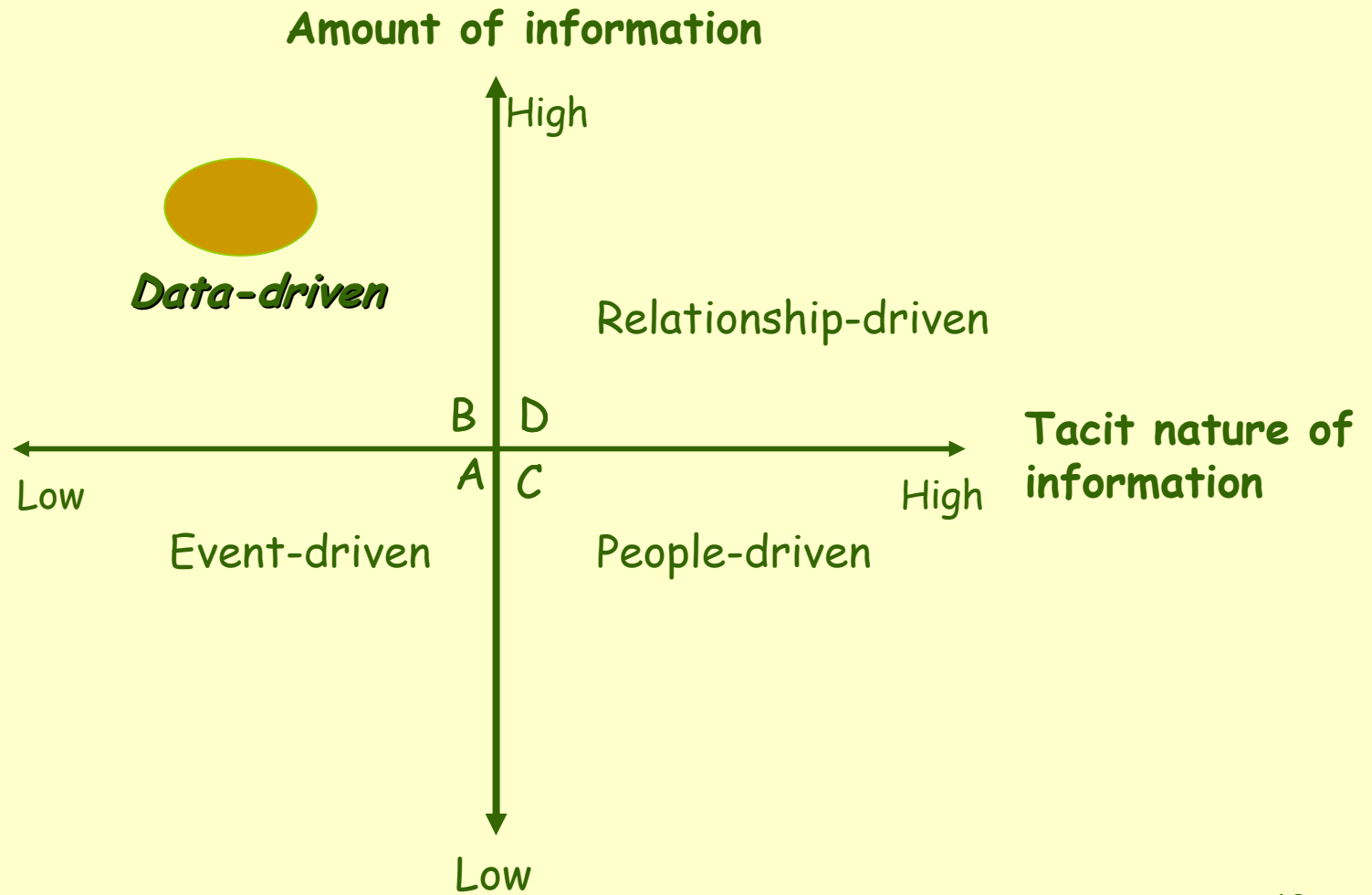




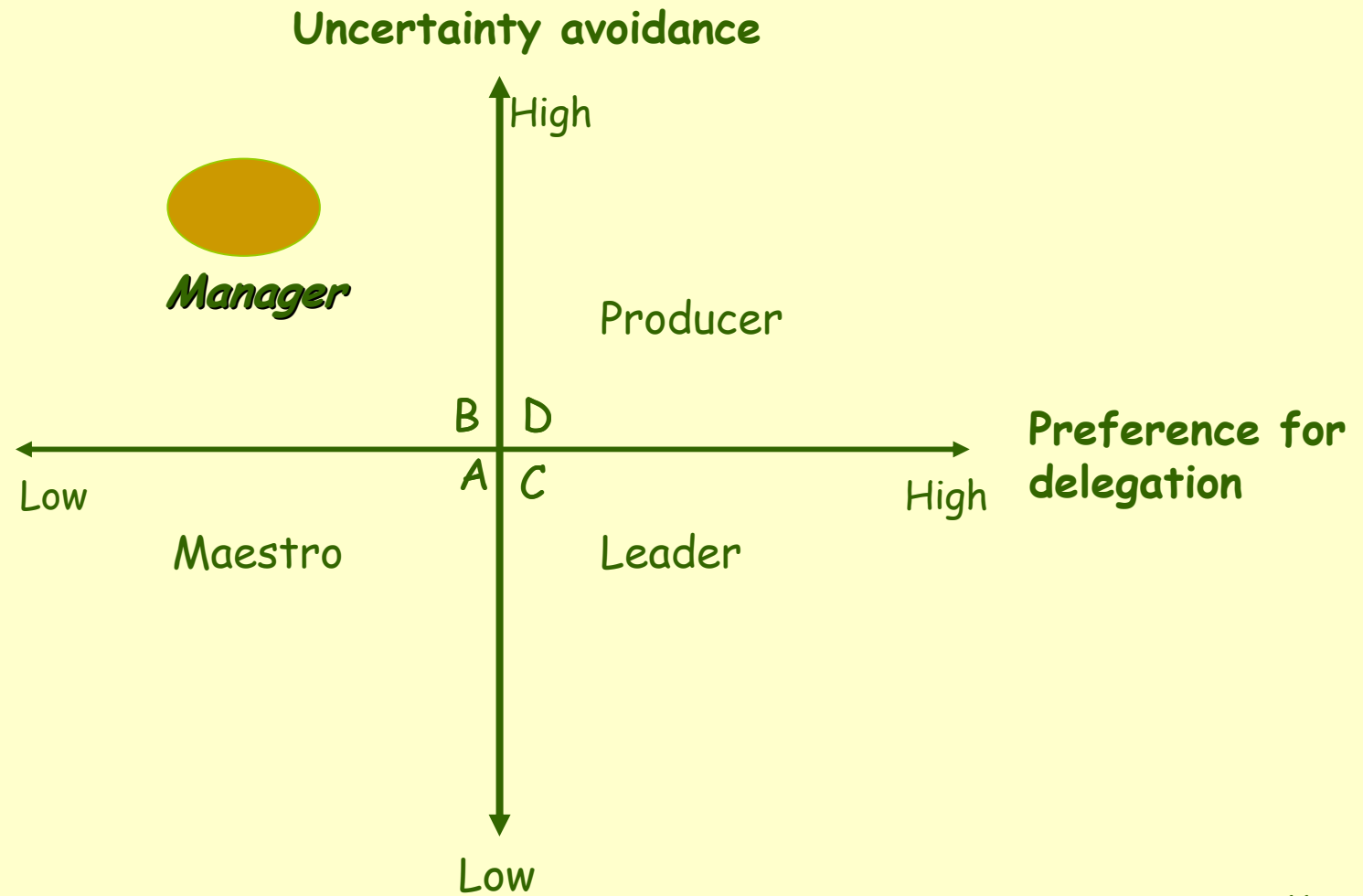
# Coordination (observed)



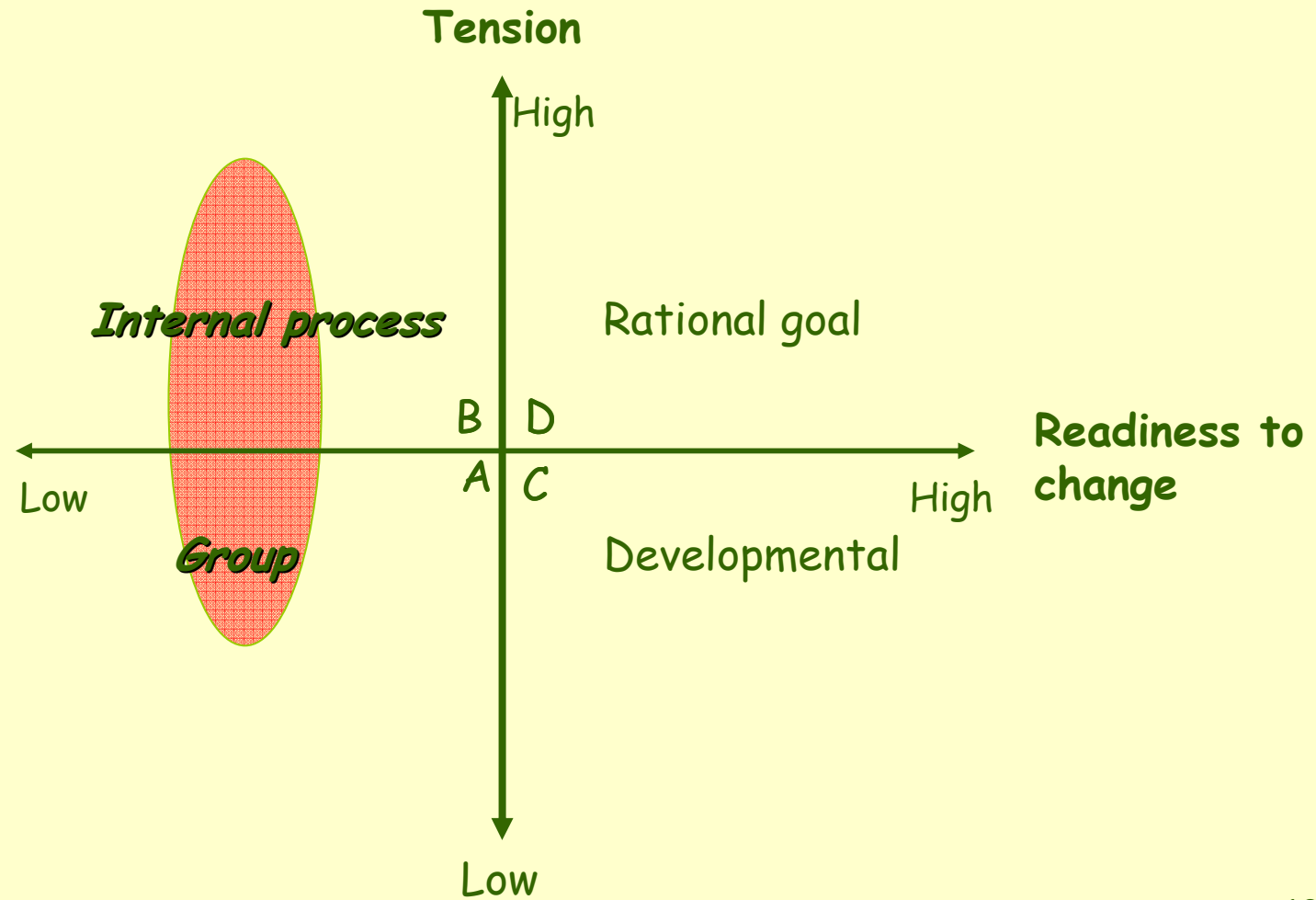
# Information system (observed)



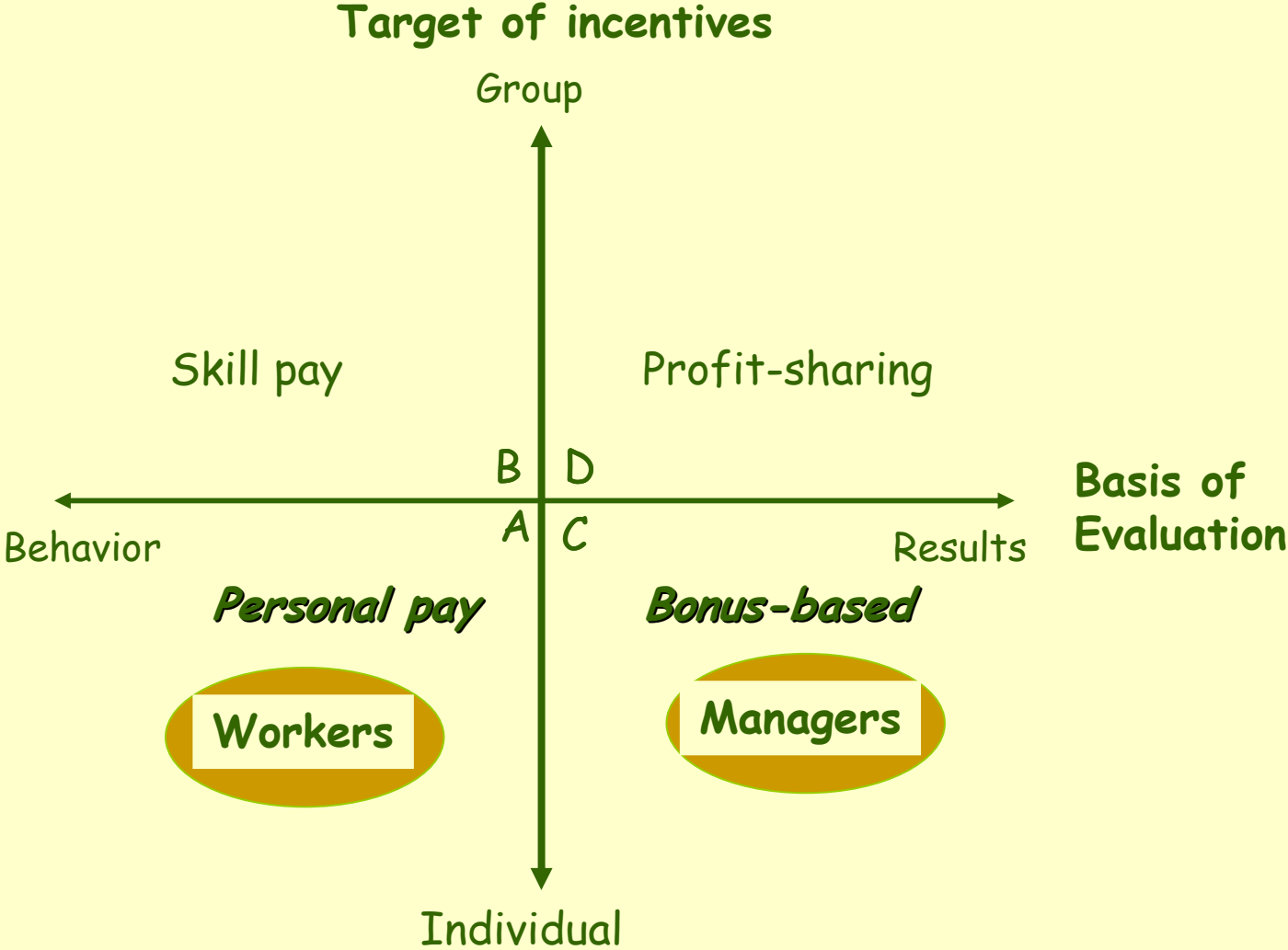
# Leadership (observed)



# Organization climate (observed)



# Incentives (observed)



# Observed parameters of organizational design

Parameter	Strategic type			
	Reactor	Defender	Prospector	Analyzer
Goals	No	Efficiency	Effectiveness	<i>Efficiency and effectiveness</i>
Environment	Calm	Varied	Locally stormy	<i>Turbulent</i>
Configuration	Simple	Functional	Divisional	<i>Matrix</i>
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Incentives	<i>Personal pay</i>	Skill pay	<i>Bonus-based</i>	Profit sharing

## Consequences of strategic misfits for innovation management

- In information system → Difficulty in defining non financial value proposition
- In leadership style → Competition with short-term priorities of company leaders
- In organization climate → Suspicion towards organizational consequences of innovations
- In incentives → Lack of monetary stimulus to engineers and managers to initiate innovations

## Additional problems for innovations in Russian manufacturing subsidiaries

- “Not invented there” syndrome impedes radical process innovations in Russian subsidiaries
- Low perceived value of “Russian-born” inventions impedes exports of new technological and product solutions → low weight of Russian subsidiaries relative to their shares in corporate sales and profits
- High hierarchies and slow decision-making flows in non-private MNCs
- Short-term performance reporting concerns of non-private MNCs



## Overcoming the abovementioned deficiencies (PepsiCo experience in 2008-2012)

- Combination of foreign experience and local initiatives in process innovations (50% of process innovations implemented in 2008-2012 are initiated locally)
- Greater local responsiveness in product innovations (65% of product innovations in 2009-2012 are totally local developments from idea to implementation)
- Overcoming "not invented here" syndrome and import of certain process and product innovations from Russia to other PepsiCo countries
- Launch of Eureka program to create financial stimulus for employees to participate in innovation processes

## Partial overcoming the abovementioned deficiencies (Lactalis experience in 2010-2012)

- Combination of foreign experience and local initiatives in marketing
- Export of marketing/promotion methods from Russia (roll-outs of marketing initiatives, export of TV advertising clips etc.)
- Inclusion of the Russian "marketing Tsarina" into top corporate marketing team
- Promotion of Russian managers to top management positions in other countries (Spain, Latin America)

## Tentative conclusions

- +++ Russian manufacturing subsidiaries of MNCs (RMSs) serve as one of the major sources for copying new products and advanced manufacturing practices by local competitors
- ++ RMSs still (?) play an important role as “smithies of talents” (especially for workers and shop-floor managers) and “ghettos” for decent industrial engineers and managers
- + RMSs are used as benchmarks for “micro-organizing” of innovation processes in manufacturing in Russia
- strategic misfits prevent RMSs to be benchmarks for “macro-organizing” of innovation processes in manufacturing in Russia

# This is interesting, isn't it?

- **Interesting** research denies some of the assumptions held by a certain audience;
- **Trivial** research does not challenge, but merely confirms routinized, taken-for-granted beliefs;
- **Irrelevant** research does not speak to any aspects of the assumption-ground of the audience and
- **Absurd** research denies the whole assumption ground of the audience.

Davis, M.S. (1971), "That's interesting! Towards a phenomenology of sociology and a sociology of phenomenology", *Philosophy of the Social Sciences*, Vol. 1, pp. 309-44.

Presentation is available at

[www.gurkov.ru](http://www.gurkov.ru)