Innovation for Multinational Corporations

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Growth, innovation, and strategic focus are vital for long-term success of multinational corporations (MNCs). MNCs must create the organizational culture and process for increased competitiveness to sustain better market shares and profits. Towards this end, MNCs should develop a comprehensive innovation strategy. Innovation is a way of life and the spirit of innovation, like the spirit of entrepreneurship, must be sustained. The goal should be continuous growth with competitiveness. And towards this purpose, organizations must innovate. The article draws from innovation concepts as they would lead to organizational growth and competitiveness. MNC international structure, culture, and leadership style have an influence on the innovation culture and creativity process in the MNC organization. The article sets forth a model for MNC decision-making structure and organizational culture for facilitating the innovative fervor and capability to be more favorable to the MNC. The models presented here are meaningful in the quest for greater MNC innovativeness and creativity.

Keywords: innovation in MNCs, innovation for MNC growth, innovation for MNC competitiveness

Introduction

Growth and innovation often appear to be synonymous. Often, the innovation strategy is a central part of corporate strategy. Multinational corporations (MNCs) must focus on sustained future growth and competitiveness. These are better pursued through getting out of the mould of routineness and mechanistic organizational life and getting into vigorous creativity entrepreneurialism and innovativeness (Bexell, 2015; Manohar & Pandit, 2014).

The Purpose of the Paper

This paper deals with innovative strategies for an MNC. It presents models for innovation strategy. An MNC with its headquarters (HQ), its various regional HQ, and their foreign subsidiary units must function singly and collectively in order to innovate. The spirit of organizational innovation and renewal should be viewed as an on-going continuous activity for the purpose of meeting the challenges arising out of competition, market changes, and technological advances. Thus, growth and profitability are organizational goals that are better sustained through innovative and entrepreneurial endeavors. It is important to consider the issues concerning the relationship between the MNC HQ and foreign subsidiaries.

MNC's International Growth: Innovation Strategies for Success

An MNC's greatest challenge is to forge an acceptable global culture which is simultaneously functional to the MNC without being dysfunctional to the host countries of the foreign units. The changing of

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organizational culture is an on-going process of growth and challenge to stay competitive. It is important to note that grassroots approach of including foreign units' values and needs is as important as the HQ's views and approach (Bexell, 2015; Robbins & O'Gorman, 2015).

The evolution of a new culture of a foreign unit must be seen to be consistent with the essential aspects of the national culture of its host country. Such an emphasis of congruence is vital if the MNC is to be globally progressive and also locally acceptable (Anderson, Potocnik, & Zhou, 2014; Bexell, 2015; Manohar & Pandit, 2014; Robbins & O'Gorman, 2015).

Overall multinational corporate performance would improve if all of the organizational resources, including those of the foreign subsidiaries, were encouraged to be more entrepreneurial and innovative. The HQ should take the leadership of coordinating strategic initiatives for entrepreneurial and innovative endeavors of the foreign subsidiaries so that the overall organization pursues a coherent and unified approach.

The strategies and organizational resources available to a foreign subsidiary unit's management depend upon the strategic position of the foreign subsidiary unit. In this context, the perception of the MNC HQ of the foreign subsidiary units is vital. This perception is influenced by the day-to-day activities and communications between the HQ and the foreign units. Senior executives at the HQ formulate a perception based upon their interactions with the units. The prospect of future performance of the foreign unit and the access to the resources in the local environment by the foreign unit can also influence the unit's leverage in dealing with the corporate executive.

The quality of support by the unit's lower management in the quest of its objectives, as imputed by the unit's top management to the rest of the organization, is a strong factor in influencing the HQ executives' perceptions of the effectiveness of a foreign subsidiary unit's top management. Thus, the process and outcome of activities inside the foreign unit are important issues for the HQ to observe.

Both the HQ and unit factors contribute to place changes and they appear to influence according to the strategic position of the unit, and, the relative stature of the unit in the context of local factors and the other foreign units of the MNC.

The local political and economic dynamics also affect the units standing the host country would affect its standing in the perception of the HQ. Inter-foreign unit communication and cooperation on such activities as improved product specialization would have an effect regarding the significant upgrading of its relationship with the HQ. Similarly, its role in participation of its strategic alliances and inter-organizational activities with local players would improve its effectiveness in the local context, thereby improving its stature in the perception of the MNC HQ. The paper will utilize these concepts as it discusses MNC-foreign unit relationships.

An MNC's foreign subsidiary units can be made to be a fertile hot bed for innovation. Philips of the Netherlands has most of its R&D and innovative processes done by its foreign subsidiaries. The challenge of becoming increasingly more international is to nurture new, useful ideas wherever they spring up. These ideas spring up from all sources. Such ideas can be small, but when viewed cumulatively, they can affect substantial competitive advantage.

Growth focus innovative ideas are often generated by smaller-sized organizations, often with organic culture, an observation applicable to foreign subsidiary units (Anderson et al., 2014; Bexell, 2015; Birkinshaw & Hood, 2001; Guler & Nerkar, 2012; Manohar & Pandit, 2014; Robbins & O'Gorman, 2015). Because an MNC's foreign subsidiaries can be in far flung theaters of the MNC environment, each subsidiary can focus

upon the specific host country needs and develop newer strategies to meet with emerging demands and challenges. Continuity and forward, proactive planning similarly requires a focused approach as this would help an organization better encounter the unexpected (Bexell, 2015; Lazcano, 2014).

HQ-Foreign Subsidiary Unit Relationships

Dealing with foreign subsidiaries is a sensitive issue. MNC HQ must feel out each foreign subsidiary unit that wants to be dealt with by the MNC HQ (Bexell, 2015; Birkinshaw, 1999; Birkinshaw & Hood, 2001; DasGupta & Gupta, 2009; Gates & Egelhoff, 1986; Roth & Morrison, 1992; Robbins & O’Gorman, 2015). The three major ways for an MNC HQ’s relationship style (in dealing with an MNC’s foreign subsidiary) are:

(1) HQ domination style: The MNC HQ dominates all decision-making processes. It develops a decision-making construct and develops clearly directed action approaches which are thrust upon the foreign subsidiary to follow without much question. It is expected that the subsidiary accepts the directives of the MNC HQ;

(2) Rapid growth model: There can be three subsets of this category. They are:

(a) MNC HQ driven transfer of resources: MNC HQ’s transfer of technology, capital, human and technical resources to the fledgling foreign subsidiaries enables them to expand in their respective host countries;

(b) Foreign subsidiaries seek local resources for their growth: Under little or no direction or strategy from the MNC HQ, the foreign subsidiaries expand on their own. They seek capital, technology, human resources, and equipment resources almost on their own from their host country and third countries to expand, diversify, and grow (Bexell, 2015; O’Donnell, 2000);

(c) A combination of both (a) and (b): The foreign subsidiaries grow through efforts of HQ generated and their own initiatives. Growth is focused upon making the most of both approaches, which signifies greater flexibility and desire for growth.

(3) Jointly planned, coordinated model: Both the MNC HQ and the foreign subsidiaries participate in the formulation of future growth plans and processes and focus on a closely partnered approach. This fosters a closer cooperation between the HQ and foreign subsidiaries, as well as among the foreign subsidiaries. Growth is viewed as a systematic and planned activity with emphasis and a closer partnership among all entities of the MNC.

Issues for the HQ and Foreign Subsidiaries Relationship

The nature of the relationship between the MNC HQ and foreign subsidiaries is an important one. It is vital for long-term competitiveness and growth. Nurturing by the HQ and sustainable trust between the HQ and foreign subsidiaries are fundamental to the strong bond of their relationship.

MNC HQs could focus upon nurturing the subsidiaries. They can try different subsidiaries to test and develop different ideas, projects, or product development. With these kinds of options, an MNC HQ can nurture its foreign subsidiaries to experiment with newer approaches to suit local conditions and needs. They can try entrepreneurial ventures, enact newer markets, develop more locally suitable technologies, operational processes, and seek local collaborations. Such initiatives can be viewed as tentative, but in the long run, it is beneficial for a foreign subsidiary to become more self-reliant in its efforts to become more entrepreneurial and locally adapted (Bexell, 2015; Frenkel & Royal, 1998; Kim & Mauborgne, 1993; Guler & Nerkar, 2012; K. H. Leetaru & H. E. Leetaru, 2014).

Trust can be an important means to further the MNC-unit relationship. This can be better understood in the context of MNC HQ's credibility (i.e., MNC HQ keeping its promises to units) and benevolence (i.e., MNC HQ genuinely concerned about an unit's welfare), whereby high marks on both would further the MNC HQ-unit relationship. Thus, such interactions and exchanges can better explain the situation of the unit's lackluster performance in truly difficult times. During this time, the unit can justifiably expect more empathetic consideration by the MNC HQ. The reliance is on joint participation and sharing of outcomes.

The strategic directions of an MNC would depend upon its top management's mind-set and deliberations of future directions. Its HQ's centricity and its international goals are *a priori* considerations as it analyzes each of its host country's environmental influences (e.g., ethnicity of culture and its products cultural sensitivity). Further, the development of the unit's critical strengths becomes important inputs for the corporate strategy of the MNC.

The plan for organizational development provides a concrete basis to improve its competitive advantage. Such a plan is generated by the gap analyses (i.e., the difference between the competence needed to exceed the criteria of effective performance and the unit's existing capabilities). The particular analyses of: (1) the ethnicity of host country culture; and (2) cultural sensitivity of the product would generate the strategic focus as well as what the unit should customize, adapt, and standardize. This raises the argument of blending the twin considerations of products and local markets and achieving a proper match between them.

Other suggestions for actions may include: closer strategic participation between HQ and foreign subsidiaries; widespread sharing with the MNC of competitive, entrepreneurial, and innovative types of resources; supporting subsidiaries' innovation, R&D, and entrepreneurial endeavors; increasing use of subsidiaries boards of (local) directors to foster local stakeholder integration; broad, flexible MNC HQ leadership that is conducive to subsidiaries' strategic initiatives; and foreign subsidiaries' effective strategy formulation and implementation process that is well integrated with the overall strategic formulation process of the MNC.

The growth of an MNC is an on-going process of review of strategy, structure, culture, and technology. Their synthesis and synchronized pace among their changes would be helpful for smoother changes. Growth, competitiveness, flexibility, and long-term investments in human and capital resources are the key to international growth. Organizational development should be perceived as an important ingredient in striving towards strategic progress.

Multinational business success depends upon the comparative global capabilities of an MNC in the context of its various global environments. Its HQ's strategic focus shapes its overall global strategy, its functional focus, and its foreign units' corporate strategy. Further, each foreign subsidiary unit's host country ethnic intensity and the cultural sensitivity of the MNC's product groups shape the local and global strategic focus. A foreign subsidiary unit develops its unit's corporate strategy through incremental inputs to its hitherto unit strategy through gap analyses to enhance its strength-weakness profile for meeting the criteria of effective performance set by the HQ.

MNCs should pursue strategies for their various foreign subsidiaries based upon what they consider to be effective approaches for them. MNCs would benefit from a better strategic analysis that would clarify the underlying issues of their international situation, and thus would clarify their alternative strategy paths. Such an analysis would determine the organizational and environmental issues that influence the choice of MNC strategy paths which, in turn, would help in the re-formulation for future MNC overall corporate strategy.

The relative capabilities of the MNC organization in the context of the performance goals and expectations of MNC's strategic international environments are the focuses of the analysis. They determine the quality of organizational performance of the MNC in its various international environments.

Discussion on Innovation Strategy for MNC's HQ and Foreign Subsidiaries

This section presents the figures and tables and discusses them. Figure 1 presents a model for MNC global strategy and innovation strategy and suggests the use of gap analyses for this purpose. Figure 2 provides the innovation process through analyses of the environmental scanning process in the use of strategic management process. Table 1 provides the three cycles, nine-step process of MNC innovation, emphasizing a systematic planned approach. Figure 3 suggests ways to implement innovation as a regular part of organizational process.

Figure 1. MNC global corporate strategy and innovation strategy.

Figure 1 portrays the relationship between global corporate strategy and innovation strategy. MNC global corporate goals and strategy provide specific indications about the MNC's innovation goals and strategies. MNC's strategic management process would raise issues of external environmental challenges and provide focus upon the projected gap or deficit in organizational performance.

Gap analyses (which are intended to specify the details of resource deficit in the context of the challenge) would raise considerations at the overall MNC level, regional level, and foreign subsidiary unit level. These issues may include topics such as product development and improvement, organizational process improvements, customer service improvements, marketing innovations, enactment of new regions for the MNC's markets, re-focusing on organizational primary purpose in view of changing environments.

At the MNC level, overall organizational innovation consideration could include: global product-market offerings, organizational re-structuring to better serve constituent markets, improved services to generate better organizational support for its foreign units for such activities as technical support, R&D, advertising, marketing, logistics, product adaptation, product re-design, and process re-design.

At the regional level, the focus should be on better coordination of its foreign subsidiaries' activities as they can be better synthesized where such synthesis would build strengths through synergy, organizational learning and experience, marketing intelligence, and technical problem-solving.

At the foreign subsidiary unit's level, the focus is on effective adaptation to the local environment. Such adaptation requires continuous refining and innovation through organizational renewal and tuning with the local culture. The foreign units' innovative activities may include: adaption to local supplier conditions, local technical constraints, local labor market conditions, local infrastructural constraints, and local market needs for the MNC's products and services.

Thus, we conclude: The foregoing would lead to the scope, intent, and depth of innovation strategies. Growth and profitability are the more common motives of innovation. In addition, a common denominator for driving innovation is the challenge emanating from the external environment, notably competitive challenge and changing and rising customer expectations. Often, internal environment can spur innovative endeavors, such as creative and innovative aspirations of people. Innovative spirit can be nurtured through a creative culture of the people of the organization.

Figure 2. MNC goals, environmental analyses, and innovation.

Figure 2 depicts the process of analyses and assessment of environmental trends, and organizational goals and capabilities. The top managements of an MNC HQ, regional HQ, and foreign subsidiary units must continuously scan their respective strategic external environments as they reassess the future needs. In the analysis of patterns of environmental changes, an MNC (at all the three units of analysis: MNC HQ, regional HQ, and foreign unit top management) determines the competitor analyses and consequently assesses its innovation needs for the future.

Innovation directions are determined by the plans to cope or proactively change the undesirable aspects of the future states of external environments. Anticipated future states of external environments often make an

organic MNC focus upon a strategic approach to prepare ahead and manage change effectively. In doing so, the MNC has to pursue innovative activities to meet the anticipated challenges.

The future MNC goals would focus upon MNC resource development plans. In the on-going MNC resource development process, innovation and strategic responses must feature in future innovation processes.

MNC innovation and growth plans would be integral parts of MNC global strategies. Innovation is often viewed as a means to accomplish long-term MNC goals and achieve increased competitiveness.

Thus, we conclude that: Innovation must be considered as a strategy, a strategy to further the MNC goal accomplishment process. Ideas of innovation thus must be viewed as ideas that are founded in the internal and external environments, e.g., competitor challenges, technological advancements, creative surge of MNC people, and competitive pressures.

Table 1

A Model for MNC Innovation Process

	Cycle 1	Cycle 2	Cycle 3
Focus	Identify innovation goals and skills	Formulate innovation strategy, plans, and resources	Implement innovation strategy
MNC HQ	1. Identify and communicate future challenges facing overall MNC; elicit suggestions; define scope and seriousness of situation; define general goals of innovation and desired outcomes.	4. Define specific goals of strategy innovation in a clear manner; provide specific innovation directions; provide resources and training.	7. Global coordination plans for implementation of innovation plans; set targets, standards of performance.
Regional HQ	2. Focus on regional applications of the challenges; identify regional units' resources and interests to solve these.	5. Organize regional units' resources; coordinate innovation.	8. Focus on regional coordination of innovation process; set targets, standards of performance.
Foreign units	3. Identify specific and detailed goals and skills and likely approaches that can contribute to the overall solution.	6. Finalize detailed innovation plans; identify teams.	9. Generate innovation; evaluate and improve innovation.

Table 1 portrays the continuous process of nine steps of innovation. The continuous process is broken into three cycles as they identify challenges, determine goals, and plan for effective innovation to meet with external and internal needs, identify the resources needed, and the implementation of the innovation strategy.

Cycle 1: Identify innovation goals and skills. The trends in the external events would give enough cues to the top management to develop a profile of the external challenges and the scope and content of desired problem-solving innovation.

Step 1: The initial step is to identify the future global challenges and to generate a culture and climate to identify areas of sub-par performance or external global threat areas which need to be addressed by the overall MNC HQ.

Step 2: The regional HQ should focus upon the regional challenges and develop regional innovation goals to foster growth and development of the foreign units with the region.

Step 3: Each foreign unit should focus on its host country's challenges and needs and should develop unit-specific innovation goals and plans.

Cycle 2: Formulate innovation strategy, plans and identify resources. The second cycle should focus upon strategies and plans to accomplish the innovation goals to solve the impending problems.

Step 4: Define in greater detail and specificity the goals of innovation, and formulate strategy to focus upon innovation for all scopes: overall MNC, regional, and foreign units.

Step 5: The organization of regional activities and services of all foreign units within the region should be planned and coordinated in this step.

Step 6: Finalize detailed plans for each foreign unit to organize innovative activities.

Cycle 3: Implement innovation strategy. The innovation strategy is implemented in a manner that is consistent with the content of ideas of Cycles 1 and 2 above.

Step 7: Global coordination plans for innovation should be formulated for the overall MNC. Growth plans must be integrated in this approach.

Step 8: At the regional level, the focus should be to organize innovation details and activities for generating effectiveness.

Step 9: Perform innovation activities; implement innovation strategies; and improve innovation effectiveness to better achieve corporate goals.

Figure 3. A model for the process of institutionalizing innovation at each level of an MNC: MNC HQ, regional HQ, and foreign unit (The above process should be followed by: MNC HQ, regional HQ, and foreign subsidiary unit).

The attributes of an innovative organization should focus upon growth. The culture should be one of nurturing talents, skills, and trust building. The activities should be conducive to foster a closer bond between the HQ and the foreign subsidiaries.

The main emphasis is to generate enough innovative skills and provide growth and competitiveness in the market place. Organization-wise, the innovation process would be the emphasis of those who spearhead the change. The innovation is tested for possible inconsistencies and impracticalities. After the potential faults are removed, the innovation is implemented more fully into the system of the organization. Then, the regularity of the administrative process, together with the innovation incorporated into the system, would influence the organizational culture and future process.

This process should be pursued at all levels: MNC HQ, regional HQ, and foreign subsidiary units. Further, there should be coordination and continuity of purpose and process among the three: MNC HQ, regional HQ, and foreign subsidiary units.

Figure 3 suggests that at each of the three levels (MNC HQ, regional HQ, and foreign subsidiary units), innovation is the key to continued success and competitiveness of the MNC. Innovation, incremental or radical, may be focused and applied to result in tangible benefits to the MNC. It may be first tested and evaluated for viability and worthwhileness. This is done through continual or periodical testing and refining until it is most in tune with reality. It should be operationalized and repeatedly refined until it is institutionalized.

Innovation may be fostered through four approaches: (1) MNC HQ providing seed money; (2) use formal requests for future project proposals; (3) encourage the units to nurture new ideas; and (4) forge strong inter-unit networks (Birkinshaw & Hood, 2001; K. H. Leetaru & H. E. Leetaru, 2014; Robbins & O’Gorman, 2015).

Conclusions

The top managements of the MNC HQ and the foreign subsidiary units together have to recognize that their strategic paths are determined by their respective strategic task environments. The top management of the MNC HQ is influenced by the MNC structural orientations that reflect its ethnicity orientations and mindsets. The top management of a foreign unit must operate within its constructs, which are: (1) its HQ expectations; (2) its host country and regional environments; and (3) its own internal organization. It must seek to meet or exceed the expectations of these three different sectors.

A foreign unit must perform such that it consistently meets or exceeds the expectations set for it by: (1) its MNC HQ; (2) local environments, including its host country and regional countries with which it interacts; and (3) its own people so that they feel that their aspirations and needs are well met. In very satisfactory situations of a foreign unit meeting or exceeding these expectations, one can predict that it would grow well in its host country environment.

Innovation strategy is central to corporate strategy. Its focus is to achieve continuous and sustained, long-term competitiveness, profitability, and growth. For accomplishing these, the following recommendations are worthwhile for consideration: closer strategic participation between HQ and foreign subsidiaries; widespread sharing with the MNC of competitive, entrepreneurial, and innovative types of resources; supporting subsidiaries’ innovation, R&D, and entrepreneurial endeavors; increasing use of subsidiaries boards of (local) directors to foster local stakeholder integration; broad, flexible MNC HQ leadership that is conducive to subsidiaries’ strategic initiatives; and effective subsidiaries’ foreign strategy formulation and implementation process that is well integrated with overall strategic formulation process of the MNC.

The growth of an MNC is an on-going process of review of strategy, structure, culture, and technology. Their synthesis and synchronized pace among their changes would be helpful for smoother changes. Growth, competitiveness, flexibility, and long-term investments in human and capital resources are the key to international growth. Organizational development should be perceived as an important ingredient in striving towards strategic progress.

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