How can managers successfully solve the challenge of balancing the simultaneous need for integration and coordination within a multinational corporation competing in hypercompetitive markets?

Author: Sævar Ólafsson   Supervisor: Kirsten Foss
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Sincerely,
Sævar Ólafsson
Copenhagen, Denmark, 03.08.2009
Executive summary

In the hypercompetitive environment described in the thesis, consumers expect and demand more; competitors aggressively introduce new products, change distribution channels, implement cost-cutting programs, and imitate each other’s innovations. As the world has become more competitive and volatile, companies experience in industry after industry has shown that neither market positions nor traditional sources of competitive advantage can anymore guarantee long-term success. In this mercurial environment, attention is converging on knowledge as a critical source of comparative economic advantage. The new strategies, in turn, have raised questions about the adequacy of organizational structures and control processes used to manage worldwide operations.

In the earlier parts of the thesis I provide the reader with the introduction and research consideration and move to another part containing a sound theoretical background for my following empirical analysis. I try to indicate first my point of view on different theories, giving the reader basic, however sufficient background concerning hypercompetition, exploration, exploitation and control processes. Next i move to a following part describing an ambidextrous and transnational structures. With the inspection of the empirical research i was successfully able to relate the business cases of IO Interactive, Microsoft Denmark and Velux A/S to the theoretical framework.

The study provides empirical evidence that the manner which multinational corporations choose to organize themselves with regards to organizational structure and control processes does not have to be homogeneous. Whether the difference lies in the level of centralization, decentralization, exploration or exploitation is irrelevant – What is significant in hypercompetitive markets is that multinational corporations can sense and respond to multiple changing environmental demands and make selective decisions. As a result, in order to successfully solve the challenge of balancing the simultaneous need for integration and coordination within a multinational corporation competing in hypercompetitive markets, managers have to be able to implement what I define as an organic and loosely administered structure. In this context, managers are able to stimulate the creation, collection and the sharing of the exploitive and exploratory knowledge simultaneously, overcoming most of the disadvantages of centralization and decentralization. This requires a highly creative and communicative working environment lead by qualified and diverse employees who share a set of common values. The ability of being flexible while maintaining some consistency and reliability seems to be the key to meeting the challenges of the future.
## Table of content

Introduction ........................................................................................................................................... 3

1.1 The purpose of the thesis .................................................................................................................. 5

1.2 Motivation ......................................................................................................................................... 7

2. Method .............................................................................................................................................. 8

2.1 Philosophy of science ..................................................................................................................... 8

2.2 Case study ....................................................................................................................................... 9

2.3 Data collection .................................................................................................................................. 10

2.4 Validity .......................................................................................................................................... 11

3. Theoretical framework .................................................................................................................... 13

3.1 Competitive effectiveness .............................................................................................................. 14

3.2 Hypercompetition .......................................................................................................................... 17

3.2.1 Goals and competencies for disruption ....................................................................................... 20

3.2.2 Capabilities for disruption ......................................................................................................... 20

3.2.3 Tactics for disruption .................................................................................................................. 21

3.3 Creating knowledge ....................................................................................................................... 21

3.1 Balancing exploration with exploitation ......................................................................................... 23

3.4 Strategic control processes ......................................................................................................... 25

3.4.1 Role of strategic control processes in hypercompetition .......................................................... 27

3.4.2 Mechanic structures ................................................................................................................... 29

3.4.3 Organic structures ....................................................................................................................... 30

3.4.4 Sustaining ambidextrous structure ............................................................................................ 32

A) Origin of qualified and resourceful managers .................................................................................. 32

B) Trust and empowerment ................................................................................................................ 35

C) Performance measurements ........................................................................................................... 35

3.4.5 Organic and loosely administered structure ............................................................................. 36

A) The transnational solution: a balanced perspective ......................................................................... 38

B) Role of control processes in the transnational corporation ............................................................ 38

3.5 Using the new 7-S’s as a part of the control process ..................................................................... 40

3.6 The role of Innovation; ways to explore and exploit simultaneously ........................................... 41

3.6.1 Strategic alliances ....................................................................................................................... 42

3.6.2 Social networks .......................................................................................................................... 44

3.6.3 Mergers and acquisitions .......................................................................................................... 46
4. Empirical research .............................................................................................................47
   4.1 IO Interactive .............................................................................................................47
   4.2 Microsoft Denmark .................................................................................................49
   4.3 Velux A/S...............................................................................................................52
5. Analysis ..........................................................................................................................54
   5.1 How to organize a hypercompetitive subsidiary .......................................................54
   5.2 Being part of a multinational corporation .................................................................57
   5.3 Ways to explore outside of the multinational corporation ........................................61
6. Results .............................................................................................................................64
   6.1 Fairly centralized structures .....................................................................................65
   6.2 Relatively decentralized structures ............................................................................67
   6.3 Exploration vs. exploitation; the case of subsidiaries ...............................................70
   6.4 Isolation strategy .....................................................................................................77
   6.5 The transnational solution .......................................................................................79
   6.6 Continuous innovation .............................................................................................81
7. Conclusion ......................................................................................................................83
8. Suggestions for further research ...................................................................................86
9. Limitations .......................................................................................................................87
References ..........................................................................................................................89

Table of figures

Figure 1 - The New 7-S’s Framework (D’Aveni, 1994) .....................................................19
Figure 2 – The transnational corporation (Bartlett and Ghoshal, 1989) .............................37
Figure 3 - Five primary driving forces in the game industry (Video Game Industry, 2005)...49
Introduction

Since the late 1980s, many multinational corporations have operated within a constantly changing and borderless environment. As the world has become more competitive, uncertain and volatile, companies experience in industry after industry has shown that neither market positions nor traditional sources of competitive advantage can anymore guarantee long-term success. Indeed, competitors are invariably able to appropriate existing markets or create new ones through successful innovations (D’Aveni, 1994; Akhter, 2003). This increasing pace of market turbulence has become a subject of interest for managers and researchers alike. Numerous descriptions have been applied to the increased pace, such as “high velocity” and “hypercompetition” (Brown and Eisenhardt, 1998; D’Aveni, 1994). What this means is that the rules of the game of business have changed due to rapid pace of technological developments and changes in the behaviours of competitors, consumers, regulators, and suppliers, among others. In these dynamic environments, multinational corporations cannot earn above average profits for a meaningful period of time based on a single established innovation or advantage (Bogner and Barr, 2000).

In this new business environment, consumers expect and demand more; competitors aggressively introduce new products, change distribution channels, implement cost-cutting programs, and imitate each other’s innovations. Companies regularly redraw the traditional boundaries of markets as they globalize their operations in response to the changing regulatory and competitive climate. Multinational corporations suffer losses at the hands of competitors not because they do not have strategic plans, but because their strategies do not prepare them to anticipate and deal with competitive developments (Akhter, 2003). Indeed, new pressures have transformed the global competitive game, forcing companies to rethink their traditional worldwide strategic approaches (Bartlett and Ghoshal, 1989). This has meant that firms have little choice but to adapt to changes, otherwise they are “destined to expire” (Regan and Sims, 2006).

As early as 1940s, Joseph A. Schumpeter (1950) recognized some of the weaknesses of traditional static models in explaining competition and proposed that more dynamic forces were at work. In the true creative birth and destruction process, new industries and technologies replace and displace older ones. In Schumpeter thinking, creative destruction
creates economic discontinuities, and in doing so, an entrepreneurial environment for the introduction of innovations, and earning monopoly profits. Competition becomes a self-destructive mechanism that normalizes the profit level when the innovation effects (Lahti, 2007). In this perspective, innovation can be defined as the process in which organizations creates and defines problems and then develops new ways to solve them (Nonaka, 1994). The goal of innovation is positive change, to make someone or something better. Especially in fast moving hypercompetitive environments the need for a constant innovative process is crucial for survival.

As a solution, Richard D’Aveni (1994) offers a powerful model that addresses the emerging realities of competing internationally in intense and dynamic environments, what he describes as hypercompetition. Schumpeterian competition is one form of such hypercompetition. Whereas Schumpeter focused mainly on creative destruction due to technological revolution and innovation, the studies of D’Aveni (1994) support a much richer, multidimensional view of competition. In other words, hypercompetition results from the dynamics of strategic manoeuvring among global and innovative combatants and more often than not, is triggered and driven by innovation external to the immediate industry (D’Aveni, 1994). Looking into hypercompetition provides strategic insights into the complex relationships of disruption, turbulence, competition and the market environment (D’Aveni, 1999).

Hypercompetition has left most managers scrambling to understand the nature of the forces of change in their particular business, what response is most appropriate, and, above all, how they can manage the more complex strategies and operations on an ongoing basis. Even firms who are not seeking to expand abroad are confronted by the emerging challenges as the forces of internationalization reaches out to embrace them (Bartlett and Ghoshal, 1989). Indeed, managing hypercompetitive environments involves management orientation not found in mature and stable environments. This dynamic process requires new organizational forms that are able to explore new opportunities as well as exploit opportunities to deepen a manager’s existing knowledge base. Eventually, real sources of advantage are to be found in the management ability to consolidate corporate wide technologies and skills into competences, empowering employees to adapt quickly to changing opportunities (Prahalad and Hamel, 1990).
1.1 The purpose of the thesis

Multinational corporations may face different types of competitive environments across national markets and industries ranging from hypercompetitive to stable or declining markets. Competing across such diverse settings markets pose major challenges to managers. Accordingly, the focus of the thesis relates to the challenges faced by managers of multinational corporations facing competitive environments that can be characterized as hypercompetitive (D’Aveni, 1994; 1995; 1999). For further enlightenment, the theoretical framework of the thesis will be compared with the three empirical cases of multinational corporations; IO Interactive, Microsoft Denmark and Velux A/S. In this perspective, two of the empirical cases can be defined as hypercompetitive. Interestingly, one of the empirical cases can be defined as non-hypercompetitive. Withal, as will be argued, many of the characteristics of all three empirical cases can be related together. In this context, the term multinational corporation will be used throughout the thesis as a general term for companies operating internationally.

It is important to acknowledge that during the writing process of the thesis the world has been affected by the subprime mortgage crisis, an ongoing financial crisis triggered by a dramatic rise in mortgage delinquencies and foreclosures in the United States. The crisis, which has its roots in the closing years of the 20th century, became apparent in 2007 and has exposed pervasive weaknesses in financial industry regulation and the global financial system. Indeed, the global financial crisis has changed the rules of the game for all multinational corporations, making the world even more uncertain and volatile. However, as with hypercompetitive strategies, multinational corporations cannot afford to sit on the sidelines waiting for the worst to pass. To survive, sustain and grow during these turbulent times, they must learn how to adapt. Multinational corporations, who take control today and advance, hold a considerable advantage over those that do not (Harvard Business Publishing, 2008).

In this mercurial environment, attention is converging on knowledge as a critical source of comparative economic advantage. The ability to grow in today’s hypercompetitive milieu will depend on how well a firm creates collects and shares information. Moreover, a firms understanding of what information to collect, how to collect it, and how to use and share it within the multinational organization will have an impact on innovativeness and performance (Akhter, 2003). Accordingly, the focus of the thesis relates to the ability of managers of
multinational corporations to strike a balance between exploitive and exploratory knowledge as introduced by March (1991) and to coordinate its development with suitable control processes. Thus, rather than focusing on organizational tools such as the research based view or supply chain management, the thesis is aimed towards providing answers to the challenges of making global and standard solutions, best practice and needed knowledge available and shared in multinational corporations efficiently and without excessive use of time and resources.

This new global competitive game has led to an evolution in multinational corporation strategies that yield strategic orientation and structures ranging from a highly centralized global enterprise to the dispersed transnational organization (Clemmons and Simon, 2001; Bartlett and Ghoshal, 1989). The new strategies, in turn, have raised questions about the adequacy of organizational structures and control processes used to manage worldwide operations. The basic premise of the thesis is that multinational corporations are represented by units spread throughout the world that need to be coordinated or integrated in some form and to some degree (Bartlett and Ghoshal, 1989). Uniform control systems do not work equally well for all multinational corporations. Strong centralization often leads to inflexibility, which is diametrically opposed to the best conditions for the research and development process required in hypercompetitive markets, while allowing for integration and effective exploitation of firm’s specific advantages. In contrast, decentralization allows for greater coordination in the decision process resulting in exploration and creation of new types of firm’s specific advantages, while decreasing the efficiency and speed required in hypercompetitive environments (Bartlett, Ghoshal 1989; March, 1991). As traditional industry characteristics are disrupted and reconfigured, companies are forced to modify their once effective organizational structures and relationships. Thus, leading to the main thesis statement or research question:

_How can managers successfully solve the challenge of balancing the simultaneous need for integration and coordination within a multinational corporation competing in hypercompetitive markets?_
1.2 Motivation

One of the reasons why I enrolled in Copenhagen Business School’s International Marketing & Management line is that I have always been interested in issues related to the highly complex and dynamic reality that multinational corporations constantly experience. My colleagues see me as a very organized and independent individual, which helps enables me to solve problems effectively and efficiently, individually and in a group. However, at the same time I am a take-charge person who is able to present creative ideas and communicate the benefits to others. As my choice of master thesis topic indicates, I am a fan of flexible and adaptive solutions to problems, whether in personnel life or business. In this perspective, the methodology of the International Marketing & Management line is interesting because it is rooted in course models and projects that integrate, develop and apply different methodological approaches from a multinational corporation’s perspectives. Traditional understandings of industry structures are replaced by new fluent models of organization, reflecting a world that is becoming more dynamic, internationalised, knowledge-intensive, and network-based. Most corporations are influenced by these contemporary issues and, thus, the International Marketing & Management programme gives insight into the consequences of these tendencies which require new analytical insights and skills among tomorrow’s business leaders.

Throughout the thesis I will attempt to display that during my studies in the International Marketing & Management line I have acquired skills necessary to solve practical international business challenges which deal with some of the above described challenges. In particular, I hope to have proved my abilities by working independently, minimizing my usage of counselling.
2. Method

The following sections will cover the methodology used to answer the overall question of how managers can successfully solve the challenge of balancing the simultaneous need for integration and coordination within a multinational corporation competing in hypercompetitive markets. In order to discuss the method used for the data collection, which is used for the analysis, some overall reflection on the philosophy of science for the thesis is relevant. The philosophy of science frames the whole thesis and determines the research possible. Overall, the ontology from which the thesis is performed is relevant for the notion of knowledge and data collection. Furthermore, a central notion in the process of research is the interplay between theory and data. Thus, the research process is framed by the philosophy of science, introducing the method of data collection chosen for the thesis.

2.1 Philosophy of science

In the following, two of the distinguished philosophy perspectives on research will be discussed; positivism and interpretivism. Positivism is an objective paradigm that is recognized by the perception of the researcher as independent from the object that is researched (Blumberg et al, 2005). Reality is therefore something that can be observed and measured objectively and exists independent of the human recognition. The world is perceived from a rational perspective where the objectives of research are interrelated objects of the physical world (Brier, 2005). This means that e.g. the aim of the thesis; to analyze how managers can successfully solve the challenge of balancing the simultaneous need for integration and coordination within a multinational corporation competing in hypercompetitive markets, exist as an unbiased object that can be described. However, there has been some criticism of this perspective in social science by e.g. Thomas Kuhn that with his presentation of the term paradigm defines knowledge creation as dependent on time, place and location (Brier, 2005).

In this perspective, the interpretive perspective is the philosophy of science applied to the thesis in the mission of creating knowledge. In interpretivism the social world is perceived as constructed and meaning is subjectively applied by the researcher and thereby in many ways in opposition to the positivism paradigm (Blumberg et al, 2005). The interpretive paradigm perceives the world from socially constructed position and therefore applies a relativistic
ontology (Brier, 2005). This implies a thesis that cannot disclaim being bias in its conclusions. Hence, the importance of stating the philosophy of science applied in a research, so conclusions are reflected upon from that perspective. As the result can be affected even by the researcher’s socialization within certain science, they should always be reflected upon the interpretive perspective (Wenneberg, 2002).

Accordingly, the thesis is based on the ontology of interpretivism, a constructivist notion of knowledge creation. Thereby the recognitions and conclusions of the thesis are based on social explanations and knowledge about the social word (Wenneberg, 2002). It can be argue that the thesis uses a phenomological epistemology, seeking to research a phenomenon; how managers can successfully solve the challenge of balancing the simultaneous need for integration and coordination within a multinational corporation competing in hypercompetitive markets. However, the purpose is not only to research a phenomenon from the multinational corporations own description, but seeks to analyze challenge from the descriptions and the interpretation of their statements. Thereby, it is important to reflect upon the way data is collected and hereafter how the data is used in the analysis.

The ontology and epistemology of this thesis implies a research method where quantitative methods based primarily on numbers are not sufficient. Quantitative methods can be relevant to support statements, but there is a need for some qualitative methods to understand, describe and analyze a social phenomenon (Blumberg et al, 2005). Thereby, qualitative research method is suitable to create a framework and understanding on a field of study. Thus, the method chosen for this research can be defined as qualitative.

**2.2 Case study**

The thesis is not only based on a descriptive approach. In order to make a conclusive analysis of multinational corporations, an explanatory research is also included. The aim is not only to analyze three empirical cases, but to discuss them in relation to a theoretical framework in order to answer the overall research question. In this perspective, the theoretical framework is based on numerous literatures and reports by scholarly oriented authors. For this purpose a case study research is relevant since it applies some empirical examples hat are essential for a phenomenon that cannot be isolated from the context it occurs in. Indeed, it would be
difficult to identify relevant knowledge without collecting empirical material from practical examples in a business context.

According to Bryman (2004) a case study is a research design that entails the detailed and intensive analysis of a single case. It is therefore a method for an empirical research of how a certain phenomenon outplays in a certain case. The motivation for making a case study is the assumption that a certain empirical case exemplifies a unique situation that is interesting to analyze (Andersen, 2005). Furthermore, a case study as the central part of the data implies a scientific approach where the interpreter has a role in the conclusion of the research. The analysis of the empirical case and the way the data is applied to theory makes the author in a way a part of the object analyzed (Blumberg et al, 2005).

2.3 Data collection

The empirical material of the thesis is based on four research interviews conducted during the period April-May 2008, May 6th 2009 and May 25th 2009. IO Interactive primary data was collected through two research interviews with Charlotte Delran, Head of Creative Services and Thomas Hagen, Online Development Manager. Charlotte Delran has oversight of strategy on behalf of IO Interactive. However, Thomas Hagen has many years of experience working in the IT industry as a programmer. The interviews ranged from 50-70 min, and were tape recorded for later consultation. With regards to Microsoft Denmark, primary data was collected through a single interview with Per Blessing, Head of the Response Management Team for Denmark and Iceland. In a similar manner, Velux A/S primary data was collected through single interview with Michael K. Rasmussen, Head of Group Communication and Brand Management. The interviews ranged from 30-50 minutes, and were tape recorded for later consultation.

As mentioned before, the method chosen for this research is defined as a qualitative. Qualitative research involves collecting, analyzing, and interpreting data by observing how people react, in words and actions. Qualitative data can be quantified, because observations and statements are in a qualitative or no standardized form, but only when translation process has taking place (Burns and Bush, 2006). When using qualitative interviews it is often easier to skip the basic facts and get to the essence of the phenomenon (Kvale, 1997; Miller and Brewer, 2003).
Qualitative research gives the opportunity to ask more detailed and clarifying questions as the research interview progresses. This allows the respondent to give his view on the subject, which according to Kvale (1997) is the objective behind this research method. The interview and the research method will contribute to a better understanding of the subject of research and thereby clarify the challenges in of the phenomenon. The qualitative research interview is structured from the logic of a semi-structured interview, which is one type of interview that is often used in case study research (Blumberg et al, 2005). The whole construction of the thesis has the aim of evaluating whether the empirical material contradicts the theoretical framework, instead of e.g. having an empirical starting point and theory to support and e.g. empirical hypothesis.

When designing the questions for the interview a good starting point is to ask the question: “What do I want to know or why does this phenomenon interest me?” (Blumberg et al, 2005). This issue matters because a good interview is the art and science of exploring the subjective knowledge, options and beliefs of an individual. During a semi-structured interview the respondent is asked questions based on prepared written list of questions. As argued, structure provides flexibility and thereby gives the respondent the opportunity to express themselves in own words and manner of speech about the object. Further the interviewer has the opportunity to follow up on certain answers from the respondent and thereby turn the interview in unexpected directions. In this way the interview is customized since the respondent has an influence in the development of the interview dependent on the answers given. With that in mind, in order to conduct successful semi-structured interviews, the questioner needs to make respondents feel comfortable about talking (Miller and Brewer, 2003; Using Interviews in Research, 2008).

2.4 Validity

Verification of knowledge is a central element for the scientific approach and this can be explained and reflected through the term of validity. Validity can be divided in two different perspectives – internal and external validity. The perspective of internal validity concerns whether the conclusions that a drawn from the research is actually answering the research question outlined (Kvale, 1997; Blumberg et al, 2005). In this perspective, the research design fulfils the purpose of a stringent composition that holds a constructive progression for the argument throughout the dissertation. This is done in a reflective way based on three
empirical cases and the theoretical framework. As a result, there is coherence between what the thesis aims out to do and what is actually conducted which validates the overall research question, the analysing process and the conclusions of the thesis (Kvale, 1997).

However, in relation to validity it should be considered whether the data collection process of the thesis could eventually compromise the validity of conclusions. Since the data collection is based on quantitative research method, the data is based on reflection of a phenomenon by respondents within a multinational corporation. The respondent’s personal views are therefore expressed and become part of the conclusions (Kvale, 1997). In this perspective, it is strength to the analysis that the thesis includes empirical material from three different multinational corporations and as a result, three different perspectives. Similarly, two different employees with different functions of IO Interactive were asked the same questions. In that way, two different views of a phenomenon may result in some contradictory statements, but as the views are analyzed and discussed together, they may strengthen the validity of the thesis.

External validity concerns whether the conclusions can be generalized across persons, settings and times, thus suggesting that the conclusions of the thesis can be applied to the cases of other multinational corporations (Kvale, 1997; Blumberg et al, 2005). From the perspective of a single case study the approach implies an analysis of a unique situation. It can thus be argued that the unique situation of IO Interactive, Microsoft Denmark or Velux can be applied to other situations. It can though be difficult to make a broad generalization on the basis of three single case studies. This leads to the notion of reliability or how coherent conclusions will be over time (Kvale, 1997). As the data collection method of thesis is based on qualitative measures, it cannot be certain that the results would be the same if other respondents had been interviewed. In a similar manner, it is not certain that result would have been the same if the interviewers would have been asked a year earlier or a year later.
3. Theoretical framework

Almost 90 years ago, Frank Knight (1920) distinguished between the objective probability that an event would happen, and the immeasurable unknown, such as the inability to predict the demand of a new product. Knight expected that an entrepreneur would make his profits in the market with immeasurable unknown or “true uncertainty”. Precise information about future events is not necessary or even possible. Profits, firms, and entrepreneurship, Knight argued, all depend on uncertainty. Today, the same conditions of uncertainty still apply. However, as Akhter (2003) argues, from strategic marketing perspective, today’s markets, products, and competencies are largely irrelevant. What is needed is an understanding of the evolution of the market, tomorrow’s problems, competencies, and opportunities. Organizational perception of uncertainty arises from the difficulty of predicting how different environmental elements will unfold and how different players will act to create the future. With that in mind, Akhter (2003) proposes that the presence of uncertainty does not mean firms can abstain from understanding and interpreting the environment in which they expect to operate. On the contrary, understanding environmental developments becomes critical for success because it prepares managers to respond and adapt to anticipated and unanticipated changes.

The defining characteristic of hypercompetition is that firms, in their struggle for control, continuously identify and develop new future oriented advantages, thereby creating a temporary disequilibrium (D´Aveni, 1994). This dynamic process requires new organizational forms that are able to explore new opportunities effectively. However, adaptive systems that engage in the exploration of new opportunities to the exclusion of exploiting existing ones are likely to find that they suffer the costs of experimentation without gaining many of its benefits. For example, they will exhibit too many undeveloped new ideas and too little distinctive competences, slowing down decision making (March, 1991). Thus, understanding of both today’s and futures environments becomes a necessity for multinational corporations.

In the forthcoming sections of the theoretical framework, the concepts of hypercompetition, exploration and exploitation will be defined and related together. Moreover, their relation to strategic control processes and other noteworthy theories will be presented throughout the
chapter. It will be argued that strategic paradigms that work well in one environment don’t work at all in another. The challenge is not to find the organizational structure that provides the best fit, whether it is centralized or decentralized, organic or mechanic, but to build and manage the appropriate decision processes, one that could sense and respond to multiple changing environmental demands.

3.1 Competitive effectiveness

The pursuit of sustainable advantages has long been the focus of strategy. Perhaps the most well-known framework for understanding such industry structure and its implications for competitive effectiveness has been the five-force model and its associated concepts. Based on the view that limiting competition improves profitability; Michael Porter (1980) identifies the basis of competitive advantage in an industry by few industry factors as key determinants of attractiveness. These factors include the bargaining power of customers and suppliers, the nature of the rivalry among incumbents, and the threat of new entrants and of substitution. Limiting the number of competitors can improve profits by reducing the aggressiveness of the rivalry among competitors in the industry, the power of buyers and suppliers over the organization, and the threats posed by potential entrants with similar or substitute products.

Static models of strategy provide an invaluable set of tools for analyzing the competitive environment and position of a multinational corporation, identifying some of the key sources of advantages at a given point in time. Every industry has an underlying structure, or a set of fundamental economic and technical characteristics, that gives rise to these competitive forces. Thereby, the strategist, wanting to position his organization to cope best with its industry environment or to influence that environment in the company's favour, must learn what makes the environment tick (Porter, 1979). That is, managers have to be able to create a defensible strategic position by acquiring or building valuable assets, wisely allocating resources to them, and weaving synergies among them. Part of this is setting the size, boundaries and scope of the company (Eisenhardt and Brown, 1999). A competitive advantage is said to be sustainable when it cannot be copied, substituted or eroded by the actions of rivals, and is not made redundant by developments in the environment (Porter, 1980).
In contrast, the hypercompetitive industries that D'Aveni (1994) and Eisenhardt and Brown (1998) describe are characterized by merging boundaries between rivals, substitutes, and entrants (Bogner and Barr, 2000). Static models of strategy fail to recognize competitive advantage as a fluid and dynamic process. The traditional approach of limiting aggressive competition no longer creates the benefits it was intended to create (D’Aveni, 1994). Strategic paradigms that work well in one environment don’t work at all in another. In fact, some paradigms that are successful in fairly stable environments are a liability in unstable ones. Positioning—once the heart of strategy—is rejected as too static for today's dynamic markets and changing technologies (Porter, 1996).

Managers have often been taught to select one of the generic strategies, such as being a differentiator or low-cost producer. But multinational corporations using new technology and product design can actually maneuver between these positions or occupy both positions at the same time. Many have argued that large corporations have unbeatable monopoly power, but we see the growing power of small, flexible firms from countries throughout the world. Lastly, managers have been taught that entry barriers sustain advantage (D’Aveni, 1994). However, building barriers to entry can be equivalent to building castle walls when the opponents is flying over with jet fighters or using radio broadcast to foment revolution. General Motors spent millions of dollars over several decades to build barrier to entry based on 6000 service dealers. The Japanese simply designed a car that didn’t need service (D’Aveni, 1999).

When firms are constantly outmanoeuvring one another, trying to leapfrog existing standards, and when entry barriers are more easily disrupted due to major regulatory, technological or global changes, it becomes much more difficult to determine which technologies merely capture differentiation among rivals and which distinguish substitute products (Bogner and Barr, 2000). Environments in which advantages are rapidly eroded; sustaining advantages can be a distraction from developing new ones. It is like shovelling sand against the tide rather than moving on a higher ground (D’Aveni, 1994). Attempting to sustain an old advantage can eat up resources that should be used to generate the next move. Thereby, the generic strategies described should only be considered as an important source of temporary advantage. In hypercompetition the better defence is often a strong offence.
According to Porter (1996) the beliefs of D’Aveni, Eisenhardt, Brown and others are dangerous half-truths, and are leading more and more companies down the path of mutually destructive competition. In many industries, hypercompetition is considered as a “self-inflicted wound” where hypercompetitive shift is movement towards perfect competition. As able and less orderly than Schumpeterian competition, in a perfectly competitive industry, the forces that allow competitive advantage to exist disappear, leaving atomistic competition and static efficiency, with no firm earning abnormal profits.

Indeed, perfect competition achieves the highest form of static efficiency or the best allocation of given resources for a given technology and given demand. Perfect competition thus represents the calm after the storm of innovation and will never end (D’Aveni and Thomas, 2004). As such, this would imply that large organizations could become unnecessary as the need for organizational hierarchy would decrease. The solution, Porter (1979) argues; whatever their collective strength, the corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favour. Strategic agenda is the right place for defining a unique position, making clear trade-offs, and tightening fit. It involves the continual search for ways to reinforce and extend the company's position (Porter, 1996).

D’Aveni and Thomas (2004) disagree with Porter and emphasize that the outcome of perfect competition is homogeneous with normal returns for every firm in any industry. In contrast, hypercompetition emphasizes pervasive and persistent innovation, and thus represents dynamic competition. Such, innovation is not possible without competitive firms. As a result, a shift toward perfect competition can be distinguished from a shift toward hypercompetition. Even through perfect competition is treated as the equilibrium state in static economic models; it is neither a desired state nor a sustainable state from the perspective of corporations seeking profits. As a result, it can be characterized as a hostile environment; which companies will not allow to persist. Thus, corporations will restart the cycles of competition by shifting the locus of competition to a new arena, or invent entirely new competitive weapons and arenas. In this perspective, hypercompetition can be an agonizing and costly process but as long as there is a way to win as there always is, companies have an incentive to find it.
Hypercompetition raises a central question in the field: whether advantage is sustainable and based on gentlemanly competition, stable market positions, and resource configurations that tightly fit together (as argued by Porter, 1979, 1980 and 1996), or whether advantage is more temporary and based on continuous creative destruction, improvement, and out-maneuvering of competitors (D’Aveni, 1994; D’Aveni and Thomas, 2004). The debate over hypercompetition is an empirical issue regarding the nature, magnitude, and duration of competitive advantage and as a result is can be hard to solve. Even though the view of Michael Porter (1996) can be useful in many ways, it is considered as too static for not only the empirical cases chosen but also many of today’s dynamic markets and changing technologies. Accordingly, the focus of the thesis relates to the challenges faced by managers of multinational corporations facing competitive environments that can be characterized as hypercompetitive. In this perspective, a detailed clarification of hypercompetition is suitable.

3.2 Hypercompetition

In his book Hypercompetition, Richard D’Aveni (1994) describes the phenomenon of hypercompetition as:

An environment of intense change, which flexible, aggressive, innovative competitors move into markets easily and rapidly, eroding the advantages of the large and established players.

Hypercompetition results from the dynamics of strategic maneuvering among global and innovative combatants and generates strategic tension on many corporations. It is a condition of rapidly escalating competition based on price-quality positioning, competition to create new know-how and establish first-mover advantage, competition to protect or invade established product or geographic markets, and competition based on deep pockets and the creation of even deeper pocketed alliances (D’Aveni, 1995). Possible areas for hypercompetition include; high-tech products, products based emergent technology and products with high demand and many players. For example, the airline, banking, and telecom industries in the U.S. have been hypercompetitive for years (D’Aveni, 1994).

There are few industries that have escaped hypercompetition. We have seen giants of American industry, such as General Motors and IBM, shaken to their cores. Their competitive advantages, once considered unassailable, have been ripped and torn in the fierce
winds of competition (D’Aveni, 1995). Another example is the Japanese beer manufacturer Asahi. Rather than operating from a position of strength, Asahi came from a position of weakness, exploiting a new capability of competing on the basis of new product introduction. Competitors were surprised not only by the introduction of its new “dry beer”, but also by the fact that one industry player would change the rules of competition. It took several years for rivals to develop similar organization capabilities. In the meantime, Asahi had a clear competitive advantage for about two years.

Sustaining competitive advantages can be time-sensitive and constant renewal of core competencies and strategies is necessary to be able to compete in the eroding market. Managers have to acknowledge that speed has never been as important in decision making because of shorter life-cycles (i.e., product, technology, organizational, relationship and the like), and that increasing de-regulation and removal of barriers has resulted in non-traditional competitors from all countries of the world entering the dynamic market as he escalates (Harvey and Novicevic, 2002). In other words, environments have escalated towards higher and higher levels of uncertainty, dynamism, heterogeneity of the players, and hostility. The way organizations develop strategies can therefore be of much importance. By understanding the interaction between strategy and the environment, managers can better tailor their strategies and structures to their environment, or change the environment to their advantage. Similarly, a firm’s understanding of what information to collect, how to collect it, and how to use and share it within the multinational organization, will have an impact on the ability to grow in today’s hypercompetitive milieu. Indeed, the ability to establish the rules of the game at any given point in time and control evolution is part of strategic supremacy (D’Aveni, 1999).

In hypercompetitive markets the goal of strategy is to disrupt the status quo, instead of trying to create persistence or balance. This results in series of temporary advantages which allows organizations to successfully compete in hypercompetitive environments (D’Aveni, 1994). However, when dealing with gradual strategic changes and uncertainty, organizations are normally not able to design their plans as precisely and carefully as they would like to. Thus, managers have to hypothesize about need satisfaction without knowledge of price elasticities, substitute and complementary products, or other information that is learned through historic demand behaviour in more stable markets (Bogner and Barr, 2000). In order to assist
multinational corporations navigating through hypercompetition, helping them to rapidly and continually identify and develop new advantages. D’Aveni (1994) created the new 7-S’s analytical tool which is based on the former work of McKinsey and Company.

The new 7-S’s tool is not concerned about internal fit, nor are they designed to create fit with today’s environment. Instead of merely adapting to changes in the environment, they allow the companies to reshape the environment through their actions. They are designed to provide a more flexible structure for corporate decision making and actions. Indeed, the focus is on structuring the future rather than adapting to the present (D’Aveni, 1994). As shown on figure 1, the new 7-S’s encompass three factors for effective delivery of a series of market disruptions: vision, capabilities, and tactics. As will be argued, what is being called for is an increased emphasis on the first two levels (vision and capabilities) and more creative approaches to the last level (tactics) than many multinational corporations currently use. This is not a linear process that begins with vision and ends with tactics. Instead, it is a continuous process in which vision contributes to capabilities, which contribute to tactics.

![Figure 1 - The New 7-S’s Framework (D’Aveni, 1994)](image_url)
3.2.1 Goals and competencies for disruption

The first two S's provide the vision and core competencies for disruption. They define the source of new advantages and ways to achieve them. Superior stakeholder satisfaction (S-1) is the key to winning each dynamic strategic interaction with competitors. The process of developing new advantages or undermining those of competitors begins with an understanding of how to satisfy customers. By discovering ways to satisfy customers, the corporation can identify its next moves to seize the initiative. For example, before the Pentium chip, Intel rarely asked customers what they wanted, but now they have instituted a process of concurrent engineering to get customers involved as early as possible (D’Aveni, 1995). But customers are not the only stakeholders that must be satisfied. By empowering employees, the corporation can gain the internal motivation and vision needed to carry out those moves. In a similar manner, strategic soothsaying (S-2) is a process of seeking out new knowledge necessary for predicting or even creating new temporary windows of opportunity that competitors will eventually enter but are currently not served by anyone else. These opportunities can be found by creatively combining products, understanding trends in the business environment that will open up new opportunities, and serving new customer markets with the existing capabilities of the firm (D’Aveni, 1994).

3.2.2 Capabilities for disruption

To quickly take advantage of the vision identified by the first two S's, the corporation needs to develop the capability for disruption through the next two S's, speed (S-3) and surprise (S-4). These capabilities can be used across a series of dynamic strategic interactions. By pre-positioning the organizational capabilities for speed and surprise, the corporation creates the ability to react quickly to opportunities in the environment or to proactively out-maneuver competitors at every stage of the dynamic strategic interactions between competitors. Because advantages are eroded quickly, capabilities for speed and surprise are vital to seizing initiatives. Speed is a key part of competitive advantage, because it enhances the ability to serve customers and to choose the moment in time that the firm will enter the market. Similarly, surprise is crucial to success. The longer the first mover can delay entrance by competitors into the market by stunning them with a surprise attack, the more time there is to create a strong position and make gains before the competition responds and forces movement onto the next market, product, or new method of competing (D’Aveni, 1994; 1995; 1999).
3.2.3 Tactics for disruption

The final three S's are concerned with tactics used in hypercompetitive environments. This follows the vision and knowledge developed by the first two S’s and use the potential for speed and surprise. In contrast to static approaches to strategy, these final three S's are concerned with a dynamic process of actions and interactions. Most planning is concerned with the corporation’s next move to gain advantage (D’Aveni, 1994). For example, shifting the rules of competition (S-5) is concerned with actions that redefine the battlefield and create new opportunities to satisfy customers. The corporation finds new ways of satisfying customers that transform the industry, such as adapting the personal computer to serve the mainframe computing industry (D’Aveni, 1995).

Signals (S-6) are verbal announcements of strategic intent that are important preludes to more powerful actions. Signals can stall the actions of competitors or create uncertainty that erodes their will to defend against attacks. They can preannounce or fake aggressive offensive moves that alter the behaviour of competitors. An example of this is in the computer game industry where products are often announced years before they are released (D’Aveni, 1995). Lastly, simultaneous and sequential strategic thrusts (S-7) are the use of a series of actions designed to stun or confuse competitors, disrupting the status quo to create new advantages or erode those of competitors. Whereas traditional strategic actions have been treated one at a time, actions in hypercompetition are used in combinations that are difficult to unravel and difficult to defend against. By manipulating competitors' reactions using a series of simultaneous or sequential actions, they result in the initiating corporations advantage (D’Aveni, 1994).

3.3 Creating knowledge

When markets shift, technologies proliferate, competitors multiply, and products become obsolete almost overnight, successful multinational corporations are those that consistently create new knowledge, disseminate it widely throughout the organization, and quickly embody it in new technology and innovative products in order to disrupt the status quo. According to the knowledge-based theory of the firm, knowledge represents the most strategically valuable resource of any organization. Knowledge is boundary-less, dynamic and if not used at a specific time or place, is of no value. It is through learning that knowledge gains strategic importance. The underlying logic is that knowledge should lead
the multinational corporation into the future, influencing decisions about customers, competitors, control processes and the environment (Nonaka, 1994; Akhter, 2003). Studies in the field of organizational learning indicate that the acquisition of knowledge is a primary mechanism by which not only multinational corporations but also organization members learn from each other. Such learning through the acquisition of knowledge may be either exploratory or exploitative. The essence of exploration strategy is creating variety in experience which is associated with broadening a manager’s existing knowledge base. By definition exploration includes external activities captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery and innovation. In contrast, the essence of exploitation strategy is creating reliability in experience which is associated with deepening a manager’s existing knowledge base. Thus, exploitation includes such internal activities as refinement, choice, production, efficiency, selection, implementation and execution (March, 1991; Mom et al. 2006). Withal, knowledge creation is crucial element in gaining series of temporary competitive advantages using future oriented strategies such as the new 7-S tool and as a result, central to survive in hypercompetitive environments.

According to Benner and Tushman (2003), exploratory innovations can be defined as radical innovations that are designed to meet the needs of emerging customers or markets. They offer new designs, create new markets, and develop new channels of distribution. Developing exploratory innovations requires new knowledge often with departure from existing knowledge (Levinthal and March 1993). This is very interesting from an innovation perspective, since the resources not only of the internal environment, but also the external environment become relevant in a corporation’s innovative process (Håkansson and Snehota, 1989). Conversely, exploitive innovations can be defined as incremental innovations and are designed to meet the needs of existing customers or markets. Thereby, exploitative innovations are built only on existing knowledge and reinforce existing skills, processes, and structures (Benner and Tushman, 2003; Levinthal and March, 1993; Atuahene-Gima, 2005).

Multinational corporations that engage in exploration to the exclusion of exploitation are likely to find that they suffer the costs of experimentation without gaining many of its benefits. They exhibit too many undeveloped new ideas and too little distinctive competence. Conversely, systems that engage in exploitation to the exclusion of exploration are likely to find themselves trapped in suboptimal stable equilibrium. Thereby, multinational
corporations face an important strategic dilemma. Exploiting existing competencies may provide short-term success, but competence exploitation can become a hindrance to the firm’s long-term viability by suppressing the exploration of new competencies and the development of the innovations required in hypercompetitive markets (Atuahene-Gima, 2005). However, it is clear that improvements in competence at existing procedures make experimentation with others less attractive as exploration of new alternatives reduces the speed with which skills at existing ones are improved. Finding an appropriate balance is made particularly difficult by the fact that the same issues occur at all levels of the organization (March, 1991).

Thus, in order to survive in hypercompetitive markets, knowledge becomes essential for multinational corporations, but they compete for scarce resources. In this context, managers must make choices between gaining new information about uncertain alternatives and thus improving future returns, and using the information currently available to improve present returns. Understanding the choices and improving the balance between exploration and exploitation is complicated by the fact that returns from the two options vary not only with respect to their expected values, but also with respect to their variability, their timing, and their distribution within and beyond the organization (March, 1991). Consequently, multinational corporations have to be able to change their strategic focus as well as developing some strategic direction. In this perspective, organizations change their dominating norms and values as well as correct deviations from essential norms and values. These paradoxical requirements imply that balances must be struck between exploration and exploitation if organizational forms in hypercompetition are to remain vital (Volberda, 1996; Jansen et. al., 2005).

3.1 Balancing exploration with exploitation

As multinational corporation’s strife to minimize the threat of obsolescence, they need to be able to introduce exploratory innovations that depart from existing products, service, and markets. Attempting to sustain an old advantage can eat up resources that should be used to generate the next move. Like argued before, organizations that pursue exploratory innovations can capitalize on changing circumstances by creating new products and services or meeting the needs of emerging markets (Benner and Tushman, 2003). However, as hypercompetitive competitiveness usually reduces available resources for exploratory
innovations, pursuing such high-risk and high-cost innovations can considerably harm the viability of organization (Mom et. al., 2006). In this perspective, corporations reacting to existing trends and demands through modifying or expanding current products, services and markets are also likely to enhance their performance in competitive environments. They pursue exploitative innovations in order to better cater for existing customers and build customer loyalty without substantial costs associated with exploratory innovations.

Compared to returns from exploitation, returns from exploration are systematically less certain, more remote in time and organizationally more distant from the locus of action and adaptation. What is good in the long run is not always good in the short run. What is good for one part of an organization is not always good for another part. Because the benefits of exploration are distant and uncertain, managers tend to put more resources into exploitation than into exploration (March 1991). The certainty, speed, proximity, and clarity of feedback ties exploitation to its consequences more quickly and more precisely than is the case with exploration. The search for new ideas, markets, or relations has less certain outcomes, longer time horizons, and more diffuse effects than product development of existing products. Because of these differences, adaptive processes characteristically improve exploitation more rapidly than exploration (March, 1991). These advantages for exploitation cumulate. Each increase in competence at an activity increases the likelihood of rewards for engaging in that activity, thereby further increasing the competence and the likelihood.

However, exploitation also has some inherent limitations. Since long-run intelligence and success in hypercompetition depends on sustaining a reasonable level of exploration, these tendencies to increase exploitation and reduce exploration make adaptive processes potentially self-destructive (March, 1991; Benner and Tushman, 2003). In markets where the emphasis is on increased flexibility, and where competition is defined by the ability of firms to change competitive posture quickly, the process of inferring competitors future moves by focusing on fixed assets, established channels of distribution, or any other historical basis of competitive advantage is not likely to be helpful, and may be deluding. Such a market suggests that firms that are using their resources to exploit and defend established assets as Porter (1979) would argue for will not only fail to generate high returns, but also that those resources may cause counterproductive rigidity in the organization. Indeed, deep resource
bases are likely to be perceived as anchors rather than levers (D'Aveni 1994; Bogner and Barr, 2000).

Thus, the key of success in hypercompetitive markets may be factors that can prevent exploitation from crowding out exploration so that the firm can develop incremental and radical innovations simultaneously (Atuahene-Gima, 2005). Like March (1991) argues, a balance between exploitation and exploration tendencies, cautioning that a firm that is too oriented toward exploitation is likely to suffer because of a lack of novel ideas and knowledge to generate new insights in product innovation. However, a firm that is too oriented toward exploration suffers the costs of experimentation without gaining many of its benefits because it exhibits too many new and risky ideas and little refinement of its existing competencies. A dose of exploitation tempers these potential excesses of exploration by helping the firm evaluate and assimilate new ideas more effectively (March, 1991; Atuahene-Gima, 2005). Although each of competence exploitation and exploration may affect a corporation’s performance, their interrelationship provides an additional source of competitive advantage beyond those provided by each one individually.

While the importance of pursuing both types of innovation has been highlighted, much more remains to be understood how to control the development of exploratory and exploitative knowledge in multinational corporations competing successfully in hypercompetitive markets. In this context, control is seen as a process that brings about adherence to a goal or target through the exercise of power or authority. Control is also used to manage the integration and coordination of activities within the multinational corporation. Control mechanisms can be expected to vary with the structure of firms operating in the global environment. These mechanisms include efforts at centralization and decentralization of departments. Firms will seek to align their control mechanisms with their strategies and structures in hopes of attaining competitive advantage (Clemmons and Simon, 2001).

3.4 Strategic control processes

Strategy has been defined in infinitive ways, but the prevalent theme always seems to be that it is a deliberate set of guidelines that determines decisions in the future (Mintzberg, 1978). Thus, when dealing with gradual strategic changes, multinational corporations have to be able to present some sense of direction into the process of strategy making, usually instituting
more flexible and opportunism way of controlling strategic change and organizational knowledge (Quinn, 1980; Akhter, 2003). Strategic control is not just a way of dealing with events after they have occurred; but also keeping the organization up to date, predicting events that have not occurred and responding quickly to new opportunities and challenges which might reveal themselves in hypercompetitive markets (Hill and Jones, 2001). Indeed, successful multinational corporations are those who are able to generate superior adaptive capability thought suitable control processes. In this perspective, the organizational structure becomes the strategy; disregarding such interlinkages would be to sacrifice truth for simplicity. According to Volberda (1996), organizational structures comprises not only the actual distribution of responsibilities and authority among the organization's personnel, but also the planning and control systems and the process regulations of decision-making, coordination, and execution.

In comparison, Goold and Quinn (1990) argue that there are three main reasons why organizations develop a control systems, coordination, motivation and monitoring. To achieve efficiency, managers have to be able to coordinate the efforts of their employees and be able to motivate them to pursue the goals of the multinational corporation. Even the best-laid plans will sometimes fail, emphasizing the importance of feedback on result achieved. Managers have to be able to monitor the performance of the organization operations and decide when and how to intervene if there are deviations from planned objectives between different levels of management. This makes strategic control a practical tool used to track and respond to progress toward strategic goals. However, managers have to acknowledge that it is not possible for a multinational corporation to measure or otherwise control its employees without somehow affecting them through the very process that it uses to measure them. A control mode which depends heavily upon monitoring, evaluating, and correcting in an explicit manner is likely to offend people's sense of autonomy and of self-control and, as a result, will probably result in an unenthusiastic, purely compliant and exploitive response (Ouchi 1979).

Thus, the ideal conditions for strategic control processes might be in stable environments with low turbulence, where it is fairly easy to identify and measure precise strategic objectives (Goold and Quinn, 1990). This is in concordance with the earlier discussed views of Michael Porter (1979; 1996). In this perspective, stable environments can be related to a
rather formal, centralized and more exploitive control processes which can easily be linked to a reward system. In contrast, in hypercompetitive environments where it can be hard to specify strategic objectives which can be monitored and measured efficiently the motivational force of strategic control will be less. As Volberda (1996) argues; because hypercompetition forces firms to move more quickly and boldly and to experiment in ways that do not conform to traditional administrative theory, bureaucratic vertical forms will severely hamper the ability to respond to accelerating competition. However, this does not embody that strategic control processes are meaningless in environments where turbulence is high and the ability to identify and measure precise strategic objectives is demanding. Flexible and adaptive control processes, in contrast, can help multinational corporations to respond to a wide variety of changes in the competitive environment in an appropriate and timely way (Volberda, 1996).

For the sake of control, managers have to be careful as too much flexibility makes it impossible for multinational corporations to retain a sense of identity and continuity. In other words, flexibility without stability results in chaos. The stability component of flexibility is necessary to preserve and maintain the controllability of the organization (De Leeuw and Volberda 1992). In hypercompetitive environments, in which competitive change is frequent and radical, organizations may easily become adrift because flexibility requires high responsiveness (controllability) of the corporation and sufficient managerial capabilities (control capability of management). This interaction is such that the elements must be in balance. As with exploration and exploitation, if one outweights the other, there is no gain (Volberda, 1996).

3.4.1 Role of strategic control processes in hypercompetition

Managers are often encouraged to think of the multinational corporation in terms of two roles, one for headquarters; another for national subsidiaries. Most organizations find it difficult enough organizing product divisions or business units with corporate staff functions. The thought of adding geographically oriented management is therefore quite intimidating. As globalization began, it was natural for the headquarters to take responsibility for controlling the key decisions and global resources, and for the national organization to implement and adapt the global strategy in their local environments. However, as subsidiaries began to struggle to retain their freedom, their counterparts at the center worked to establish their
control and legitimacy as managers of a global strategy (Bartlett and Ghoshal, 1989). Consequently, the powers of integration and coordination were negatively set up against each other. With regards to knowledge creation and innovativeness, this kind of control struggle within a multinational corporation creates many challenges, and could eventually lead to failure in hypercompetitive markets.

So far, we know that to engage in hypercompetition requires organizations to be highly innovative, pursuing both exploitation and exploration simultaneously in order to disrupt the status quo using the new 7-S tool or similar strategies. However, the question on how this balance is acquired and preserved yet remains unanswered. In this perspective, in line with the arguments of Volberda (1996), recent research by O’Reilly and Tushman (2004) has indicated the possibility of using organization structure as a control mechanism for managing the balance between exploration and exploitation. In this context, multinational corporations need to be able to implement what I define as “ambidextrous” organizational structure which has the ability to utilize the advantages of centralization and decentralization simultaneously.

In a similar manner, Goold and Quinn (1990), suggest that if a multinational corporation facing hypercompetition decides to implement a more flexible control mechanism, constantly updated view of performance is needed, resulting in a more loose and informal relationship between headquarters and subsidiaries. Thus, moving away from a mechanic structure, towards a more organic structure. Consequently, the powers of integration and coordination will be affected throughout the corporation. Managers have to be careful as there are risks in any attempt to impose a new structure on an existing organization. Organizations strategic capabilities are built over time and cannot be easily undone or changed. Structural change is a blunt instrument that can have devastating effects on established organizational processes and motivation if used improperly. The challenge of building the organizational structural diversity is to protect the company’s existing knowledge base and competencies while establishing new management perspectives and capabilities (Bartlett and Ghoshal, 1989). As with hypercompetition, this requires organizations to be able to invest considerable amounts of money into the process, due to communication and travel expenses, educational costs and time spent in decision making.
3.4.2 Mechanic structures

Mechanistic structures are designed to induce people to behave in predictable and accountable ways. The organizational setup is centralized, whereby the authority to make important decisions is retained by top level managers located at the headquarters level and propagated to the subsidiaries and its employees (Jones, 2004). Certain resources and capabilities are best centralized within the home country operation, not only to realize scale economies, but also to protect core competences and to provide the necessary supervision of corporate management. Basic research and finances are often viewed as such capabilities, best kept at home. This implies that the scope of so called “top-down” inflows of knowledge are likely to be closely related and even restricted to the recipient’s specialized areas of expertise and therefore rather narrow and unambiguous. The main advantage of the mechanic structure is that by leveraging the organization and management resources already located at the corporate center, the process facilitates rapid and efficient decision making and by integration minimizes the kind of headquarters-subsidiary arm wrestling that often occurs when authority is more widely dispersed (Bartlett and Ghoshal, 1989).

However, driven by the need for global efficiency, centralized and uniform treatment of foreign subsidiaries can be major impediment in building the flexibility which a multinational corporation requires in today’s hypercompetitive environment. The symmetrical hierarchy leads management to underestimate the differences in the strategic importance of various national environments. Such uniformity locks management into simplistic and often dichotomous choices and pre-empts the more subtle options available both within the worldwide company and in its various businesses and markets. Thereby, risking the under-utilization of physical assets and organizational capabilities (Bartlett and Ghoshal, 1989).

Centralization can also be costly to operate. As the multinational corporation grows in size and complexity, managers at the center are swamped with requests for information, guidance, support, and decisions. To respond appropriately, they feel they need to reinforce their resources, capabilities, and knowledge base, thereby increasing the size and bureaucracy of the central decision making units. Eventually the system reaches its limit, because of the overload information or the inability of the central staff to respond to demands in a timely fashion. As more and more responsibilities are controlled by corporate headquarters, managers at the national level may feel deprived of outlets for their skills and creative
energies. The very managers who often had been the company’s entrepreneurial spark plugs become discouraged and even disenfranchised (Bartlett and Ghoshal, 1989).

As a result, the centralized treatment of foreign subsidiaries can be positively related to manager’s exploitation activities, but is unlikely to relate to the manager’s exploration activities (Mom et al. 2006; March, 1991). The certainty, speed, proximity, and clarity of feedback ties exploitation to its subsidiaries more quickly and more precisely than is the case with exploration. Focus is on the needs of existing customers and building customer loyalty and knowledge is likely to be closely related and even restricted to the recipient’s specialized areas of expertise and therefore rather narrow and unambiguous. As a result, centralization decreases the sense of control over work and diminishes the likelihood that unit members seek innovative and new solutions.

### 3.4.3 Organic structures

Organic structures are at the opposite end of the organizational design, promoting flexibility, so people can initiate change and adapt quickly to changing condition (Jones, 2004). In this perspective, organic structures are decentralized and roles are loosely defined. Decentralization is the process of assigning decision making rights to middle managers or subsidiaries of the multinational organization that possess more specific knowledge (Zimmerman, 2006). Control and command levels are flat – often only one or two layers deep and look like interlocking circles rather than ladders; they are learning and influence based rather than prank and power based. This encourages close collaboration of a manager and other employees than his or her subordinates (Timmons, Jeffrey and Spinelli, 2007).

These, so called “bottom-up” inflows of knowledge do not follow standardized and formalized paths in an organization; rather they come about in ad hoc, random, unpredictable, and reciprocal interactions between middle managers and senior managers (Mom et al. 2006). In this perspective, decentralization copes with diversity much better than centralized hierarchies, giving power to the employee’s that are more qualified to coordinate the strategies of the organization to the needs of the market (Bartlett and Ghoshal, 1989). Employees within subsidiaries often know more because “they spend time outdoors” where the storm clouds of creative destruction and hypercompetition gather force and start blowing into their face unaffected by executive manager’s beliefs (Burgelman, 2005). As a result,
employees are able to provide senior managers with an increased speed, understanding and diversity. Consequently, the decentralized treatment of foreign subsidiaries may be major sources of coordination and exploratory learning for multinational corporations who are then able to revise redefine strategic decisions accordingly and encourage knowledge creation (Mom et. al. 2006). Thereby, organic structures are unlikely to relate to exploitation activities.

Conversely, it can be dangerous to allow subsidiaries to develop and implement their strategies too independently. Products can vary considerably across worldwide operations due to the local units insisting on tailoring towards local needs. In many industries, a large and growing number of customers reject homogenous product designs and performance and want to reassert its traditional preferences. As a result multinational corporations can fail to integrate diverse product development efforts to standardize on a single global design (Bartlett and Ghoshal, 1989). It is important to acknowledge that differentiation is not necessary in all markets. In some markets, subsidiaries adopt standard global products, and their role is limited to effective and efficient implementation of central decisions and product innovations. In this perspective, Theodore Levitt (1983) asserts that well managed companies have moved from emphasis on customizing items to offering globally standardized products that are advanced, functional, reliable and low priced. Consumer tastes and preferences, which once differed widely from one national market to the next, are homogeneous. The increasing costs of research and development, coupled with shortening life cycles for new technologies and the products they spawn drives companies to seek global volume in order to amortize the heavy investment as quickly as possible. This was the case with General Electric’s in the early 1970. As a result, multinational corporations will only achieve long-term success and scale economics by concentrating on what everyone wants rather than worrying about the details of what everyone thinks they might like.

These arguments illustrate some of the challenges which multinational corporations face with regards to integration and coordination. Traditionally, multinational corporations have depended on either centralized process for creating and exploiting innovations in the home country or local innovations emphasising their autonomous, self-contained national subsidiaries used to create new explorative products or processes that met the needs of their local environments. This explains the strategic demand for competing in worldwide and
hypercompetitive business – the need to develop and diffuse worldwide innovations internationally.

3.4.4 Sustaining ambidextrous structure

With some of the pros and cons of centralization and decentralization in mind, essential for the ambidextrous structure are planning and control processes that are predominantly performance oriented instead of means oriented and allow for ambiguous information and necessary experimentation and intuition. Moreover, direct process regulation in the form of specialization and formalization has to be extremely low, whereas indirect process regulation by training and education is well developed (Volberda, 1996). Indeed, it could be argued that nowhere in business is intuitive intelligence more important than in the complex hypercompetitive environments. In such industries, managers have to be able to attract and retain qualified and diverse employees who have the necessary resourcefulness and creativity to control the strategies of multinational corporations. Employees who understand and can respond to diverse situation rapidly because of their experience and training become the most significant part of the multinational corporation. While not all attitudes, habits, and behaviours can be acquired by everyone at the same pace and with the same proficiency, managers are able to significantly improve odds of success by concentrating on those that work, by nurturing and practicing them, and by eliminating, or at least mitigating, the rest. Painstaking effort may be required, and much will depend upon the motivation of an employee or a subsidiary to grow, but it seems people have an astounding capacity to change and learn if they are motivated and committed to do so (Timmons, Jeffrey and Spinelli, 2007).

A) Origin of qualified and resourceful managers

Most managers of successful multinational corporations know that engaging heavily in cross-functional and cross-team communication increases the number of viewpoints entering into decisions (Brown and Eisenhardt, 1998). In this context, March (1991) argues that an alternative way of producing variability in an organization is to introduce personnel turnover. Since there is a positive relation between lengths of service in the organization and individual knowledge, the greater the turnover, the shorter the average length of service and the lower the average individual knowledge at any point. Recruits are, on average, less knowledgeable than the individuals they replace. The gains come from their diversity. For example,
Microsoft Corporation is well known for its practice of hiring experts from very diverse backgrounds seemingly unrelated to the computer software industry to provide unique perspectives. Old-timers, on average, know more, but what they know is redundant with knowledge already available. Novices know less on average, but what they know is less redundant with the current knowledge and occasionally better, thus more likely to contribute. Thus, high personnel turnover can be related to inadequate exploitation while low personnel turnover can be related to inadequate exploration (March, 1991).

The influence of nation’s history, infrastructure, and culture permeates all aspects of life within the country, including the norms, values, and behaviours of employees in national subsidiaries and headquarters. Nationally influenced behavioural characteristics become an ingrained part of each multinational corporation way of doing things and shapes its organizational structure and control processes (Bartlett and Ghoshal, 1989). In this perspective, Geert Hofstede’s (1983) classic paper on the cultural relativity of organizational practices and theories has been heavily referenced since its publication. Hofstede’s study demonstrated that there are national and regional cultural groupings that affect the behaviour of societies and organizations that are very persistent across time. The affect that national culture plays in the adoption or diffusion of management practices serves as the backdrop for analysis of culture in the acceptance of new, foreign exploratory leadership practices. Similarly, cultural differences are reflected in nationally differentiated consumption pattern.

To succeed in a world of diversity, multinational corporations often have to modify their quest for global efficiency through standardization and at the same time try to find ways to respond to the needs and opportunities created by cultural differences (Hofstede, 1983). For example, with regards to the headquarters and subsidiaries relationship, multinational corporations often utilize the subtle cultural input of inpatriates when penetrating new markets. By locating the inpatriate manager in the home country, top management will not experience the loss of control generally felt and partially experienced when host country nationals with no headquarters experience are used. In addition, by having the inpatriate manager’s domicile in the domestic organization, the process of multiculturalism and exploration can be activated, which contributes to the awareness of the global workforce diversity across the firm. Inpatriates can provide a unique and valuable means for transferring
the appropriate dimensions of the home organization’s culture to the host country subsidiary (Harvey and Novicevic, 2002).

In these terms, the cultural differences between countries can be explained by using five bipolar dimensions. By looking at how each country is positioned on each dimension, it is possible to make inferences about their society, how they operate, and what role management plays in them. These five dimensions include power distance, individualism, masculinity vs. femininity, uncertainty avoidance, and long-term vs. short-term orientation. The classic barrier of globalization has always been rooted in the differences in national markets structures and consumer preferences. As a result, the main take-away from Hofstede’s (1983) study is that ignoring the influence of culture can lead to adverse economic consequences. Although there is no doubt that the increasing frequency of world travel and the ease with which communication linkages occur across the globe have lately done a great deal toward reducing the effect of national consumer differences, it would be naïve to believe that worldwide tastes, habits, and preferences have become anywhere near homogeneous as Levitt (1983) has argued.

However, Hofstede's (1983) conceptualization of culture has attracted some criticism. Holden (2004) argues that Hofstede only sees culture as a relatively stable, homogeneous, internally consistent system of assumptions, values and norms transmitted by socialisation to the next generation. Each culture therefore possesses any number of highly distinctive features that have the effect of making that culture uniquely different from any other cultures. However, globalisation with prevailing hypercompetition has made the concept of exporting increasingly redundant and the essential concept of culture less and less satisfactory. It is no longer satisfactory to associate culture with markets perceived as national aggregates of characteristics. Rather culture is seen as a knowledge resource waiting to be discovered in marketing relationships and clusters of affinity. In other words, culture is not just an inalienable feature of a market. It is also an element of our perception of it and our participation through marketing activities in it (Holden, 2004).
B) Trust and empowerment

If control processes are to be of advantage for ambidextrous structures, multinational corporations have to be able to trust their employees. As argued, the central obstacle is that employees of multinational corporations have different backgrounds and nationalities (Hofstede, 1983). However, emphasis should be on the rationality of the middle managers and subsidiaries responsible. Positive atmosphere based on trust motivates high performance of employees. In this perspective, control processes can practically build mutual confidence by itself. As argued, control processes are often used to monitor performance of employees. Thus, if employees or subsidiaries are performing sufficiently, it can result in earning them the respect and trust of the headquarters (Goold and Campbell, 1987). This eventually can lead to employee empowerment, the process of giving subsidiaries and employees the authority to make important decisions and to be responsible for their outcomes (Jones, 2004). As argued, giving power to the employee’s that are more qualified to tailor the strategies of the organization to the needs of the market (Bartlett and Ghoshal, 1989). In such environment employees feel empowered to be creative and feel free to experiment and take risks, raising the level of explorative knowledge creation in the corporation at the same time (Hill and Jones, 2001). The ability to work as a team and sense an opportunity where other see contradictions, chaos, and confusion are critical elements of success.

C) Performance measurements

This leads to the interesting question of how multinational corporations with the above described ambidextrous structure in mind and prevailing hypercompetition, measure the performance of their employees. One challenge is to create a reward system for subsidiaries and employees which motivates them to work for worldwide objectives, not just to defend their own objectives. According to Hirst (1987) middle managers in hypercompetitive markets should be subject to results rather that action controls. However, under conditions of ambiguity, of loose coupling, and of uncertainty, measurement with reliability and with precision is not possible. A control system based on such measurements is likely to systematically reward a narrow range of maladaptive behaviour, leading ultimately to organizational decline. It may be that under such conditions, the clan form of control, which operate by stressing values and objectives as much as behaviour is preferable (Ouchi, 1979).
The measurement and rewards based on results achieved encourages low-risk activities, such as competence exploitation and incremental innovations. This is because employees bear a disproportionate share of the performance risk and thus develop risk-averse behaviors. This is not in line with the requirements of hypercompetition. In contrast, the measurement and reward for the achievement of process and strategic objectives rather than their outcomes engenders exploration and radical innovations by encouraging risk-seeking behaviors necessary in hypercompetitive markets. This implies that because exploration is a highly risky and uncertain endeavor, the use of market information to inform such a process requires a high degree of decentralized interfunctional coordination. Conversely, because of its greater experience with existing competencies, a firm’s use of market information to guide resource allocation for competence exploitation does not necessarily require as high interfunctional coordination efforts (Atuahene-Gima, 2005). Indeed, for a multinational corporation competing in hypercompetitive markets control processes which evaluate people on their values and motivation are most suitable. Thereby, tolerating wide differences in style of performance; which is exactly what is desirable under conditions of ambiguity, when means-ends relationships are only poorly understood; it encourages experimentation and variety (Ouchi, 1979).

### 3.4.5 Organic and loosely administered structure

As a conclusion to section 3.4, it is important to recollect March (1991) arguments, that in terms of resource allocation there is a problem of balancing between the short-term benefits of exploitation and the more long-term benefits of exploration. The point is that the whole idea of balancing boils down to building these learning capabilities into an ambidextrous organizational structure. But as argued before, developing such structure can be quite challenging in hypercompetitive environments, making it hard to make a proposition here. Organizations consist of parts supporting exploitation and parts facilitating exploration. As multinational corporations move towards a combination of exploration and exploitation, the more they have to structure themselves in such a way that they can easily process and distribute knowledge and information (Meeus et. al., 2008). When the powers of integration and coordination are negatively set up against each other, rather than a broad call for decentralization, the real problem seems to lie in balancing centralized and decentralized organizational features (Andersen and Knudsen, 2007).
Managers of multinational corporations have to acknowledge that sometimes the weight of autonomous and induced strategy varies depending on challenges at each time. D’Aveni’s (1994) new 7-S’s tool is not concerned about internal fit, nor is it designed to create fit with today’s environment. Some multinational corporations may find themselves in periods of stability punctuated by infrequent violent disruptions, while others may experience periods of constant competence-destroying disruption. Still others will find almost no disruption, while others may experience frequent disruptions that are not very threatening to the firm’s competencies (D’Aveni, 1999). Whether exploitation of existing opportunities or development of new ones is the dominant concern, the point is that both processes should be in play all the times (Burgelman, 2005).

In this respect, it is interesting to relate once again to the work of pioneering authors Bartlett and Ghoshal (1989) who argue that no particular organizational structure is best suited for specific industries or countries. Rather, they propose that there are different types of organizational forms which vary based on their configuration of assets and capabilities, role of overseas operations, and development and diffusion of knowledge. This is an organizational challenge, which requires a transnational organizational model as illustrated on figure 2.

![Figure 2 – The transnational corporation (Bartlett and Ghoshal, 1989)](image-url)
A) The transnational solution: a balanced perspective

Transnational corporations seek to be globally competitive through multinational flexibility and worldwide learning capability. Organizational characteristics include being dispersed, interdependent, and specialized, having differentiated contributions by national units to integrated worldwide operations, and developing knowledge jointly and sharing it worldwide. Managers of transnational companies recognize that environmental demands, opportunities and needs vary widely from country to country. Centrally designed products and processes still play an important role in the transnational but innovations are created in the subsidiaries as well. In this perspective, subsidiaries become strategic partners whose knowledge and capabilities are vital to the multinational corporation’s ability to maintain a global competitive advantage. Furthermore, adaptation to all environmental situations becomes the key for success, utilizing knowledge and two way information flows throughout the organization (Bartlett and Ghoshal, 1989). Thereby, the transnational mentality forces multinational corporations to have ambidextrous structures, considered both centralized and decentralized simultaneously.

Implementing the transnational mentality requires highly flexible control processes to cope with both short term shifts in specific role assignments and long term realignments of basic responsibilities and reporting relationships. Furthermore, managers must be capable of modifying roles and relationships on a decision by decision basis. In this context, the transnational corporation builds a portfolio of different coordinating processes that includes centralization, formalization and socialization. An effective transnational organizational control process must be multidimensional.

B) Role of control processes in the transnational corporation

Today, no organization can succeed with a relatively one-dimensional strategic capability that emphasises only efficiency, or responsiveness, or leveraging of parent company knowledge and competencies. As with exploitation and exploration, to win, corporations must now achieve all three goals at the same time; otherwise they will not be able to develop and diffuse innovations worldwide and as a result will not survive the in today’s hypercompetitive environment. To be able to achieve global competitive advantage, costs and revenues have to be managed simultaneously and managers have to acknowledge that innovations can arise in many different parts of the organization.
centralizing or decentralizing assets, the transnational makes selective decisions (Bartlett and Ghoshal, 1989).

Managing the flow of resources is a classic example of the need for control by centralization. Only managers with an overview of the overall situation can make the critical decisions with regards to funding of subsidiaries, the sharing of scarce technological resources, and the allocation of organizational skills and capabilities. However, with hypercompetition in mind, it could be argued that socialization is the most attractive control process. In this perspective, socialization can overcome centralization problem of headquarters overload and the inflexibility of formalizations. The diversity and changeability of strategic information and propriety knowledge flow make it almost impossible to control through formalized systems or standardized polices (Bartlett and Ghoshal, 1989).

Unlike the other two means of control, socialization enhances the influence of headquarters and subsidiaries simultaneously, thereby facilitating the development and integration of resources and capabilities worldwide. Furthermore, because it relies on shared values and objectives, it represents a more robust and flexible means of coordination and free exchange of information. These results highlight the importance of social relations manifested in organizational units to pursue both exploratory and exploitative innovations. An organizations social capital enables its capability to develop incremental and radical innovations. Managers may develop densely connected social relations within their units to increase a unit’s contextual ambidexterity, i.e. its ability to simultaneously pursue both types of innovations (Mom et. al., 2006; Bartlett and Ghoshal, 1989). In this perspective, decisions reached by negotiations between knowledgeable groups with common objectives should be much better than those made by superior authority or by standard policy. As argued, the challenge is not to find the organizational structure that provides the best fit, but to build and manage the appropriate decision processes – one that could sense and respond to multiple changing environmental demands.
3.5 Using the new 7-S’s as a part of the control process

As argued many times before, nowhere in business is intuitive intelligence more important than in the complex hypercompetitive environments. In such industries, managers have to be able to attract and retain qualified and diverse employees who have the necessary resourcefulness and creativity to control the strategies of multinational corporations. In hypercompetitive markets it is not enough to build a static set of competencies. Good resources are not enough; they must be used effectively. In this perspective, the new 7-S’s tool is designed to provide an even more flexible structure for corporate decision making and actions. The focus is on structuring the future rather than adapting to the present (D’Aveni, 1994). These moves put an end to the old Michael Porter patterns of competitive interaction between rivals.

The first two S’s of superior stakeholder satisfaction (S-1) and strategic soothsaying (S-2) emphasize the importance of explorative and exploitive knowledge in predicting or creating opportunities in the future. Here, knowledge provides the vision and core competencies for disruption to meet the needs of emerging customers or markets. However, because change is frequent and disruptive in hypercompetitive environments, effective flexibility requires the development of a supporting monitoring or learning processes. As argued, strategic control is not just a way of dealing with events after they have occurred; but also keeping the organization up to date, predicting events that have not occurred and responding quickly to new opportunities and challenges which might reveal themselves (Hill and Jones, 2001). Thus, control processes may contribute to the multinational corporation’s vision of where the next advantage will be discovered, where the company should focus its disruption, and which capabilities it needs and which it does not (D’Aveni, 1995). Advantage during each dynamic strategic interaction rests in organizational capabilities and the exploration that allows firms to outmanoeuvre competitors by surprising (S-4) or being faster (S-3) than competitors are. In this perspective, the final three S’s follow the vision developed by the first two S’s and use the potential for speed and surprise (D’Aveni, 1994).

Multinational corporations can choose among the different new 7-S’s to confront different challenges and opportunities that present themselves. However, the new 7-S’s are not presented as a series of generic strategies or a recipe for success. The exact strategic actions
formulated under this system will depend on many variables within the industry, culture and the organizational structure. With this in mind, managers have to be careful as some of the new 7-S’s contradict each other and often result in tradeoffs. This means that organizations due to limited resources, cannot always do all of the new 7S's equally well, even if they are above a reasonable threshold on each one of them. As a result, multinational corporations will creatively switch among the new 7-S’s, sometimes focusing on the opponent's weaker S's, sometimes using several at once (D’Aveni, 1994; 1995; 1999) This resembles earlier discussion on exploration, exploitation, decentralization and centralization in a way that all processes should be available to play all the time.

There is no formula for success for the new 7-S’s; the objective should be a balanced perspective, using the control processes of the organizational structure. Tradeoffs should not be the predominant factor in decision making. Tradeoffs exist only if firms believe that they are necessities and stop looking for ways to do both alternatives. After all, it was once said that firms could not achieve low cost and high quality at the same time. Now it is not just a reality but a necessity for survival in many industries. As D’Aveni (1995) argues, the one certain impact is that as the new 7S's become more widespread, competition will become more aggressive. Instead of having one or two competitors seeking to disrupt the status quo, every competitor will be looking for the next source of temporary advantage. With this further intensification of hypercompetition, one might expect an increased interest of multinational corporations in alliances, networks and other forms of cooperation to dampen the intensity of competition.

3.6 The role of Innovation; ways to explore and exploit simultaneously

It is common knowledge that changes in the environment of multinational corporation’s challenges the notion of clear boundaries of firms since relations to the external environment are constantly becoming more common. Contemporary researchers have described global competition as worldwide interactions requiring major resource commitments. Internal sourcing is not enough; firms typically tap knowledge sources external to the firm through outsourcing, company acquisition, alliances, networks or the hiring of qualified employees with relevant knowledge. Also, direct relations to external partners such as related companies, competitors, customers and universities have become relevant partners in a company’s
innovation strategy (Quinn and Hilmer, 1994; Cassiman and Veugelers, 2006; Karim and Michell, 2004).

For further enlightenment it is interesting to look at the characteristics of some of the exploration methods for multinational corporations. However, as internal and external knowledge sources are complementary, exploitation becomes necessary element of the process. Withal, the question remains of whether some of the better known exploratory approaches are reconcilable with hypercompetitive environments or if they are rather a move towards stability and as a result inapplicable. In the following section the concepts of mergers and acquisitions, social networks and strategic alliances will be discussed in these terms.

3.6.1 Strategic alliances

Very few multinational corporations can successfully “do it alone” any more. Due to rapidly changing technologies and increased global competition, it is becoming increasingly difficult for organizations to have the amount and array of resources needed to compete successfully. Continual innovation in highly dynamic industries appears only possible if a firm reaches beyond its boundaries (Rothaermel, Hitt and Lloyd, 2006). One way of facilitating such strategic change is to engage in strategic alliances for the exploration of new capabilities and the exploitation of the existing knowledge base of the corporation (March 1991). Strategic alliances are constellations of bilateral and possibly multilateral contracts and understandings among corporations, typically to develop and commercialize new technology. These may well constitute a new organizational form, entailing the pooling of resources and activities (Teece, 1992).

Strategic alliances appear to be an attractive organizational form for an environment such as hypercompetition, characterized by rapid innovation or organizational dispersion in the sources of know-how. This, intensely competitive environment coupled with the global dispersion of productive technical competence, often requires complex forms of cooperation among competing firms (Teece, 1992). For example, multinational corporations can cooperate together in order to work against other large corporations or alliances. Thereby, cooperate in order to limit the domain of competition or buying time when facing the threat of elimination (D’Aveni, 1994). More importantly, performance of an alliance is determined, in part, by the characteristics of the partner chosen and the mix of skills and resources this
partner brings to the collaboration, combined with the overall strategic objectives of the venture. The importance of partner selection for the success of the alliance is even more significant in dynamic and complex markets, because the right partner can spur the alliance adaptability, improve the strategy-environment configuration for both parent firms and the alliance, and reduce uncertainty in the venture’s operation (Nilsen, 2003).

When strategic alliances provide firms with access to new knowledge, complementary resources, markets and technologies that facilitate their ability to learn, build and enhance resources and capabilities and enlarge their strategic network, they can be a source of competitive advantage. Strategic alliances spread the risk of failure by helping each firm gain access to needed resources and technologies from its partner without incurring the high costs associated with pursuing internal initiatives alone. Effective alliance development and management requires several actions, including successful coordination and integration of diverse resources and knowledge stocks across and within different organizations (Hitt et al., 2004). Similarly, trust and empowerment becomes critical for successful strategic alliance and reduces the cost of management

Interestingly, with regards to strategic alliances there seem to be some shortcomings when it comes to hypercompetition. Although in some areas strategic alliances can limit the aggressiveness of competition, in most cases alliances merely circumscribe the turf in which competition will take place. Companies cannot cooperate their way out of hypercompetition, hoping that cooperation will help them avoid the difficult and dangerous competitive struggle inherent in constantly moving forward and build new temporary advantages. The only way out of this dilemma of alliances is for companies to become more aggressive in seizing the initiative. As soon as the cooperative agreement stands in the way of developing the next, companies will turn around and capture all the value of their former partner. The slow pace of negotiations and the publicity of strategic alliances only minimize the effects of the new 7-S’s. In this perspective the new 7S's should be used more aggressively and more frequently in the future world of hypercompetition. As a result, it could be argued that strategic alliances are a return to the past; cooperation in hypercompetition ultimately is not sustainable and leads to more intense levels of competition. However, that is not to say that cooperation can't be used at all in hypercompetitive environments, but more in the sense of ganging up on other groups, to buy time to build resources, or to gain access to information (D'Aveni, 1994; 1999).
Withal, if multinational corporations decide to engage in strategic alliances with the agenda of exploration, they should be characterized by low commitment and non-familiar partners. When exploring a particular new technology, companies may not want to enter into inflexible forms of alliances, because they do not know whether the technology will prove to be useful to them. They want to have the opportunity to abandon the alliance at any given moment. Strategic alliances characterized by intimate, recurrent and trustful relationships, on the other hand are helpful with an exploitation strategy. In order to exploit knowledge and make the most of established technologies and products intensive relation with partners are a prerequisite. Exploitation requires intensive knowledge exchange and creating economies of scale. Both can be achieved in strong ties and much less so in weak ties, because only strong ties have the requisite intensity for this. Thus, exploration strategies lead to lower-commitment research and development alliances in new technological capabilities, since the focus is on learning new ideas from new partners. Exploitation strategies on the other hand will lead to high-commitment alliances in existing technological capabilities (Dittrich et al, 2004).

3.6.2 Social networks

The social network is another of possible organizational mode for sourcing knowledge in hypercompetitive markets. In this perspective, social networks can provide access to knowledge, resources, markets, or technologies. The social network form differs from the hierarchy and market exchange forms in the sense that it has a high degree of structural and strategic flexibility. A key argument is that, through membership in a network and the resulting repeated and enduring exchange relationships, the potential for knowledge acquisition by the network members is created (Inkpen and Tsang, 2005; Jones, 2004). This organizational form is characterized by a redeployable technology with strong ties between actors as a result of a strong professional culture (Goold and Quinn, 1990).

Relational embeddedness typically suggest that actors who are strongly tied to each other are likely to develop a shared understanding of the utility of certain behaviour as a result of discussing opinions in strong, socializing relations, which in turn influence their actions (Gulati, 1998). This structure of relationships rests on the exchange of promises, supported by the acts of pledges that bind the relationships and builds mutual commitment, dependence and trust. Thus, multinational corporations which form a social network have much room to
maneuver, but also to preserve some commonly shared social norms. That is, the network requires a willingness to change and to renew and at the same time an unconditional commitment, concern, and loyalty to the social norms. In a way, trust becomes a control mechanism in relations to the external environment.

According to Inkpen and Tsang (2005), an intracorporate network can be defined as a group of organizations operating under a unified corporate identity, with the headquarters of the network having controlling ownership interest in its subsidiaries. Thus, there is a clear linkage between ownership and hierarchical power. Nevertheless, the strength of the link varies greatly along several dimensions, such as the extent of decentralizing decision-making authorities to subsidiaries, the nature of the industry concerned, and the physical and cultural distances between headquarters and subsidiaries. As such, ties within a member, such as interdepartmental and interpersonal relationships, may not be very different in nature from those between members. Members of an intracorporate network usually work toward a common goal set by headquarters, although they may have to fulfil certain secondary goals related to their own products and markets. When a shared vision is present in the network, members have similar perceptions as to how they should interact with one another. This can promote mutual understandings and exchanges of ideas and resources. Thus, a shared vision can be viewed as a bonding mechanism that helps different parts of a network integrate knowledge (Inkpen and Tsang, 2005; Bartlett and Ghoshal, 1989).

For a multinational corporation competing in hypercompetitive markets, social network has very positive relations to exploration. As with empowerment, commitment and trust become imperative to encourage the network members to view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically. The social network perspective is also in line with Bartlett and Ghoshal (1989) arguments for socialization being the most attractive control approach facilitating the development and integration of resources and capabilities worldwide. However, as multinational corporations pursue to create a network with external partners the same disadvantages of strategic alliance will be present. Cooperation with external partners in hypercompetition ultimately is not sustainable and will lead to more intense levels of competition.
3.6.3 Mergers and acquisitions

Rapid strategic change is a necessity for most companies in these days of globalization and accelerated technological change. Accomplishing change through mergers and acquisitions therefore appeals to a great many managers (Bower, 2001). Mergers and acquisitions are mainly used as strategic options, as a means to the end. Obtaining new ideas commonly involves acquiring other businesses, which the corporation must then combine with other business units in order to garner resource creation benefits. Recombination of internal and/or acquired units represents potential for Schumpeterian recombination innovation while still maintaining internally developed routines. First, acquisitions provide entry or growth in potentially profitable business segments independent of the firms internally crated units. Second acquisitions serve to fuel resources into internally created units as these units explore new opportunities beyond the firm’s boundaries and innovate. Multinational corporations have to realize that the issue is not whether internal development or acquisitions are the most appropriate means of obtaining resources, but how each of the two approaches provides distinct contributions that together the firm to innovate (Karim and Mitchell, 2004). In terms of resource allocation there is a problem of balancing between the short-term benefits of exploitation and the more long-term benefits of exploration. Therefore, the whole idea of balancing boils down to building these learning capabilities into the organizational structure.

There are risks in any attempt to impose a new structure on an existing organization. Structural change is a blunt instrument that can have devastating effects on established organizational processes and managers motivation if used improperly. In this perspective, multinational corporations should “keep their eggs in a similar basket of knowledge” as the organization diversifies outward by acquiring only those businesses that can draw a clear competitive advantage from the linkage (Lubatkin and Lane, 1996). Multinational corporations innovate best when they are familiar with the routines around them aligns with both a routine based perspective of the corporation and the resource based view. A bad merger can do more damage than a missed opportunity. If not properly administered, multinational corporations can lose control and focus over their operations. This is often a consequence of path dependence and learning constrains placed by firm boundaries, which can result in conflicts between the merged businesses (Karim and Mitchell, 2004).
4. Empirical research

As argued in the theoretical framework, managers of multinational corporations may face different types of competitive environments across national markets and industries ranging from hypercompetitive to stable or declining markets. Competing across such diverse settings poses major challenges for multinational corporations. In the following chapters the theoretical framework of the thesis will be compared with three empirical cases of IO Interactive, Microsoft Denmark and Velux A/S. In this perspective, managers are often encouraged to think of multinational corporation in terms of two roles, one for corporate headquarters; another for national subsidiaries. For further enlightenment, this chapter will present a brief introduction to the three empirical case companies, followed by the analysis of the empirical material.

4.1 IO Interactive

IO Interactive was established in September 1998 as a joint venture between Nordisk Film & TV and the game developer Reto-Moto. IO Interactive develops advanced computer games for the global market. Using proprietary technologies, IO Interactive products are represented on all major formats such as PC, Xbox, PS2 and GameCube. Their back catalogue consists of the successful Hitman series, the cult classic Freedom Fighters and the controversial Kane & Lynch: Dead Men. IO Interactive is an expanding company that is now fully dedicated to next-gen consoles. IO Interactive always tries to break new grounds and therefore takes pride in the diversity of their teams, which range from programmers to artists recruited from all over the world. For example, IO Interactive announced just recently that they plan to go to a completely different direction with its next game, an action-adventure, family-focused title called Mini Ninjas (IO Interactive, 2009).

During the working process of the thesis, IO Interactive used to be part of the Eidos Interactive Group, one of the world's leading developers and publishers of entertainment. Eidos Interactive was the largest video game developer and publisher in the UK and had publishing and development operations across Europe and in the US, Japan and Australia. On 22 April 2009, Eidos Interactive officially became part of the Japanese Square Enix. Although Square Enix said earlier that it would let Eidos Interactive remain as it is currently and not meddle in its internal affairs, Square Enix announced in July 2009 that it would be
stopping game publishing under the Eidos Interactive brand and renaming the studio into Square Enix Europe, thus ending the Eidos Interactive brand name as all future Eidos Interactive games will published under the Square Enix brand name. Whilst the Eidos Interactive name as we know it will no longer be used as a publishing label, the moniker will remain as branding for game developed by Eidos Interactive (Square Enix Holdings, 2009). Withal, even though it could be argued that the Square Enix business model is similar to the Eidos Interactive model, due to limitations of lacking empirical material the focus of the thesis will be on Eidos Interactive before the acquisition.

Eidos Interactive core competences consist of their experience and knowledge of the marketplace and technology, coupled with their infrastructure and management strength. The company’s strategy is to create, own and exploit valuable game franchises through investment in high quality licenses and products, all the time maintaining a strong reputation as a publisher of successful games. Being a global business means that Eidos Interactive operates in many different time zones and across different countries. By operating in a studio-led business, Eidos Interactive not only creates high quality games but also high-impact, focused and coordinated marketing campaigns (Eidos Interactive, 2009).

The game industry is the economic sector involved with the development, marketing and sale of video and computer games. It encompasses dozens of job disciplines and employs thousands of people worldwide. The market is highly competitive and penalizes products failures quickly. Even with the current financial crises, it is predicted that the video game sector will remain one of the above-average growth segments of the U.S. and global entertainment industries through 2011, according to PricewaterhouseCoopers (Hollywood Reporter, 2008). Video games offer some of the best entertainment value available on the market. Consumers tend to spend more money on video games when times are tough, because games represent such great “bang for buck”. Only 300-400 DKK for twenty plus hours of entertainment starts to look pretty good when you put it up against movie tickets or restaurant meals. At the same time, there are also some challenges. Consumers are still spending less, which means less take-up of multiple consoles, and less new release snap purchasing. People will be more likely to wait till games are cheaper or even bundled together before they’ll consider a purchase. In this context, innovation and new product development will suffer to some extent since the larger developers will be taking safer bets (Thomas Hagen, 2008; Gamer limit, 2009).
According to Video Game Industry (2005), there are five primary driving forces in the game industry, illustrated on figure 3, that have been behind the change and evolution of the game industry over time.

- **Technology change**
  - Technology in the industry constantly changes, producing successive generations of increasingly powerful hardware systems, typically at lower cost.

- **Product innovation**
  - The software development side of the industry is increasingly becoming a business of risky bets on individual software titles that are hoped to be significant hits. The large number of developers has resulted in a continuous production of highly innovative products.

- **Changes in the industry growth rate**
  - The industry has been characterized by significant cyclical patterns.

- **Changes in the personal computer industry**
  - As a significant substitute for consoles, the lower costs and increasing performance of home computers can eventually threaten the industry.

- **Changes in the industry consumers**
  - Although video game hardware has largely appealed to adolescent males, changes may occur which cause the demographics of the industry customers to expand to young adults and women in general.

Figure 3 - Five primary driving forces in the game industry (Video Game Industry, 2005).

With regards to strong competition and the primary driving forces, the game industry can be defined as hypercompetitive. This is particularly visible when looking at the two major developments that have impacted the gaming industry recently. The first is the Internet, and the emergence of online multi-player gaming. Gamers can now access the Internet through PC’s and through portals such as Xbox Live, and play against one another, or even collaborate in team games. The second significant factor is wireless platforms, where the new generation of mobile phones and other handheld gaming devices have opened up a market for wireless transmitted interactive content, especially games (Sector skill council for creative media, 2008).

### 4.2 Microsoft Denmark

Founded in 1975, Microsoft Corporation is the worldwide leader in software, services and solutions, helping people and businesses realize their full potential. Headquartered in USA, the most profitable products are the Microsoft Windows operating system and the Microsoft Office suite of productivity software. Among other notable Microsoft products are Internet
Explorer, Windows Live Messenger and Xbox (Microsoft, 2009). In Denmark, Microsoft has two different subsidiaries; Microsoft Denmark, a sales, marketing and consulting agency and Microsoft Development Center, the largest development center in Europe, created in 2002, following the acquisition of Navision (Microsoft Denmark, 2009).

Microsoft Denmark is driving force of the Danish IT industry. With over 400 employees, Microsoft Denmark is partners with over 4000 local IT companies who themselves have circa 27,000 employees. Together they develop, assemble and market products under the Microsoft name and in some cases even solutions based on Microsoft technology under their own brand names. On the other hand, the aim of Microsoft Development Center in Denmark is to become the world’s leading software development center for business solutions. Although the companies are highly related, due to lack of empirical material the focus of this analysis will be more towards Microsoft Denmark than the development center. In this perspective, innovations created within the development center are dispersed to subsidiaries via corporate headquarters (Microsoft Denmark).

Microsoft Corporation has long been considered invincible because it has controlled the operating system market for most of the world’s personal computers. But in this new business environment regardless of borders, consumers expect and demand more; competitors aggressively introduce new products, change distribution channels, implement cost-cutting programs, and imitate each other’s innovations. As a result, threatening to make Microsoft’s hegemony obsolete. Thereby, Microsoft Corporation is forced to constantly update and create new products. For example instead of trying to protect its advantage, Microsoft actively tries to erode it with new products like Windows 7 and Zune. Microsoft Corporation knows that if they do not, fast-moving competitors will (D’Aveni, 1994).

In this perspective, Bill Gates, the former chairman of Microsoft Corporation, described Google in an interview late 2005 as a worthy adversary, a company to test Microsoft’s mettle. “This is hypercompetition, make no mistake,” Gates observed. The rivalry between the companies is growing more combative, and with good reason: The outcome is likely to shape the future of competition in computing and the way people use information technology. Much of this threat comes from companies offering advertising-supported Internet services and software, led by Google. Furthermore, the “open source” software industry has been growing
steadily as communication methods are constantly evolving and becoming faster (The Tech, 2006). These threats in mind, Microsoft has turned to offense mode and just announced that they will release three types of their Microsoft Office suite as an online freeware. Similarly, speculations have been that Microsoft will acquire or work with the well known Yahoo in order to strengthen their marketing position in the advertising-supported Internet services and software.

Another challenge which Microsoft Corporation faces is the subprime mortgage crisis. Recent financial numbers from Microsoft show that it posted its first ever year-over-year quarterly drop in revenue. What might be of most interest is that Microsoft’s online advertising revenue fell by a massive 16% due to a significant drop in ad rates tough competition led by Google. In a similar manner PC spending is lower than expected, which negatively affect the Windows client business (Microsoft, Denmark, Computerworld, 2008). As a result of the financial crises Microsoft Corporation has decreased its spending, revised its hiring strategies and cut employee costs such as travel expenses. Consequently, around 5,000 employees will leave the corporation before the end of the year. Further, Microsoft will invest only in key opportunities for growth as the economic climate remains uncertain and acquisitions will be limited to only few and small businesses (Per Blessing, 2009; Computerworld, 2008).

Throughout its history Microsoft Corporation has been the target of criticism, including monopolistic business practices and anti-competitive business practices. In this context, Microsoft has been frequently punished for the very types of activities that are necessary for survival and success against foreign competitors in hypercompetitive environments (United States Department of Justice, 2009). Microsoft Corporation have raced to seek new advantages and competing intensely on price and quality as well as timing and know-how. Similarly, Microsoft Corporation have built and undermined strongholds, using the deep pockets they develop from one round of competition to build their next temporary advantage. Yet this behaviour is criticized by competitors as an unfair and monopolistic practice, despite the clear benefits to society of rapid product improvement. The danger is that government policy that hunts down such companies could end up destroying the companies that are the nation’s best hope for succeeding in global hypercompetitive markets (D’Aveni, 1994).
4.3 Velux A/S

The Velux story began in 1941 when its founder, Villum Kann Rasmussen first saw the opportunities for developing cheap, useful living space under the sloping roof of Danish homes. Since then, more and more markets have been conquered, often starting out with agents or different first contacts and later by establishing sales subsidiaries (Michael K. Rasmussen, 2009). Today, Velux is a large multinational corporation with manufacturing companies in 11 countries and sales companies in just under 40 countries, employing around 10,000 employees worldwide. Velux is one of the strongest brands in the global building materials sector with its products sold in most parts of the world and its headquarters located in Hørsholm, just north of Copenhagen, Denmark (Velux, 2009).

Today, Velux product programme contains a wide range of roof windows and skylights, along with solutions for flat roofs. In addition, Velux offers many types of decoration and sun screening, roller shutters, installation products, products for remote control and thermal solar panels for installation in roofs. During the recent years, Velux has grown on a foundation of quality, customer service and reasonable prices. In the competitive world of today, these segments are still the building blocks of their success in widening their product programme and strengthening market position. Velux aims to be a model company. This means a company working with products useful to society, which treats its customers, suppliers, employees of all categories and shareholders better than most other companies. As argued, quality is a major priority at Velux and as a result extensive resources are devoted to testing, quality control and market testing to ensure that products meet all quality requirements. Velux wants to remain ahead of the competition in every way and to develop new ways of enhancing life by delivering fresh innovative products (Velux, 2009).

The competitive environment of Velux is characterized as conservative with demand driven mainly by residential real estate construction and renovation. The profitability of individual companies depends on efficient manufacturing and marketing. Large companies enjoy economies of scale in purchasing and have the ability to offer more products. Small companies can compete effectively by catering to contractors, by offering specialty products and services, and by serving areas unattractive to larger companies (Building material supply, 2009).
A product which Velux sells today, will most likely still be in place in 30 years time. As a consequence, the rate of knowledge creation is not as high as was the case with IO Interactive and Microsoft Denmark. However, as Michael K. Rasmussen (2009) argued, innovations are still very important activity for Velux. In consideration of the strong competition in the industry; a company that does not continuously innovate will eventually be caught up by its competitors. In this perspective, most of innovations originate from Velux new development center in Jylland, Denmark. However, as with Microsoft Denmark, due to lack of empirical material the focus of this analysis will be more towards Velux headquarters. Innovations created within the development center are dispersed to subsidiaries via corporate headquarters. Withal, even though there is a focus on continuous innovations and rapid decision making within Velux, the building materials industry is still relatively stable and as a result can be defined as non-hypercompetitive.

Like many other companies in the building materials industry, Velux is struggling because of the subprime mortgage crisis. Velux has decreased the number of employees, especially in its subsidiaries and wages have been cut. However, as Michael K. Rasmussen (2009) argues, Velux is not as badly affected as their competitors due to them having built up a level of brand awareness that is seldom and unusual in the building materials industry. With regards to innovation, Velux has not decreased their budgets despite the financial crises. Velux wants to continue to be the market leader with an innovative approach and focus on continuous improvements. When the affects of the financial crisis start to diminish, Velux wants to be prepared. The driving force is to constantly create advantages for customers by contributing towards better living environment. This is what Velux are measured on, when attempting to gain complete customer satisfaction in all target groups.
5. Analysis

As argued before, the empirical material of the thesis is based on four research interviews conducted during the period April-May 2008, May 6th 2009 and May 25th 2009. In relation to the theoretical framework, two hypercompetitive multinational corporations will be analyzed from the perspective of their Danish subsidiaries; IO Interactive and Microsoft Denmark. Similarly, the non-hypercompetitive Velux A/S will be analyzed from the perspective of their corporate headquarters. The empirical material of IO Interactive is based on two research interviews with respondents who have different roles within the organization. Charlotte Delran, the head of Creative Services and Thomas Hagen Johansen, Online Development Manager. With regards to Microsoft Denmark, the research interview was carried through with Per Blessing, head of Response Management Team for Denmark and Iceland. Lastly, the research interview with Velux A/S was carried through with Michael K. Rasmussen, Head of Group Communication and Brand Management.

The following chapter is divided into three different sections. Firstly, a view on how to organize a hypercompetitive subsidiary with regards to knowledge creation will be presented from the viewpoints of IO Interactive and Microsoft Denmark. Secondly, the relationship between headquarters and subsidiaries of multinational corporations will be reviewed from the views of all the three empirical cases. With regards to Velux, special emphasis will be put on how to sustain the transnational mentality first introduced by Bartlett and Ghoshal (1989). Lastly, the role of exploration strategies will be investigated with regards to all of the three empirical cases.

5.1 How to organize a hypercompetitive subsidiary

According to Charlotte Delran (2008), IO Interactive has the ambition to create the knowledge necessary for survival in hypercompetitive markets. In this perspective, IO Interactive is innovative from the beginning to the end, developing almost all of their technology by themselves. This is because restrictions of intellectual properties (IP) and juridical problems are a considerable factor in their innovative process. As a result, in order to be innovative, IO Interactive has to be able to ordain a highly creative working environment. This requires the managerial ability of being able to find, train and maintain qualified and diverse employees.
The key to success in hypercompetitive industries is to have qualified and diverse employees who all share the same ambition of achieving the overall goal of the multinational corporation. According to Thomas Hagen (2008) it is of high importance that people working in the industry have interests in what they are doing, e.g. for many employees of IO Interactive, programming is considered to be a hobby preferred over going to a cinema or watching television. Those employees gain a lot of experience from their hobbies which eventually helps IO Interactive to be better and faster. However, the biggest challenge is to find these kinds of employees. The game developing process often takes 2-3 years of hard work; therefore it can be challenging to find qualified and diverse employees that are willing to work at the high levels of pressure and speed required in the game industry.

IO Interactive is a relatively young organization; many of the employees who started working there during the first four years are still there. As a result, personnel turnover has been low, or only around 5% each year. Some of the benefits of keeping the same employees within the company are that employees interact better together and at the same time work better in groups. Thereby, low personnel turnover can prove to be viable in terms of cost and time as employees do not have to be trained as much. However, even though there are some positive aspects of having low personnel turnover; it is also necessary to be able to get fresh ideas from new employees outside of the organization (Charlotte Delran and Thomas Hagen, 2008).

Due to the limitations of IP rights and low personnel turnover, IO Interactive has designed some strategies in order to inspire their employee’s innovativeness. In this perspective, there have been some managerial changes within IO Interactive, creating some boundaries for more decentralized and autonomous structure of the subsidiary. According to Thomas Hagen (2008), employees at IO Interactive collaborate together in a flexible working environment, encouraging creativity and risk taking and at the same time emphasizing responsibility. As Charlotte Delran (2008) claimed: “many ideas are create at the lunch table in the canteen, it is easier to be creative when you are working with others then when you sit alone in a closed office”. For this reason, management has delimitated a certain timeframe when employees should physically be at work in order to create some structure for the innovative and collaborative process. In addition, offices don’t have any bulkheads and there are many open spaces and rooms for discussion. Thus, the working environment inside of IO Interactive is designed to be simulative for continuous communication and knowledge creation.
Another example of a strategy used for inspiration is taking employees on field trips to the locations where the possible game storyline could occur, reading literature or watching television. For the game Kane and Lynch, IO Interactive was under high influences from the well known movie Heat (Charlotte Delran, 2008). Furthermore, Thomas Hagen (2008) mentioned the informal relationship with other players in the game industry at conferences and exhibition throughout the world. Employees that engage in informal discussions with external partners often share information and ideas, but they usually have the sense of not sharing knowledge they are not allowed to share.

With regards to Microsoft Denmark, knowledge creation is mostly focused around activities related to marketing, sales and features, not product innovations. Within Microsoft Denmark there does not exist any product development department. However, as Per Blessing (2009) argued, all of their departments are innovative to some extent. When you are dealing with Microsoft products and services on a daily basis, employees are motivated to be constantly on the lookout for new ideas. As a result, Microsoft Denmark has to be able to ordain a creative working environment, lead by qualified employees. Within Microsoft Denmark there exists a knowledge database where employees can share best practices and ideas with their managers. The knowledge database is supervised by a specific team which has the responsibility of extracting the installed knowledge and taking decisions on its usage. In a similar manner, employees have access to corporate feedback system which they can use to share their knowledge and suggestions with corporate headquarters (Per Blessing, 2009).

Per Blessing (2009) defined the organizational structure of Microsoft Denmark as decentralized and organic, allowing high degree of staff involvement and improvement. This way, Microsoft Denmark can ordain a creative working environment and encourage innovation, mutual trust and empowerment. In this perspective, the relationship between employees and their managers can be characterized as “bottom-up”. According to Per Blessing (2009), this is the typical human resources system for a Danish IT company and has proved to be highly successful. For example, during the last three years, Microsoft Denmark has been voted the best IT workplace in Denmark (Great Place to work, 2009).

Microsoft wants to be an attractive employer, regardless of cultural background, sex, religion, sexual orientation, age, life stages, and other diversity criteria. People are hired based on their
skills, creativity, personality and intelligence and have to have passionate relationship with tomorrow's technology, regardless of where they come from or how they choose to live their private lives. Regardless of the origin and background of the employees, Microsoft Denmark supports and encourages every one of them to work to achieve their goals and ambitions and are constantly developing both professionally and personally. Microsoft Denmark have an ambition to become an even more diverse employers, because they believe that bringing different types of people together in the end makes them a more successful and innovative business. In this perspective, Microsoft Denmark has acceptable personnel turnover. Further, as a result of the recent award, Microsoft Denmark is hoping to use it as a tailwind to encourage more females to join the IT industry, emphasising the positive effects of diversity (Per Blessing; Microsoft Denmark, 2009).

With regards to the two hypercompetitive cases there seems to be one significant difference between them. Microsoft Denmark is more oriented towards sales, marketing and features while IO Interactive is more focused towards new product development. As will be discussed in the next section, Eidos Interactive is responsible for most of the sales and marketing activities for IO Interactive. In contrast, Microsoft Corporation allows Microsoft Denmark to take care of most their sales and marketing operations.

Looking at Velux A/S, the focus of the empirical research is on corporate headquarters and therefore will not be included in this section. Moreover, the industry which Velux competes in characterized as non-hypercompetitive. As a result, the subsidiaries role becomes less relevant to answering the overall research question of the thesis. However, as will be argued, even though Velux is defined as non-hypercompetitive, it can be quite interesting to examine and compare their organizational structure and control processes with the other two empirical cases.

5.2 Being part of a multinational corporation

According to Charlotte Delran and Thomas Hagen (2008), the relationship between IO Interactive Eidos Interactive is characterized by knowledge sharing and trust. In this perspective, employees of IO Interactive are in regular contact with their colleagues from Eidos Interactive situated around the world. Charlotte Delran describes the relationship as similar to the “writer-publisher” relationship, where Eidos Interactive is in control but still
allows IO Interactive to work independently to some extent. For example, during marketing or financial meetings there will be more employees present from Eidos Interactive than IO Interactive. With regards to financing the development of new games, Eidos Interactive is in full control. Similarly, Eidos Interactive is responsible for large part of the marketing and sales activities. Consequently, IO Interactive is barely involved with operations relate to the local market. In an interesting manner, Charlotte Delran mentioned that recently IO Interactive and Eidos Interactive had begun discussing the idea of creating a more independent brand department within IO Interactive. Unfortunately, she could not provide more information of this issue.

Eidos Interactive has many subsidiaries located around the world that all, just like IO Interactive, face the challenge of being restricted by IP rights. In order to solve this challenge, Eidos Interactive has created so called “expert” groups in which IO Interactive and other Eidos Interactive subsidiaries can communicate with each other in order to collect and share best practices. This could e.g. be animators from different subsidiaries within Eidos Interactive meeting and discussing their profession and sharing specialized knowledge (Charlotte Delran, 2008). Members of the expert groups can communicate through these groups either personally or using the latest communication technology currently available. Moreover, members of the expert groups often communicate with each other outside the induced and official meetings. For example, calling each other or meeting at exhibits and conferences where they can talk about their common interest in the game and share knowledge (Thomas Hagen, 2008).

Withal, there are still some limitation within Eidos Interactive with regards to the free information flow and mutual trust. Managers and employees who communicate together often have to sign non-disclosure agreements. A non-disclosure agreement (NDA) guarantees a confidential relationship between at least two parties to protect any type of information or know-how. In this legal contract the parties agree not to disclose knowledge and information covered by the agreement. If the NDA are really strict they can inhibit interaction between parties and slow down innovation processes (Confidentiality Agreements, 2008). In the minds of the respondents from IO Interactive these contracts were considered only as formalities from Eidos Interactive that were not always carried through (Thomas Hagen, 2008).
Per Blessing (2009) argues that the relationship between Microsoft Denmark and Microsoft Corporate headquarters is relatively centralized. Microsoft’s leadership is heavily shaped by the leadership of its founder and former chairman, Bill Gates. Gates had been known to be extremely controlling, with an extreme concentration on detail. However, as a result of recent changes in leadership styles, subsidiaries are now allowed to work more independently. As mentioned before, most of Microsoft products originate from corporate headquarters, not Microsoft Denmark. The subsidiaries role is to adapt and coordinate marketing and sales operations with regards to the local market in coherence with a financial budget. In this perspective, Microsoft Corporation will set a financial budget for the Microsoft Denmark, related to both the overall goals of the corporation as well as toward more locally adapted ones. It is then in the hands of the Microsoft Denmark management team to independently allocate budgets to different departments and projects.

As with Eidos Interactive, subsidiaries of Microsoft Corporation work closely together in order to share knowledge and best practices. However, this relationship is mostly limited to marketing and sales activities. With regards to product innovations, headquarters are in full control and always have to be involved. The relationship between subsidiaries is mostly within the boundaries of regions and is based around mutual trust, respect and commitment. Most widespread ways of communication are face-to-face meetings, conference calls and emails. In contrast to IO Interactive, there does not exist any expert groups within the corporation (Per Blessing, 2009).

According to Michael K. Rasmussen (2009), Velux officially administers a multinational corporation based on the philosophy of the transnational organization (Bartlett and Ghoshal, 1989). In order to keep their position as cost and product leader, Velux must ensure that they enhance global integration and at the same time retain their local responsiveness. Thereby, the relationship with subsidiaries is based on centralized formalities such as budgets, marketing plans and annual reports. With regards to finances and new product development, centralization is considered to be prevailing as well. In contrast, Velux subsidiaries have almost full control over their sales and marketing activities. In order to create some independence, instead of using a single global marketing plan, Velux creates a specific marketing plan for each country in cooperation with the local subsidiary. Even though the product itself is not always that diverse, customer needs require some adaptation. For
example customers north of the Alps want to keep high temperature in their homes while customers south of the Alps would like to keep them outside of their homes (Michael K. Rasmussen, 2009).

With the transnational organization in mind, Michael K. Rasmussen (2009) admitted that during the last few months, Velux has been moving little bit more towards centralization. This is a consequence of the financial crises; as there is a tendency to centralize during crises. As a consequence, Velux has lost some of its flexibility as they are not able to be as responsive and accurate to the need of the diverse customers as they used to be.

I order to control a transnational organization like Velux, massive amounts of communication is required. There has to be constant dialog between subsidiaries and headquarters. Within Velux, every subsidiary has the responsibility to ensure that global solutions are executed. In a similar manner, there has to be a range of standards solutions available. For example, with regards to new product development, headquarters receive input on a regular basis from their subsidiaries. There is an idea database presented within corporation where employees can share their suggestions and best practices, later to be reviewed by a team located within headquarters. (Michael K. Rasmussen, 2009).

According to Michael K. Rasmussen (2009), there also exists some cross-market dialog between different Velux subsidiaries, in order to exchange best practices without the involvement of headquarters. However, this relationship is mostly limited to marketing and sales activities. With regards to innovations, headquarters are in full control and always have to be involved. As Michael K. Rasmussen (2009) argues “it is very hard to research innovations. If you ask the customer what they want, they will most likely ask for what they can get today a little bit better. Thus, if you want to change something you have to limit the number of people you speak to.” Consequently, Velux has their new product developers and marketing and sales personnel separated.

In addition to massive communication, Michael K. Rasmussen (2009) emphasized the need for strong common sets of values and principles in order to control a transnational corporation. In this context, on a set of five core values: commitment, mutual respect, improvements, local initiatives and thoroughness. It is the way the organization makes these
core values operational in their daily work together with their goals that makes Velux the unique company it is.

As argued before, motivated and diversified employees are a key characteristic of an efficient and creative workplace. Employees must be able to enjoy and feel comfortable while working where the cultural peculiarities of each country and of each individual are respected. Mutual respect also means respect for surroundings, the aim is an open-minded company which is sensitive, friendly, helpful in every way and, most of all, united through mutual respect (Michael K. Rasmussen; Velux, 2009).

For Velux, the ability to improve products and the way things are done is vital to maintain a strong position in a competitive marketplace. Each employee can contribute to making things better, by having focus on ways to improve and this applies not only to products but also services and processes. Experimenting and learning from experiences has always been a way of life in Velux. Thereby, the ability of being flexible becomes one of the keys to meeting the challenges of the future. The precondition is that all employees understand the direction and the frame set by the vision of Velux. It is essential for the success that each employee is willing to take personal and local initiatives without losing focus of the overall goals of the corporation. For Velux, it is one of the cornerstones the business that products and the organization are reliable. Thoroughness goes hand-in-hand with quality. However, it is important to try to balance the attention to detail with the bigger picture. The world is changing; multinational corporations have to ensure that they are changing along with it and not sticking to old routines that prevent moving with the times (Michael K. Rasmussen; Velux, 2009).

5.3 Ways to explore outside of the multinational corporation

Although IO Interactive shares some knowledge and ideas with others it is mostly within Eidos Interactive group and therefore the boundaries of the firm are quite limited to their environment. However, even though IO Interactive does not share knowledge with competitors or customers, they have an evolutionary approach where they often copy the ideas of competitors and further develop them. As Thomas Hagen (2008) stated: “We are all some kinds of copycats; you more iterate than you innovate”. Consequently, in some cases the competitors can set the limit of creation. With regards to customers there does not exists
any real relations due to the risk of IP lawsuits. The challenge lies in the fact that IO Interactive has to be able to prove that their innovations are their own ideas, but not of others (Charlotte Delran and Thomas Hagen, 2008).

Some minor parts of new product development for IO Interactive is outsourced or licensed to external partners outside of the Eidos Interactive group. Managers might hire an author to write part of the storyline of a game, or a musician to compose the music. However this is done within a certain boundary, as Charlotte Delran (2008) argued: “IO Interactive will tell the musician how the music is supposed to sound from ideas created within the organization”. Thereby, IO Interactive concentrates their own resources on a set of core competencies where they can achieve definable pre-eminence and provide unique value for customers. Another example of knowledge sharing is the relationship between IO Interactive and Microsoft, Sony and Nintendo, who produce the consoles (PS2, Vii, and Xbox) necessary for playing computer games. The relationships is based on clear contracts as IO Interactive is highly depended on Microsoft, Sony and Nintendo releasing their products on a pre-determined time and supplying related data.

According to Per Blessing (2009) Microsoft Denmark together with their external partners develops, assemble and market products under the Microsoft brand. The collaboration exists in order to collect and share knowledge to enhance Microsoft’s performance and as a result gaining competitive advantages. In some cases, Microsoft Denmark and its partners even cooperate on training, sales and marketing. In this perspective, this unique and close collaboration between Microsoft and partners ultimately helps customers to optimize their opportunities. According to Per Blessing (2009) it is really important to understand this “trust based” collaboration, which he calls “organic network” of partners who Microsoft works closely with. This kind of collaboration has been successful with Microsoft Corporation all over the world.

With regards to customers, Microsoft Corporation develops, expands and updates its products on a continuous range. All products undergo at least one test round with their customers before they are launched. It provides assurance that products have a high quality. In a similar manner, Microsoft Denmark, receives feedback from both satisfied and unsatisfied customers who as a result become part of their innovative process. In 2006 Microsoft launched a so
called IP Ventures program, where internally developed technologies are made open to the outside world. The purpose is to facilitate new products and business for entrepreneurs and small businesses. By sharing the licensing and innovative technologies, Microsoft Corporation hopes to be able to grow and introduce innovative products to emerging markets (Microsoft, 2009).

Throughout the years, Microsoft Corporation has acquired over 128 companies, purchased stakes in 60 companies, and made 24 divestments. Of the companies that Microsoft has acquired, 99 were based in the United States. Among the most notable ones are Forethought (Power point), Hotmail (MSN), Visio, Navision and Rapid acquisitions, combined with organic growth, will continue to be a mainstay of Microsoft's strategy. Acquisitions are locked into building Microsoft’s capability, there's a desire for adapting suitable external technology into the current bed of technology (Per Blessing, 2009).

With regards to Velux A/S there exist some relations to partners outside of their organization. Firstly, Velux often works with consultants, architects, specialists and others who have competence in fields or technology that does not exist within the corporation. Secondly, through the Velux webpage, customers can send in their suggestions and ideas for improvements. Velux considers input from customers to be an important part of the innovation process; however it cannot be the dominant factor. Lastly, Velux have acquired few small companies in USA in order to gain further knowledge and market share in a market which is very different from the European market. As with Microsoft there is also a desire to adapt suitable technologies into the current bed of technology (Michael K. Rasmussen, 2009).
6. Results

The basic premise of the thesis is that multinational corporations are represented by units spread throughout the world that need to be coordinated or integrated in some form and to some degree in order to survive. With regards to the prerequisite, all of the empirical cases are applicable. Microsoft Corporation being one of the most globally spread and recognised multinational corporation in the world. Similarly, Velux A/S has operations in over 40 different countries and has strong brand recognition within the building materials industry. However, with regards to size, spread and brand recognition, Eidos Interactive and its subsidiaries are relatively small scale compared to the other two empirical case companies. Nonetheless they have operations in numerous countries and their products are available in retail stores around the globe and therefore applicable.

Both IO Interactive and Microsoft Denmark operate within a hypercompetitive environment. Because of the rapid pace of technological developments and changes in behaviours of competitors and consumers in the, IO Interactive and Microsoft Denmark cannot earn above average profits for a meaningful period of time based on a single established innovation or advantage (Bogner and Barr, 2000). As a result, Microsoft has to consistently introduce new types and versions of products like the recent case of Windows 7 and Zune demonstrates. In a similar manner, IO Interactive has to update its game catalogue and technologies on a regular basis to stay competitive in a market which penalizes products delays quickly. In this hypercompetitive environment, attention is on knowledge as a critical source of comparative economic advantage. When markets shift, technologies proliferate, competitors multiply, and products become obsolete almost overnight, successful multinational corporations are those that consistently create new knowledge, disseminate it widely throughout the organization, and quickly embody it in new technology and products (Akhter, 2003).

Compared to IO Interactive and Microsoft Denmark, Velux A/S operates in a relatively stable and conservative environment with regards to innovations and changes. Indeed, the pace of technological developments and behaviors of customers and competitors is relatively slow compared to the other empirical cases. Withal, Michael K. Rasmussen (2009), still considers the competition to be very strong within the industry. Quality and price characterizes the competition and as a result, it is important to be as innovative as possible. Consequently, the
creation, collection and sharing of knowledge is of high importance. Even though the industry can be defined as non-hypercompetitive, the empirical research has revealed that there are many characteristics of Velux which can be related and compared to the hypercompetitive cases of IO Interactive and Microsoft Denmark. In this perspective, the philosophy of Michael Porter (1979; 1996) might not be applicable for Velux.

6.1 Fairly centralized structures

With regards to the three empirical cases, results indicate that the relationship between corporate headquarters and subsidiaries can be defined as fairly centralized. As a result the authority to make most of the important decisions is retained by top level managers located at the headquarters level and propagated to the subsidiaries (Jones, 2004). The main advantage of centralized structure is that by leveraging the resources already located at the corporate center, the process facilitates rapid and efficient decision making and by integration minimizes the kind of headquarters-subsidiary arm wrestling that often occurs when authority is more widely dispersed (Bartlett and Ghoshal, 1989).

Compared to the other two empirical cases, the relationship between IO Interactive and Eidos Interactive can be defined as less centralized. According to the respondents, the relationship is based on considerable trust and latitude. IO Interactive is allowed to operate independently with regards to new product development, human resources and other internal activities necessary to survive in hypercompetitive markets. On the other hand, when it comes to finances and marketing, Eidos Interactive has almost full control over allocation. Considering the level of free information flow between subsidiaries and headquarters, there seem too exist some limitations to communication. Employees of IO Interactive often have to sign non-disclosure agreements that can inhibit interaction between parties, slowing down the creation, collection and sharing of knowledge (Charlotte Delran and Thomas Hagen, 2008). Thus, the limitations of non-disclosure agreements and IP rights assert that the relationship can only be partly based on trust and latitude. Consequently, centralization is a fairly dominant factor in the relationship between IO Interactive and Eidos Interactive.

With regards to Microsoft Denmark and Velux A/S, the relationship between subsidiaries and headquarters can be defined as slightly more centralized than in the case of IO Interactive. As with IO Interactive, Microsoft Denmark and Velux subsidiaries are allowed to operate
independently but the emphasis it put on sales, marketing and features, not product innovations. As a result, with regards to new product development there does not exist as much trust as in the case of IO Interactive and Eidos Interactive. This is interesting for the reason that Microsoft Denmark does not have any prevailing power over the creation of product innovations which is the basis for competing in hypercompetitive markets. All new Microsoft and Velux products originate from corporate headquarters, not subsidiaries. The subsidiaries role is to coordinate sales and marketing operations towards the local market within an overall marketing plan set by corporate headquarters in cooperation with subsidiaries. Microsoft Corporation and Velux A/S are in full control of finances and require subsidiaries to report annually. Thus, centralization is the predominant factor with regards to Microsoft Denmark and Velux A/S.

For the three empirical cases some amount of centralization can prove to be highly valuable. In this perspective, gaining advantages from headquarters core competences that consist of experiences and knowledge of the marketplace and technology, coupled with infrastructure, finances and management strength (March, 1991). This leads to more certainty, speed, proximity and clarity of feedback between subsidiaries and corporate headquarters. Thereby, the centralized and integrated treatment of subsidiaries can be positively related to exploitation activities (Mom et al. 2006). This is in line with one of the main requirements of surviving hypercompetition; rapid and efficient decision making.

As the multinational corporation grows in size and complexity, managers at corporate headquarters are swamped with requests for information, guidance, support, and decisions. To respond appropriately, they feel they need to reinforce their resources, capabilities, and knowledge base, thereby increasing the size and bureaucracy of the central decision making units. Consequently, the managers at the national level may feel deprived of outlets for their skills and creative energies (Bartlett and Ghoshal, 1989). The case of Velux A/S and Microsoft Corporation can be used as an example of this. In this perspective, the two corporations are reasonably larger, older and more spread than Eidos Interactive. Indeed, it could be argued that this is one of the reasons why the relationship with their subsidiaries is characterized as more centralized and bureaucratic than Eidos Interactive relations towards IO Interactive. A corporation that has a relatively strong position within the industry may be less willing to take exploratory risks than one that is in a comparatively weaker position.
Strong centralisation often leads to inflexibility, which is diametrically opposed to the best conditions for the research and development process necessary in hypercompetition, while allowing for integration and effective exploitation of firm’s specific advantages. In this perspective, Microsoft Corporation’s centralization and size can seriously hamper their ability to be as innovative as required in hypercompetitive markets. The symmetrical hierarchy leads management to underestimate the differences in the strategic importance of various national environments (Bartlett and Ghoshal, 1989). Although exploiting existing competencies may provide short-term success and speed, centralized forms decreasing the sense of control over work and severely hamper the long term ability to be innovative and responding to accelerating competition (Atuahene-Gima, 2005).

Surely, centralization has the same disadvantages for Eidos Interactive and Velux but its impact is not as serious as with Microsoft Corporation. As argued, the relationship between Eidos Interactive and IO interactive cannot be defined as centralized as in the case of Microsoft Corporation and Microsoft Denmark. Thus, IO Interactive competitiveness in hypercompetitive markets is not affected as badly due to the independence of new product development. With regards to Velux, the damage of centralization is not as severe as with Microsoft Corporation for the reason that the building material industry is defined as non-hypercompetitive. Withal, it cannot be avoided that centralization often leads to inflexibility and exploitation, which is diametrically opposed to the best conditions for the research and development process necessary, whether or not hypercompetitive. A firm that is too oriented toward exploitation is likely to fail because of a lack of novel ideas and knowledge to generate new insights in product innovation (March, 1991). As a result, all of the three empirical cases risk suffering the consequences of centralization.

### 6.2 Relatively decentralized structures

When dealing with gradual strategic changes, Eidos Interactive, Microsoft Corporation and Velux have to be able to present some sense of direction into the process of strategy making instituting more flexible and opportunism way of controlling strategic change and organizational knowledge (Quinn, 1980; Akhter, 2003). Therefore, with the disadvantages of integration in mind, all three empirical case companies have created a bundle of different, but similar control processes, giving their subsidiaries and employees some independence in order to stimulate more flexibility, local responsiveness and knowledge creation. In this
perspective, subsidiaries have organic and decentralized structures. Decentralization allows for greater adaptation in the decision process inspiring exploration and creation of new types of firm’s specific advantages necessary in hypercompetition (Bartlett, Ghoshal 1989; March, 1991).

Decentralization copes with diversity much better than centralized hierarchies, giving power to the subsidiaries and employees that are more qualified to tailor the strategies of the organization to the needs of local market situations. This is especially important for Microsoft Denmark and Velux subsidiaries that are responsible for marketing and sales towards the local market. Nationally influenced behavioural characteristics become an ingrained part of each multinational corporation way of doing things and shapes its organizational structure and control processes (Bartlett and Ghoshal, 1989; Hofstede, 1983). In this context, organic and decentralized structures may be major sources of exploratory learning for subsidiaries that are then able because of their independence to coordinate strategic decisions accordingly (Mom et al. 2006).

In contrast, IO Interactive is more focused on new product development towards global markets, being only responsible for minor part of the local adaptation process, such as including various game languages in their products and providing technical support (Charlotte Hagen, 2008). Thereby, with regards to local adaptation, the relationship between IO Interactive and Eidos Interactive can be defined as relatively centralized. Wherefore IO Interactive has full control over product innovations, not marketing, sales and features. However, the question still remains weather the game industry actually requires local adaptation. Surely, IO Interactive is responsible for including various game languages for local markets and Eidos Interactive has some marketing activities aimed towards them. However, the Eidos Interactive strategy is not on customizing the items of their subsidiaries, rather offering them in relatively standardized and integrative manner globally; being advanced, functional and reliable (Levitt, 1983). Thereby, the independence and decentralization of IO Interactive with regards to new product development makes sense, with regards to being able to produce a series of highly innovative and competitive games rapidly for the global market, minimizing the consequences of centralization and restriction of IP rights. Thus, the centralization of local adaptation is logical with regards to the strategy of Eidos Interactive. As indicated by the empirical cases, management needs to marshal the
equally powerful forces of integration and coordination. Indeed, it is of high importance that multinational corporation do not select a generic strategy, but actually maneuvers between these positions or occupies both positions at the same time (D’Aveni, 1994).

Moving towards a more independent, organic and decentralized structure is not the perfect plan. As centralization and exploitation facilitated rapid decision making and integration it is clear that decentralization and exploration of new alternatives reduces the speed and efficiency with which skills at existing ones are improved. (March, 1991). This is not in line with the philosophy of hypercompetition. Moreover, there is a risk that products and services could vary considerably across worldwide operations because of subsidiaries insisting on tailoring the product towards local needs. A customer from Vietnam is different than a customer from Denmark, depending on issues such as economic growth. Thus, product from Microsoft which requires the newest and most expensive technology available might be hard to sell in Vietnam. As a result, sales and marketing activities have to be administered differently between markets, risking undermining the brand image and slowing down operations of multinational corporations (Hofstede, 1983). Here, the inpatriate strategy has proven to be feasible. By locating inpatriate managers in subsidiaries, management do not experience the loss of control generally felt and the process of multiculturalism and exploration can be activated, which contributes to the awareness of the global workforce diversity across the corporation (Harvey and Novicevic, 2002).

Withal, if not careful, Microsoft Corporation, Velux and Eidos Interactive could risk failing the integration of diverse product development efforts to standardize on a single global design because of too much flexibility (Bartlett and Ghoshal, 1989). The identified imperative of firm-level flexibility stresses the need to maintain some level of organizational consistency. In other words, flexibility without stability results in chaos. In this perspective, the organizational structure becomes the strategy. Organizational structures comprises not only the actual distribution of responsibilities and authority among the organization's personnel, but also the planning and control systems and the process regulations of decision-making, coordination, and execution (Volberda, 1996).

In a similar manner, the new 7 S's or a similar framework can be used to analyze industries and competitors and to identify one's own strengths and weaknesses in meeting the
challenges of hypercompetition. As argued, strategic control is not just a way of dealing with events after they have occurred; but also keeping the organization up to date, predicting events that have not occurred and responding quickly to new opportunities and challenges which might reveal themselves. Thereby, control processes may contribute to the multinational corporation’s vision of where the next advantage will be discovered, where the company should focus its disruption, and which capabilities it needs and which it does not (D’Aveni, 1994; 1999). Thereby, I would argue that strategic control processes and the new 7-S’s are complementary.

So far it has been emphasized that organizations must respond to the twin pressures of exploitation and exploration highlighted by March (1991). Similarly, multinational corporations have to be able to increase the level of flexibility and innovativeness of their corporations while maintaining some consistency and reliability (Bartlett and Ghoshal, 1998; Volberda, 1996, 1998). For this reason, Microsoft Corporation and Velux have an ambidextrous structure, where new product development and finances have been centralized in order to minimize the consequences of the decentralization of their subsidiaries. In contrast, Eidos Interactive has an ambidextrous structure where new product development is decentralized in order to minimize the consequences of the centralization of their headquarters. In these terms, I argue that the empirical cases have organic and loosely administered structures.

6.3 Exploration vs. exploitation; the case of subsidiaries

What I define as an organic and loosely administered structure entails that managers have to be able to ordain a creative working environment, attracting and retaining qualified and diverse employees who all have the necessary resourcefulness to control the strategies of multinational corporations with ambidextrous structures. Thereby, employees will be able to respond to diverse exploitive and exploratory situation rapidly because of their experience and training. In hypercompetitive markets, successful multinational corporations are those that consistently create new knowledge, disseminate it widely throughout the organization, and quickly embody it in new technology and products in order to disrupt the status quo.

As the issue of IP rights and contracts is a considerable factor in the innovative process of IO Interactive, there exist some boundaries for exploration activities in the innovative process. In
this respect, IO Interactive pursues some exploitative innovations in order to better cater for existing customers, building customer loyalty without risking IP rights (March, 1991). One example of this is upgrading graphics and fixing errors of already published games. However, since long-run intelligence and success in hypercompetition depends on sustaining a reasonable level of exploration, these tendencies to increase exploitation and reduce exploration make adaptive processes potentially self-destructive (March, 1991; Benner and Tushman, 2003). This suggests that subsidiaries like IO Interactive that is using their resources to exploit and defend established assets will not only fail to generate high returns, but also that those resources may cause counterproductive rigidity in the corporation. What is needed is an understanding of the evolution of the market, tomorrow’s problems, competencies, and opportunities (Akthter, 2003).

In this perspective, Both IO Interactive and Microsoft Denmark want to be attractive and diverse employers, regardless of cultural background, sex, religion, sexual orientation, age, life stages, and other diversity criteria. Employees are hired based on their skills, creativity, personality and intelligence and have a passionate relationship with tomorrow's technology, regardless of where they come from. Here the diversity of IO Interactive and Microsoft Denmark may be turned to an advantage through exploratory activities.

IO Interactive is still young company with relatively low personnel turnover each year. With regards to exploitation this is a beneficial as employees who know each other collaborate more easily and faster together. However with regards to exploration it is a disadvantage as it is necessary to able to bring fresh ideas and different perspectives into the hypercompetitive corporation (March, 1991). In contrast, Microsoft Denmark has had an acceptable rate of personnel turnover during the recent years due to the constant growth of the organization (Michael K. Rasmussen, 2009). Thereby, personnel turnover of Microsoft Denmark may be turned to an advantage through explorative activities. However, it is important to acknowledge that personnel turnover does not necessarily involve the forced replacement of individuals; rather the emphasis is placed on the replacement of individual knowledge. Thus, it is important for managers to encourage organizational members to experiment with radically new knowledge by, for example, travelling and learning outside their corporations or granting employees spare time and resources during work days to pursue personal projects. In a similar manner, social networks can prove to be highly advantageous. Therefore, even
though it is important that IO Interactive has higher rate of replacements of individuals within the organization, it is not a requisite to survive in hypercompetitive markets (March, 1991).

As a consequence of the limitations of IP rights and low personnel turnover, IO Interactive has implemented number of strategies in order to inspire some necessary exploratory activities within their subsidiary. The essence of exploration activities is creating variety in experience which is associated with broadening an existing knowledge base (March, 1991). For example, means such as going on field trips, reading literature, watching television and participating in conferences and exhibitions are often used in order to influence exploration (Charlotte Delran, 2008). Further, IO Interactive often copies and iterates ideas from competitors. However, these relations cannot be defined as horizontally integrated to the value chain of IO Interactive. According to the empirical research there is no reason to believe that IO Interactive is in coopetition with relevant competitors (Thomas Hagen, 2008).

The biggest advantage of the IO Interactive inspiration strategy is their access to the Eidos Interactive network. In this context, Eidos Interactive has created expert groups within their corporation. Within these expert groups, managers and employees of different subsidiaries can communicate, share and leverage specialized knowledge either personally or using the latest communication technology currently available. In this perspective, the relations within Eidos Interactive can be characterized as a social network (Gulati et al, 2000). Social networks can provide access to knowledge, resources, markets, or technologies. The social network form differs from the hierarchy and market exchange forms in the sense that it has a high degree of structural and strategic flexibility. More specifically, the Eidos Interactive network can be defined as an intracorporate network. As such, ties within a member, such as interdepartmental and interpersonal relationships, may not be very different in nature from those between members. Members of an intracorporate network usually work toward a common goal set by headquarters, although they may have to fulfil certain secondary goals related to their own products and markets. A shared vision can be viewed as a bonding mechanism that helps different parts of a network integrate knowledge (Inkpen and Tsang, 2005; Bartlett and Ghoshal, 1989).

As the expert groups are created and not evolve on its own, they can be defined as structural embedded since they entail shared understanding of the utility of certain behaviour as a result
of discussing opinions in strong, socializing relations, which in turn influence their actions (Gulati, 1998). Mutual trust is created between employees that are bound in a network by joint ownership. Thus, IO Interactive has much room to maneuver, but also to preserve some commonly shared social norms. That is, the network requires a willingness to change and to renew and at the same time. In a way, trust becomes a management mechanism in relations to the external environment. Along with empowerment and commitment, trust becomes the imperative to encourage the network members to view potentially exploratory high-risk actions as being prudent because of the belief that their partners will not act opportunistically.

Thomas Hagen (2008) claimed that members of expert groups might eventually communicate outside the induced and official meetings of the Eidos Interactive network. Thus, over time these induced expert groups may become relational embedded, promoting even higher degree of the trust and information flow between partners (Gulati 1995). The expert group strategy illustrates how social networks and informal groupings can be induced in order to create a more collaborative, flexible and exploratory environment. However, it is important to acknowledge that the Eidos Interactive network is not entirely exploratory. The network has only minimum relations with external partners. Therefore, in order to maintain the creation, collection and sharing of knowledge, having an organic and loosely administered structure is still of high importance. Thus, implementing a creative working environment with qualified and diverse employees becomes a necessary basis for the creation of exploratory knowledge. Otherwise, the Eidos Interactive network risks their knowledge eventually eventuating into a simple exploitation.

With regards to new product development, Microsoft Denmark can be defined as more centralized and exploitive than IO Interactive. In order to meet the hypercompetitive requirements of exploration, Microsoft Corporation exploration strategy is to involve their subsidiaries in work with external partners, acquiring numerous of related organizations and sharing IP rights with their customers. In this perspective, Microsoft Denmark together with their external partners develops, assemble and market products under the Microsoft brand. The collaboration exists in order to create, collect and share knowledge to enhance Microsoft’s Denmark and the partner’s performance and to facilitate resources and capabilities to be a source of exploratory competitive advantage (Per Blessing, 2009; Hitt et al., 2004). What makes this relationship interesting is that Microsoft Denmark has relations
with partners outside of the headquarters – subsidiaries relationship. In most cases this relationship can be described as a partnership or a strategic alliance.

Strategic alliances appear to be an attractive organizational form for an environment such as hypercompetition, characterized by rapid innovation or organizational dispersion in the sources of know-how. However, organization can not cooperate their way out of hypercompetition, hoping that cooperation will help them avoid the difficult and dangerous competitive struggle inherent in constantly moving forward and build new temporary advantages. Thereby, not to say that cooperation can't be used at all in hypercompetitive environments, exploration strategies lead to lower-commitment research and development alliances in new technological capabilities with non-familiar partners, since the focus is on learning new ideas from new partners. It is of importance to have the opportunity to abandon the alliance at any given moment (Dittrich et al, 2004; D’Aveni, 1999). Consequently, relations to external partners can prove to be successful in hypercompetitive markets if properly administered.

These arguments of low commitment research and development alliances and non-familiar partners contradicts the words of Per Blessing (2009) who claims that the collaboration between Microsoft Denmark and its partners to be unique and trust based, ultimately helping customers optimizing their opportunities. However, according to Dittrich and others (2004), strategic alliances characterized by intimate, recurrent and trustful relationships are only helpful with an exploitation strategy and will lead to high-commitment alliances in existing technological capabilities. With regards to exploration and hypercompetition such alliance is not sustainable. As soon as the cooperative agreement stands in the way of developing the next, companies will turn around and capture all the value of their former partner by moving forward and build new temporary advantages (D’Aveni, 1994; 1999). As a result, it could be argued that most of Microsoft Denmark relations with partners mostly revolve around collaboration on current products.

For a long time acquisitions have been used in building Microsoft’s capability, as there's a desire to adapt suitable external technology into the current bed of technology (Per Blessing, 2009). Obtaining new explorative ideas commonly involves acquiring other businesses, which the multinational corporation must then combine with other business units in order to
garner resource creation benefits. Since Microsoft's first acquisition in 1987, it has purchased an average of six corporations a year. Microsoft Corporation has to be careful as there are risks in any attempt to impose a new structure on an existing organization. Structural change is a blunt instrument that can have devastating effects on established organizational processes and managers motivation if used improperly. However, with acquisitions such as Forethought, Hotmail, Visio and Navision, Microsoft Corporation has clearly kept their “eggs” in a similar basket of knowledge by acquiring only those businesses that can draw a clear competitive advantage from the linkage and are related to the current bed of technology (Lubatkin and Lane, 1996). As with exploitation and exploration, it is of much importance for Microsoft Denmark to be able to protect the corporations existing knowledge base and competencies while establishing new management perspectives and capabilities (Bartlett and Ghoshal, 1989; March, 1991).

As argued before, acquisitions are mainly used as strategic options, as a means to the end. In this context, throughout its history Microsoft Corporation has been the target of criticism, including monopolistic business practices and anti-competitive business practices. Indeed, Microsoft Corporation has been frequently punished for the very types of activities that are necessary for survival and success against competitors in hypercompetitive environments (United States Department of Justice, 2009). In order to survive in hypercompetitive markets, Microsoft Corporation has raced to seek new advantages by continuously acquiring related organization, many of them who have threatened to become their competitors. The danger is that government policy that hunts down such companies could end up destroying the corporations that are the nation’s best hope for succeeding in global hypercompetitive markets. As with Porters (1979) views, traditional views of antitrust are based on an assumption that markets are static and advantages sustainable

This is not in line with the hypercompetitive industry which Microsoft Corporation is part of. The risk of competitors acquiring the same organizations as preferred by Microsoft is always high. Indeed, mergers and acquisitions can prove to be a highly successful strategy in hypercompetitive markets if Microsoft is able to adapt suitable external technology into the current bed of technology and solve challenges of established organizational processes, motivation and culture. The affect that national culture plays in the adoption or diffusion of
management practices serves as the backdrop for analysis of culture in the acceptance of new, foreign exploratory leadership practices (Hofstede, 1983).

Since 2006, following a trend towards more decentralization, Microsoft Corporation has begun sharing some internally developed technologies to the outside world. The purpose is to facilitate new explorative products and business for entrepreneurs, small businesses and Microsoft themselves (Per Blessing and Microsoft, 2009). In this perspective, Microsoft Denmark develops, expands and updates its products on a continuous range in cooperation with their customer base. Microsoft Denmark, receives constant feedback from both satisfied and unsatisfied customers who become part of the innovative process. As a result it could be argued that Microsoft Corporation has not only moved towards increased exploration but also taken a step towards the perspectives of open innovation (Chesbrough, 2003).

Open innovation can be defined as systematically encouraging and exploring a wide range of both internal and external sources for innovation opportunities, consciously integrating exploration with company’s capabilities and resources, and broadly exploiting those opportunities through multiple channels. Thereby, competitors should be free to access the IP rights of others as hypercompetitive organizations can rarely keep exclusivity of their technology for a long period (West and Gallagher, 2006). Just recently, Microsoft announced that to compete with Google and others in the market of free software, Microsoft plans to offer free Web versions of Office applications, including Word documents, Excel spreadsheets and PowerPoint presentations. The move is another sign of Microsoft's investment in cloud computing, a shift from software the customer owns and runs to software as a service that Microsoft or other data-center companies run on the user’s behalf (iStockAnalyst, 2009). This process redefines the boundary between the firm and its surrounding environment, making the firm more cellular and embedded in loosely coupled networks of different players, collectively and individually working towards commercializing new knowledge (Chesbrough, 2003). To be successful, management of such system has to be focused and aligned with the overall business objectives (Chesbrough and Crowther, 2006).

As the last few paragraphs have revealed, Microsoft Denmark does not have any serious limitations when it comes to IP rights or contracts. This is interesting with it in mind that relationship between Microsoft Corporation and Microsoft Denmark is defined as more centralized than the relationship between IO Interactive and Eidos Interactive. In line with the
theoretical framework, Microsoft Denmark should be less exploratory and more exploitive than IO Interactive. However, as argued before, one of the reasons why Microsoft Corporation has centralized its new product development is to minimize the limitations of the decentralization of their subsidiaries. Thereby, focus is on operations related to marketing and sales rather than new product development. By involving Microsoft Denmark in work with external partners, acquiring numerous of related organizations and sharing IP rights with customers, Microsoft Corporation is able to simultaneously develop exploratory and exploitative knowledge. However, as argued before, this requires an organic and loosely administered structure.

6.4 Isolation strategy

So far it has been argued that managers have to stimulate and control the creation, collection and the sharing of the exploitive and exploratory knowledge simultaneously. In these terms, the empirical cases have ambidextrous structures, or what I define as organic and loosely administered structures. With this in consideration, it is interesting to wonder what would transpire if it would be possible to remove the disadvantages of exploitation and exploration by clearly separating the multinational corporation into two different parts. This perspective resolves around isolating the exploratory activities from the exploitive activities of the multinational corporation. Separating new product development from the rest of the multinational corporation permits it to explore new alternatives, unfettered by the demands and norms or control of the rest of the organization. In the 1980, Steve Jobs did not believe the growing corporate environment at Apple was conducive to nurturing the kind of revolutionary change that he envisioned. He thus created a separate division for the Macintosh that would have its own unique culture, entrepreneurial atmosphere where individualistic and often eccentric software developers would flourish. The small group of team members was handpicked, and sheltered from normal corporate commitments and distractions. As a result of the separation, Apple obtained significant exploratory gains from the new and isolated product development divisions (Benner and Tushman, 2003).

As with independence of subsidiaries, isolating new product development divisions and giving them considerable autonomy can help them in the pursuit of new technological possibilities, unfettered from existing organizational paradigms, routines, and incentives. This can be especially important when divisions are working on disruptive and hypercompetitive
innovations whose features appear inconsistent with current customer requirements. Without such isolation, new product development divisions may face undue pressure to conform to existing, exploitive organizational control, reinforcing the organization’s current capabilities rather than building new areas of competence (Benner and Tushman 2003).

When looking at the three empirical cases there seems to exist some elements of isolation with regards to new product development. In this perspective, most of Microsoft Denmark and Velux subsidiaries products and innovations originate from corporate headquarters, not subsidiaries. However, before being approved and modified by headquarters for distribution to subsidiaries, products ideas originate from relatively isolated research and development centers. In a different manner, the new product development of Eidos Interactive products originates directly from its subsidiaries. As a result, IO Interactive is allowed to operate in an isolated manner when it comes to the creation of innovations. However, clear separation does not exist as IO Interactive is slightly involved with decisions regarding sales and marketing and has relations with other Eidos Interactive subsidiaries and some external partners.

With regards to isolation strategy, much more empirical research is needed on how capabilities are created and how organizations should be transformed to cope with hypercompetition. Nonetheless, to the extent that the relevant environment for the organization as a whole has been transformed from moderate competition to hypercompetition, the crisis confronts the entire organization and therefore it could be argued that it requires a comprehensive response, not a partial one (Volberda, 1996). This suggests that product development divisions of multinational corporations should never be completely isolated as with Apple. A modest degree of connection between product development divisions and other divisions of the firm is important to enable the leveraging of ideas across the organization, fostering the identification of valuable synergies. Indeed, this was the case with all three empirical cases. The only deviation from this would be in temporary situations requiring isolated teams to be able deal with specific hypercompetitive innovations whose features appear inconsistent with current customer requirements.
6.5 The transnational solution

After reviewing how Microsoft Denmark and IO Interactive have organized themselves with regards to exploitation and exploration it is interesting to observe some the characteristics of the non-hypercompetitive Velux A/S. Like argued before, Velux officially manages a multinational corporation based on the philosophy of the transnational organization. Transnational corporations seek to be globally competitive through multinational flexibility and worldwide learning capability. Their organizational characteristics include being dispersed, interdependent, and specialized, having differentiated contributions by national units to integrated worldwide operations, and developing knowledge jointly and sharing it worldwide (Bartlett and Ghoshal, 1989). With earlier discussion in mind, it is clear that there are many similarities between Velux and the hypercompetitive cases. All three multinational corporations attempt to ordain an ambidextrous structure where the advantages of centralization and decentralization are exploited simultaneously. As argued, no firm can succeed with a relatively one-dimensional strategic. Therefore instead of centralizing or decentralizing assets, a successful corporation makes selective decisions (Bartlett and Ghoshal, 1989).

When examining the foundation of the transnational organization and its success as Velux defines it, the similarities between the three empirical cases become even clearer. As Michael K. Rasmussen (2009) argued: “In order to control a transnational organization, a massive amount of communication is required between subsidiaries and headquarters.” In this perspective, with regards to communication, Velux headquarters receive input on a regular basis from their subsidiaries. There is an intranet present within the corporation where employees of different subsidiaries can share their ideas and suggestions for improvements. Similarly, cross-market dialog between different Velux A/S subsidiaries are frequent, in order to exchange best practices without the involvement of headquarters. This relationship can only be defined as a step towards a social network as it is not entirely explorative as the relationship is limited within the boundaries of marketing and sales activities. With regards to product innovations, headquarters are in full control and always have to be involved (Michael K. Rasmussen, 2009).
As with Microsoft Denmark, there exist some exploratory relations with external partners outside of Velux. Firstly, Velux often works with consultants, architects, specialists and others who have competence in fields or technology that does not exist within the corporation. Secondly, through the Velux webpage, customers can send in their suggestions and ideas for improvements. Lastly, Velux have acquired small companies in USA in order to gain further knowledge and market share in a building materials industry which is very different from the European market. As with Microsoft Corporation, there is a desire to adapt suitable technologies into the current bed of technology. With these examples in mind, similarities are clearly visible. As argued before, centralization is relatively high within these two organizations due to the size of their operations, new product development originating from corporate headquarters and exploration not being restricted by IP rights or contracts.

With regards to high emphasis on communication by all three empirical cases, in a similar manner Bartlett and Ghoshal (1989) argue for socialization being most attractive control process of the transnational organization, overcoming the centralization problem of headquarters overload, and formalizations inflexibility. In a transnational view, the national subsidiaries become strategic partners whose knowledge and capabilities are vital to the multinational corporation’s ability to maintain a global competitive advantage. Here the importance of an organic and loosely administered structure is high, in order to stimulate creation, collection and sharing of knowledge. As a result, IO Interactive, Microsoft Denmark and Velux are able to ordain a creative working environment lead by highly qualified and diverse employees. Communication enhances the influence of headquarters and subsidiaries simultaneously, thereby facilitating the development and integration of resources and capabilities worldwide. Furthermore, because it relies on shared values and objectives, it represents a more robust and flexible means of coordination and free exchange of information.

In these terms, Michael K. Rasmussen (2009) emphasized the need for strong common sets of values and principles in order to control the transnational organization. In this perspective on a set of the five core values: commitment, mutual respect, improvements, local initiatives and thoroughness. It is the way the organization makes these core values operational in their daily work together with their goals that makes Velux the unique and successful company it is. When reviewing the theoretical framework and the analysis, it becomes clear that the organic
and loosely administered structure of Microsoft Corporation and Eidos Interactive provokes similar values within their subsidiaries.

All three empirical cases have passion for creating an efficient, comfortable and creative working environment emphasizing high levels motivation and commitment of employees. Thereby, tolerating wide differences in style of performance; which is exactly what is desirable under conditions of ambiguity, when means-ends relationships are only poorly understood; encouraging experimentation and variety (Ouchi, 1979). Similarly, diversity of people, nationalities and cultures are integral parts of the corporations and mutual respect is of most importance. Accordingly, the quality of employees is high and the ability to improve even further is presumptive and encouraged, emphasizing empowerment of employees and the rapid delivering of quality products. Indeed, as the world is changing, Microsoft Denmark, IO Interactive and Velux have to ensure that they are changing along with it and not sticking to old routines that prevent moving with the times.

The above described values are “eternal” and do not change, but the content or interpretation of some of the values can change to fit with local conditions and to meet the demands of the rapidly changing business environment (Hofstede, 1983). This is in line with the findings of the thesis; all of the case companies use different types of control processes and structures. Whether the difference lies in the level of centralization, decentralization, exploration or exploitation is irrelevant – What is significant in hypercompetitive markets is that multinational corporations can sense and respond to multiple changing environmental demands and make selective decisions. As has been argued, the new 7-S's or similar strategies are not presented as a series of generic strategies or a recipe for success, the exact strategic actions formulated under this system will depend on many variables within the industry, culture and the organizational structure (D’Aveni, 1995).

6.6 Continuous innovation

With regards to the requirements to stay competitive in hypercompetitive markets, is it possible for a multinational corporation to continue being innovative, flexible and adaptable forever? In this context, Michael K. Rasmussen (2009) admitted that Velux has recently been moving little bit more from decentralization towards centralization. This is a consequence of the subprime mortgage crisis; as there is a tendency to centralize during financial crises. As a
result, Velux has lost some of its flexibility as they are not able to be as responsive and accurate to the need of the diverse customers as they used to be. In a similar manner, IO Interactive and Microsoft have been affected by the financial crises. Today, customers tend to wait till IO Interactive games are cheaper or even bundled together before they’ll consider a purchase. In this context, innovation and new product development has suffered to some extent since they are taking safer bets. With regards to Microsoft, the corporation has decreased its spending, revised its hiring strategies and cut employee costs such as travel expenses. Consequently, many of their employees have lost their jobs and new product development spending has been focused on safe bets.

However, despite today's tough times, many multinational corporations are demonstrating their commitment to innovation by fiercely protecting their research and development budgets even though they are faced with financial crises. Indeed, innovation and flexibility has never been more important. As argued before, hypercompetition coupled with ever accelerating technological improvements means that competitive advantage that took years to build can disappear in the blink of an eye. Multinational corporations that stop innovating to "ride out the storm" are sowing the seeds of their own destruction. The same goes with the financial crises, the creative destruction unleashed by a financial crisis always opens up opportunities for innovation (Scott D. Anthony, 2008).

A recent article in the Wall street Journal suggests that many executives understand this dynamics. The Journal found that research and development spending at 28 large U.S. companies dropped a mere 0.7 percent in the dismal fourth quarter of 2008. Wary of emerging from the recession with obsolete products, big U.S. companies spent nearly as much on research and development in the dismal last quarter of 2008 as they did a year earlier, even as their revenue fell 7.7%, according to a Wall Street Journal analysis. The trend seems to be rather towards cutting jobs and wages as was the case with Velux A/S and Microsoft Corporation. The sampling looked at 28 of the largest U.S. research and development spenders, excluding deeply troubled auto makers and the drug industry, where research and development spending is dictated by government requirements. Among those keeping up research and development funding was Microsoft Corporation, which spent 21% more in the fourth quarter over the year-earlier period, while revenue was virtually flat. Research and development spenders say they've learned from past downturns that they must invest through tough times if they hope to compete when the economy improves (Wall Street
Journal, 2009). As with hypercompetition, in order to survive the financial crises, it could be argued that it would be advantageous to ordain a ambidextrous structure which has the ability to respond to the twin pressures of exploitation and exploration (March, 1991). Indeed, many innovative products, from the iPod to fuel-efficient aircraft engines, were hatched during downturns.

7. Conclusion

In the earlier parts of the thesis I have provided the reader with the introduction and research consideration and moved to another part containing a sound theoretical background for my following empirical analysis. I tried to indicate first my point of view on different theories, giving the reader basic, however sufficient background concerning hypercompetitive markets, exploration, exploitation and control processes. I slightly moved to a following part describing an ambidextrous and transnational structures or what i define as organic and loosely administered structure. With the inspection of the empirical research i was successfully able to relate three real life business cases to the theoretical framework. The motivation for making the case studies was the assumption that a certain empirical case exemplifies a unique situation which would be interesting to analyze.

The study provides empirical evidence that in hypercompetitive markets the relationship between corporate headquarters and national subsidiaries can be defined as fairly centralized. Specifically, results indicate that with regards to new product development the relationship between IO Interactive and Eidos Interactive is less centralized compared to the other two empirical cases. In this perspective, some amount of centralization can prove to be advantageous, leading to more certainty, speed, proximity and clarity of feedback between subsidiaries and corporate headquarters. Withal, it cannot be avoided that centralisation often leads to inflexibility, which is diametrically opposed to the best conditions for the new product development processes necessary in hypercompetitive markets, while allowing for integration and effective exploitation of firm’s specific advantages. Thus, it could be argued that multinational corporations that rely on a heavy top-down exploitative knowledge management strategy, combined with little or no exploratory activities, may not be appropriate for adequately adjusting to turbulent environments.
The study provides empirical evidence that the relationship between corporate headquarters and national subsidiaries in hypercompetition can be defined as relatively decentralized. This allows for greater adaptation in the decision process inspiring flexibility and creation of new types of firm’s specific advantages necessary in hypercompetition. In this context, organic and decentralized structures may be major sources of exploratory learning for subsidiaries that are then able because of their independence to coordinate strategic decisions accordingly. As with centralization, moving towards a more independent and decentralized structure is not the perfect plan. As centralization and exploitation facilitated rapid decision making it is clear that decentralization and exploration of new alternatives reduces the speed and efficiency with which skills at existing ones are improved and risks undermining the brand image of multinational corporations. This is not in line with the philosophy of hypercompetition.

As argued in the theoretical framework, in hypercompetitive markets, successful multinational corporations are those that consistently create new knowledge, disseminate it widely throughout the organization, and quickly embody it in new technology and products. Understanding environmental developments becomes critical for success because it prepares managers to respond and adapt to anticipated and unanticipated changes. Consequently, the empirical cases have to be able to control the simultaneous development of exploratory and exploitative knowledge by organizing themselves in a manner where they are able to sustain an ambidextrous organizational structure; where the advantages of centralization and decentralization are exploited simultaneously. Although each of competence exploitation and exploration may affect a corporation’s performance, their interrelationship provides an additional source of competitive advantage beyond those provided by each one individually.

The empirical case of Velux reveals that the strategies of successful hypercompetitive corporation might be used by non-hypercompetitive multinational corporations who are organized in a transnational manner and vice versa. Even though the view of Michael Porter can be useful in many ways, it is considered as too static for most of today's dynamic markets and changing technologies. Multinational corporations, who take control today and advance, hold a considerable advantage over those that do not. Indeed, the manner which multinational corporations choose to organize themselves with regards to organizational structure and control processes does not have to be homogeneous.
For example, the case of Microsoft and Velux implicates that there are relations between centralization of new product development and exploration strategies such as mergers and acquisitions, working with external partners and sharing of IP rights. Differently, the case of IO Interactive implicates that there are relations between decentralization of new product development and exploration strategy such as social networks. Clearly the strategic challenge facing IO Interactive are not the same as those of Microsoft Denmark or Velux A/S. Nor are these diverse multinational corporations adopting exactly the same strategies. But while the nature, the strength, and the mix of global efficiency, national responsiveness, and the ability to develop and exploit knowledge on a worldwide basis varies widely across industries, it is increasingly difficult in most businesses to defend a competitive position based on a single dominant capability. Therefore, even with financial crises, it is of high importance to maintain innovativeness. Here the the new 7 S's or a similar framework can be used to analyze industries and competitors and to identify one's own strengths and weaknesses in meeting the challenges of hypercompetition. In a way, strategic control processes and the new 7-S’s are complementary.

Whether the difference of IO Interactive and Microsoft Denmark lies in the level of centralization, decentralization, exploration or exploitation is irrelevant – What is significant in hypercompetitive markets is that multinational corporations can sense and respond to multiple changing environmental demands and make selective decisions. Otherwise the corporations can easily become too dispersed to be competitive, too interdependent to be flexible, and too complex to develop or leverage its learning capability. As a result, in order to successfully solve the challenge of balancing the simultaneous need for integration and coordination within a multinational corporation competing in hypercompetitive markets, managers have to be able to implement what I define as an organic and loosely administered structure. In this context, managers are able to stimulate and control the creation, collection and the sharing of the exploitative and exploratory knowledge simultaneously, overcoming most of the disadvantages of centralization and decentralization. This requires a highly creative and communicative working environment lead by qualified and diverse employees who all share a set of common values. The ability of being flexible while maintaining some consistency and reliability seems to be the key to meeting the challenges of the future.
8. Suggestions for further research

I strongly believe I have fulfilled the aimed purpose of the study and answered the research question I have set. Thereby, this thesis can be employed as the sound base for consecutive research conducted either by university students, independent researchers or general public. On the other hand, there are numerous interesting subjects and theories which are not largely touched upon in the thesis. Especially, with future research in mind, it would be interesting to thoroughly research the relation and affects of factors such as exploration strategies, isolation strategies, open innovation, culture and the financial crisis with further empirical data. Perhaps one of the most important areas meriting research attention is whether transnationals do indeed outperform the other organizational types across countries and industries over time. This requires an empirical examination of how differences in customer requirements and key success factors have an impact upon the movement towards transnationalism. Managers have to be careful as there are risks in any attempt to impose a new structure on an existing organization. Here, a detailed discussion on the disadvantage of socialization/communication would have been an interesting input.

In addition, it would be interesting to know what will transpire in the case of Square Enix Holdings now that they have acquired Eidos Interactive and magnified their operations considerably. Is it likely that new product development will eventually be centralized as the case of Microsoft Denmark and Velux indicates, removing some of the independence of subsidiaries? Moreover, is it likely that Square Enix will loosen up its restrictions of IP rights or give IO Interactive prevailing power over marketing? This was already suggested by Charlotte Delran (2009) and is currently visible in a recent advertisement by IO Interactive searching for a PR Manager for its brand management department (IO Interactive, 2009). Unfortunately, much more empirical research is needed in order to answer these questions.

Withal, there are numerous of other interesting perspectives which could not fit into the criteria of the thesis. With that in mind, it is important to continuously encourage and pursue promising approaches for studying the constantly changing and borderless environment which multinational corporations constantly experience. Thereby, hopefully gaining insight into the consequences of these tendencies, requiring new analytical insights and skills among tomorrow’s business leaders.
9. Limitations

Some limitations of this thesis should be noted. The data collection for this study was based on qualitative research method. In this perspective, four research interviews were conducted with representatives from IO Interactive, Microsoft Denmark and Velux A/S. The interviews revealed some differences in attitudes towards the multinational corporations. This illustrates the challenge of qualitative research. Since the data is based on social observation it can vary much from one respondent to another. Thereby, in further research it could be relevant to include more empirical material in order to increase validity. Furthermore, because all of the respondents are Danish citizens, there is a risk that data will be relatively homogeneous compared to interviewing respondents from different countries. Thus, diversifying empirical material with regards to countries and industries might be advantageous to test and refine models.

The purpose of the thesis was not to criticize hypercompetition or to compare it with other models of strategy. The debate over hypercompetition is an empirical issue regarding the nature, magnitude, and duration of competitive advantage and as a result is can be hard to solve. It could be relevant to make a critical analysis of hypercompetition with further comparison with static models of strategy.

Even though highly interlinked, the purpose of this thesis was not to analyze hypercompetition and multinational corporations with regards to organizational tools such as the research based view, value chain or supply chain management. In fact, the purpose was rather aimed towards providing answers to challenge of making global and standard solutions, best practice and needed knowledge available and shared in the corporation efficiently and without excessive use of time and resources.

Even though it could be argued that the Square Enix business model is similar to the Eidos Interactive model, due to limitations of lacking empirical material the focus of the thesis was on Eidos Interactive before the acquisition. However, as argued in previous chapter, it would be interesting to know what will transpire in similar cases, when multinational corporations suddenly grow substantially larger due to acquisitions or mergers. In a similar, but different manner, the empirical research lacked material of Velux A/S subsidiaries. However, as the
focus of the thesis was on hypercompetitive multinational corporations, the Velux subsidiaries role becomes less relevant to answering the overall research question of the thesis.

It was the opinion of the author that even though related, theories such as the paradox of flexibility (Volberda, 1996), organizational code (March, 1991), administrative heritage (Bartlett and Ghoshal, 1989), high velocity (Brown and Eisenhardt, 1998), garbage cans (Smith and Zeitlham, 1996), knowledge-based theory of the firm (Nonaka, 1994) and patching (Brown and Eisenhardt, 1999) were not a necessity in order to answer the research question given. Similarly, detailed discussions on trust, modularity, transaction costs and outsourcing did not fit the criteria.
References


**Websites**


Oral references


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