



The Differentiated Network: Organizing Multinational Corporations for Value Creation

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Professors Nohria from Harvard Business School and Ghoshal from London Business School offer an alternative explanation to the extant theories of multinational corporate structure. Their book is based on the synthesis of a stream of research that the authors conducted some years ago and on their earlier writings. The main thrust of the book is that the modern multinational enterprise (MNE) must be organized as a differentiated network to exploit the full value-creation potential of its global capabilities. Although this concept is not new (Bartlett and Ghoshal, 1992 and 1987), the authors relate it to organization theory, in particular the differentiation and integration model of Lawrence and Lorsch (1967), and test its validity with a series of empirical research.

Management scholars have been trying to find convincing explanations for complex organizational problems and phenomena. The authors have accomplished this challenging task by providing sound theoretical foundations based on a contingency approach to MNEs and empirical evidence for their hypotheses. They conclude that differentiated networks are the best structural arrangement to increase value creation for MNEs.

The authors assert that the structure of the MNE can be better understood as a differentiated network composed of distributed resources linked through different types of relations: (i) "Local" linkages within each national subsidiary; (ii) linkages among headquarters and the subsidiaries; and (iii) linkages among subsidiaries themselves.

The book consists of three parts. In Part One, the authors demonstrate that the differentiated network model is a powerful tool for analyzing value creation through the generation and exploitation of innovation within MNEs. Chapter Two provides an overview of distributed innovation in MNEs. Chapter Three examines how the existence and distribution of slack resources affect knowledge creation in the national subsidiaries. Chapter Four investigates the impact of a range of structural attributes on the creation, adoption, and diffusion of innovation through the MNE.

Part Two generalizes the conclusions of Part One for the overall performance of MNEs. In Chapter Five, based on the differentiated network model, the authors find that overall subsidiary performance is positively correlated with a high degree of internal differentiation in the same way that differentiation is required for enhancing innovation. Chapter Six reveals that firm profitability is also positively correlated with high levels of shared values across the subsidiaries. In Chapters Seven and Eight, the authors conduct an empirical examination of two types of integrative mechanisms, inter-unit communication networks and interpersonal networks, both of which contribute to the creation of shared values, and lead to "normative integration."

Part Three discusses the limits and extensions of the differentiated network, and the contingency perspective that the authors employed. Chapter Nine outlines the environmental conditions for which the differentiated network is suited the most. Chapter Ten, the concluding chapter, explains that meeting simultaneously the demands of national responsiveness and global integration requires the

modern MNE to manage a network of relationships beyond the internal boundaries of the firm that includes external entities such as suppliers, customers, and regulators.

The empirical investigation of structure-performance relationships in MNEs is accomplished in two phases. The first phase of the project involves case studies of organization structures, systems, and management processes in nine large MNEs. Of course, a sample of only nine MNEs can be considered a limitation of this phase. In the second phase of the study, a questionnaire survey of headquarters-subsidary relationships was administered to both managers of headquarters and subsidiaries in three of those nine companies. One may question how company-specific factors are controlled in this second phase. The authors mentioned that a questionnaire was mailed to a "single knowledgeable" respondent at each MNE headquarters. One may also wonder how the researchers succeeded in finding a single knowledgeable manager. The number of completed surveys received was only 15 percent of the total -a low response rate.

The systematic analysis of the differentiated network is straightforward in Parts One and Two. However, it gets more complicated in Part Three, where the authors discuss the extensions of the differentiated network. In particular, the explanations given are perplexing in reference to two extensions: In recognizing that the environment of the MNE is itself a network of other organizations -customers, suppliers, regulators and competitors -with which the different units of the MNE interact; and in exploring more fully the theme of value creation as the source of the MNE's organizational advantage.

The authors themselves also admit that drawing the boundaries of the network is a rather arbitrary exercise. They accept that "to assert that the network somehow ends at the perimeter of the MNC seems dubious." This can be an important limitation to the differentiated network model.

It is very common today to see more and more MNEs engage in strategic alliances, and more specifically, international joint ventures. The authors address the relationships between headquarters and subsidiaries, but do not allude to joint ventures. One may wonder whether the arguments of the authors for headquarters and subsidiary relations also hold for international joint ventures, or whether different types of propositions need to be developed for them.

The book is primarily written for an academic audience. Yet it contains practical implications of research findings for international managers. It provides theoretical arguments and bases for the differentiated network, which comprises three levels of analysis, namely, headquarters-subsidiaries, intersubsidiaries, and within a subsidiary. The authors have developed a sound model that I would recommend to students of international management. Despite a few methodological concerns, their empirical findings enlighten MNE operations and structure. The book stimulates new thinking and alternative research issues in the section of extenuation of the differentiated network model. However, I believe that there are two major limitations to the adoption of this network model by managers:

Cognitive limitation, i.e., comprehending these new sets of inter- and intra-MNEs relationships; and *Adoptive limitation*, i.e., breaking up conventional thinking on hierarchical structures.

Further studies proposing solutions in these two areas are needed.

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