

INTERNAL NETWORKS, SUCCESSFUL EVOLUTION AND INTEGRATION WITHIN THE MULTINATIONAL ENTERPRISE

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Abstract

This paper shows how a multinational enterprise can succeed the reorganization of its internal structures to become more competitive and profitable. Based on the business network view and the revised Uppsala model, the paper proposes a case study on the reconfiguration, through an internal merger of two vertically-related business units, within the Solvay group, a world leader in chemical industry. The reorganization, that represents an evolution following a commitment decision in a specific market, allowed Solvay to become a fully-integrated leader in the polyamide plastics industry. The paper shows, through an analysis of this successful case study, how the reorganization has increased the profitability of the associated business units improving their competitiveness.

Keywords: Multinational companies, Networks, Evolution, Integration, Uppsala Model.

Introduction

The global economy is changing fast and some major events such as the financial crisis that began in 2008, the exit of the United Kingdom from the European Union and the new economic policy in the United States transformed the world's economic environment (IMF, 2017), and present new challenges for multinational enterprises (MNEs). Despite their strong adaptation efforts, global companies seem to be in trouble (*The Economist*, 2017). The “two-way relationship between multinationality and performance” (Li, 2007, p. 117; Nguyen, 2017) can be questioned, since the growth of foreign direct investments (FDI) in the last years corresponds to a drop in sales, profits and return on equity (ROE) of the top 700 multinational companies in the world (*The Economist*, 2017).

Several scholars argue that the decline of the global company is due to the fact that MNEs need to evaluate, adapting, their organizational structures to the external environment (Cantwell et al., 2010; Dunning and Lundan, 2008). The recent literature in international business emphasizes that MNEs are embedded in networks (Forsgren et al., 2007) and need to activate inter- and intra-organizational processes to exploit new opportunities and reduce the liability of outsidership (Johanson and Vahlne, 2009; Vahlne and Johanson, 2013, 2017). However, little is known about how companies can succeed these organizational network-based processes to improve their global market positions and thus their profitability. This paper attempts to fill this gap.

The objective of our research is to contribute to a better understanding of how a multinational company can succeed the reorganization of its internal structures to become more competitive and profitable. Relying on the business network view (Forsgren et al., 2007) and the updated Uppsala model (Vahlne and Johanson, 2017), we conducted an in-depth case study of the merger of two business units within the Solvay group, a leading MNE in the chemical industry.

Our findings show that several organizational challenges have contributed to the successful evolution of the company at an international level and that these challenges can be analyzed as network process. We will first explain the theoretical framework of our research before we will present the research methodology and major findings of the conducted empirical study.

Theoretical framework

The theoretical framework of this paper is based on the business network view and the revised Uppsala model which both emphasize the importance of networks for the successful development and evolution of MNEs (Vahlne and Johanson, 2017). Since our study focuses on a reorganization within a multinational company, involving an important reconfiguration of both internal and external networks, we consider that this theoretical background is highly fruitful.

According to the business network view (Forsgren et al., 2006), the MNE can be seen as a “network within networks”. As an actor operating in global (but also local) markets, the firm is embedded in a network of relationships with customers, suppliers, competitors, institutions etc. (Forsgren, 2016). At the same time, its organizational structure can also be shaped as a network in order to coordinate different functions and business units and to connect subsidiaries with the headquarters and, at a mille-micro level (Vahlne and Johanson, 2017), employees between them (Forsgren et al., 2006). There is a strong relationship between the internal and external networks since the MNE is always embedded in a wider

context. This is why the firm can be seen as a set of connections and, thus, a network within networks (Ghoshal and Bartlett, 1990; Johanson and Vahlne, 2009).

Since the first version published in 1977, the Uppsala model has been modified several times in order to respond to the main challenges of a global shifting world (Vahlne and Johanson, 2017). The original theoretical framework aimed to explain the internationalization of the firm as a progressive, step-by-step process (Johanson and Vahlne, 1977). But some exceptions to this general path, such as born-global companies, pushed the authors to enrich their framework, making the original model evaluating.

The revised Uppsala model (Johanson and Vahlne, 2009) was developed to explain the internationalization process of the firm as a commitment to foreign markets, involving the activation of networking processes to reduce the liability of outsidership. This liability represents the main barrier to access market-specific information, to learn about the local environment, to create relationships with other actors and increases the costs of doing business abroad. Several contributions show that insiders perform significantly better than firms that are affected by the liability of outsidership (Almodóvar and Rugman, 2015) and that, sometimes, entering the local network can be the only way to set up business abroad (Björkman and Kock, 1995). This liability of outsidership usually refers to the external network, but it can also concern the internal network, a firm being an outsider of its *own internal* network (Vahlne et al., 2012; Vahlne and Johanson, 2017). For example, the lack of communication between subsidiaries and headquarters and between different levels of management may generate additional costs, inefficiency and reduce the reactivity of the firm in regard to the external network (Ghoshal and Bartlett, 1990). In general, isolation is linked to imbalances and represents a form of liability of outsidership (Ambos et al., 2016). Thus, there is a huge difference between being an insider or an outsider of the network:

“From a business network perspective, the theoretical distinction between outsider and insider is based on the idea that the firm is driven by the potential of combining its resources and competences in a new way with those of others.” (Blankenburg Holm et al., 2015, p. 338).

The last version of the model (Vahlne and Johanson, 2017) emphasizes the importance of networks for the general evolution of MNEs: “The updated, augmented model explains MBE (multinational business enterprise) evolution in general, not only characteristics of the internationalization process in a narrow sense” (Vahlne and Johanson, 2017, p. 1087). Since we focus on the reorganization and evolution of a multinational company through the merger of two global business units, we consider that this version of the Uppsala model fits our research question.

As the revised Uppsala model showed, multinational firms can improve their knowledge of foreign markets and local issues by developing their networks (Hohenthal et al., 2014; Johanson and Vahlne, 2009). In order to enter new networks, companies need to develop business relationships by increasing their commitment. Commitment decisions can concern, for example, the reinforcement of customer-supplier relationships or the development of specific markets. They are often coupled with organizational changes and linked to a reconfiguration of the firm which determine the role of each subsidiary and business unit as well as the allocation of resources (Vahlne et al., 2012). Both inter- and intra-organizational networks allow companies to set up knowledge development processes, such as learning, creating new solutions and trust-building (Vahlne and Johanson, 2017). These three processes are deeply tied between them since trust represents a prerequisite for learning, which is the base for the creation of new solutions (Granovetter, 1985). Employee-led innovation (Birkinshaw and Duke, 2013) provides an example for this type of processes at a

mille-micro level, representing a key element for internal growth and development in foreign markets in order to overcome the liability of outsidership.

Concerning organizational issues, MNEs develop and implement both operational and dynamic capabilities (Vahlne and Johanson, 2013). Operational capabilities are implemented through learning and creating processes that may directly deal with the current activities of the firm. The Uppsala model allows identifying three types of dynamic capabilities: opportunity development, internationalization and networking capabilities. Firstly, in a wider and more dynamic network, it is possible to identify new opportunities and to exploit them. Secondly, the MNE develops internationalization capabilities thanks to previous experiences in other markets. Thirdly, the firm acquires new networking or relational capabilities that lead to the coordination of internal and external networks.

The reconfiguration of the MNE and the change of organizational processes transform the commitments and impact the performance of the firm (Vahlne and Johanson, 2017). Commitments are defined as “the distribution of resources over the MNE’s functions, its products lines, the countries where it is active, and the relationships in which it has invested” (Vahlne and Johanson, 2017, p. 1097), whereas performance refers to achieved results. The authors offer a broad definition of the concept of performance, which can concern the status of the firm in its own network, the degree of globalization, profitability, concluding that “ultimately, the choice depends upon the research issue at hand” (Vahlne and Johanson, 2017, p. 1097). In line with our research question, we define performance as the position of the new global business unit on the polyamide plastics market and in terms of EBITDA (earnings before interest, taxes, depreciation and amortization). The choice of this indicator is motivated by the fact that EBITDA is the main financial indicator used at Solvay to evaluate the performance of a business, as shown by internal documents such as press releases and financial reports.

In this study, we chose to combine the business network view and the Uppsala model to analyze networking processes that allow developing specific markets. We consider that network integration is a way to overcome the liability of outsidership. Since we analyze the reconfiguration and evolution of a global business unit inside a multinational company, we will focus on evolution issues in an international context as defined by Vahlne and Johanson (2017).

Research methodology

This paper is based on one single case study (Yin, 2009). The empirical investigations were conducted at the Belgian Solvay group, one of the world leaders in the chemical industry. In 2015, Solvay decided to merge two business units operating in the polyamide value chain, Polyamide & Intermediates (P&I) and Engineering Plastics (EP), to create the new Global Business Unit (GBU) Performance Polyamides (PePol), which became a leader in this market and the only vertically-integrated GBU that covers all phases of the manufacturing process. We argue that the roles of explanation and contextualization are both important and we thus developed an in-depth case study. Because of the positive results achieved through the reconfiguration, we consider it a successful case (Siggelkow, 2007). We agree with Sayer (1992, 2000) on the fact that a realistic approach requires a sense-making process deeply rooted in contextualization. Therefore, we chose contextualized explanation as illustrated by Welch et al. (2011) as our method of theorizing in order to avoid the explanation-contextualization trade-off. The context is not supposed to be a problem for our analysis but a necessity in order to set up explanation.

Since qualitative studies, especially single case studies, are not intended to generate generalizable outcomes (Siggelkow, 2007), the aim of this paper is to understand, through an in-depth analysis, the complexity of the phenomenon. The immersion in the context, the co-construction of research and managerial issues, are fundamental issues for a successful sense-making process. This is in line with the assumption of our theoretical framework as Vahlne and Johanson (2017, p. 1091) agree with Daft and Weich (1984, p. 287) on the fact that “the key is to construct, coerce, or enact a reasonable interpretation that makes previous actions sensible and suggests some next steps. The interpretation may shape the environment more than the environment shapes the interpretation.”

The data-collection process took place over a period of ten months in 2016. We conducted 14 semi-structured interviews of an average duration of 1h30, following an elaborated interview grid. The interviews took place at the headquarters of the new Global Business Unit (GBU). Table 1 presents the list of interviews conducted with managers involved in the reorganization process. Two participants were interviewed twice so that they could explain some issues of the evolution of the new organization and the results of the changes that had been implemented. The data-collection process also involved the analysis of secondary data (internal documents, press releases etc.) as well as participating observations during the first six months and non-participating observations during the following four months of the study period (including the participation to a challenge involving 340 managers, employees and R&D experts of both business units and focusing on possible synergies of the reconfiguration).

During the interviews, a strict protocol was respected in order to ensure the reliability of collected data. Bracketing was a useful method in order to “mitigate the potentially deleterious effects of preconceptions that may taint the research process” (Tufford and Newman, 2012, p. 80) and a semi-structured form was chosen in order to let participants express themselves and raise new issues.

Table 1: List of interviews

Interviewee	Number of interviews
Americas Region & Commodity Activity Director (PePol)	1
Deputy Research & Technology Director for EP (PePol)	2
Customer Service EMEA Team Leader PePol and Coatis	2
Commercial Coordinator EMEA Representative (PePol – Coatis)	1
Business Unit Senior Controller (PePol)	1
Distribution & MBU (Multi-Business Unit) Network Development Director. MBU Commercial Network Service	1
EMEA – North America Region Director – Business Unit P&I (PePol)	1
Demand Manager (PePol)	1
Communication Director PePol	1
Global Polyamide & Performances Fibres Strategic Marketing Manager	1
Purchasing Manager for Strategic Raw Materials PePol	1
Sales Manager PePol Solvay Solutions Italy	1
TOTAL	14

Coatis is a Global Business Unit of Solvay

EMEA: Europe Middle East Africa

EP: Engineering Plastics

P&I: Polyamide & Intermediates

Solvay is a leading multi-specialty chemical firm, operating in 58 countries with more than 27,000 employees. In 2016, the group realized net sales of €10.9 billion, with 90% coming from activities where Solvay ranks among the top three leaders in the world. The

company controls 15 Global Business Units (GBUs), each of them operating at a global scale. The new GBU Performance Polyamides (PePol) has become the only fully vertically integrated actor in the global polyamide market, covering all production processes from raw material to specialty products. This competitive advantage is due to the merger of the two business units Polyamide & Intermediates and Engineering Plastics: P&I transforms raw materials into intermediate products through polymerization; those products are then transformed by EP into specialty compounds that are sold to a variety of industries (automotive industry, electronics etc.). We will now examine how Solvay succeeded this reconfiguration and the evolution of the new GBU during the observation period.

Analysis of findings

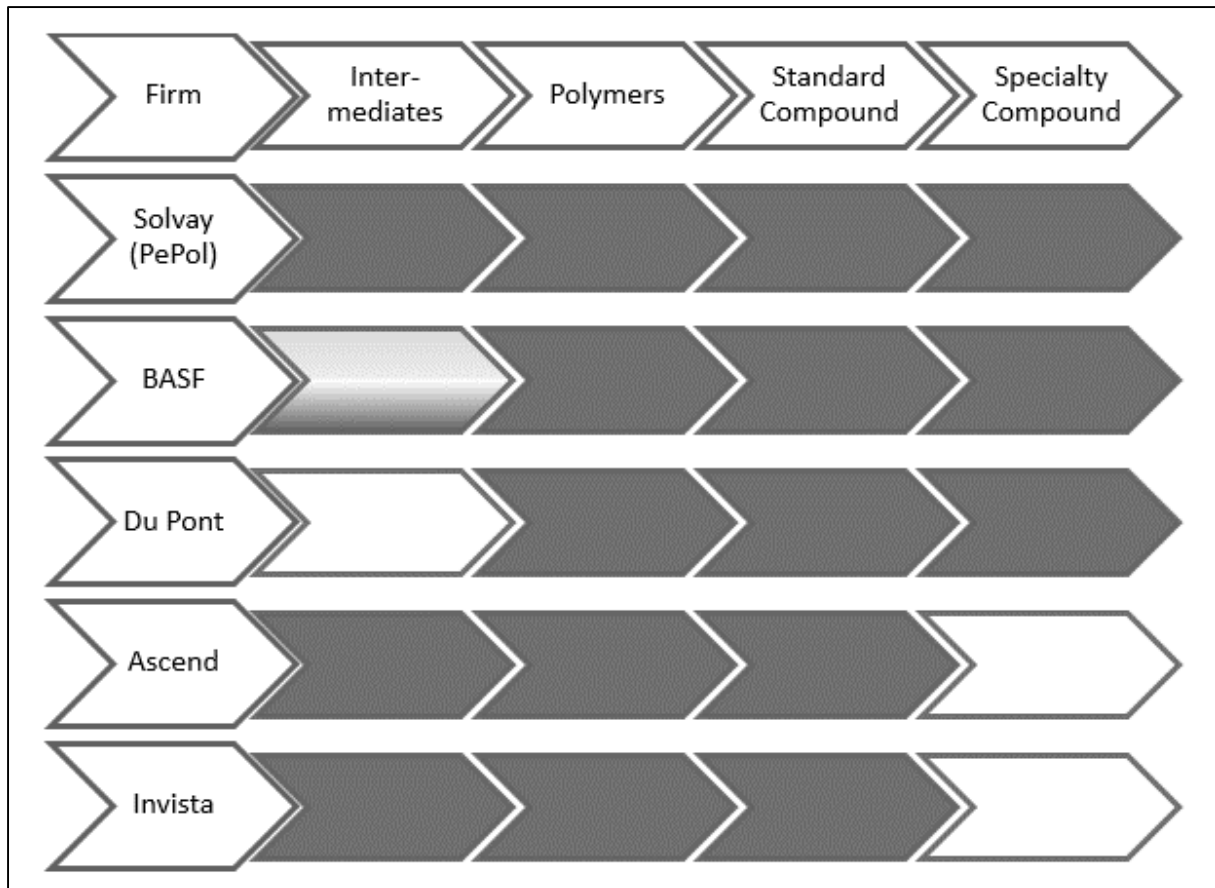
To analyze how this internal reorganization allowed Solvay to increase its profitability and to become a global player, we will first investigate the impact of the reorganization on the different business functions before focusing on the synergies that were generated by the evolution process. Those functions operate worldwide and the reorganization contributed to create a well-connected network at the international level.

The analysis of the collected data allows to better understand the effects of this evolution on the new organizational structure. It is important to point out that the two business units Polyamide & Intermediates (P&I) and Engineering Plastics (EP) used to be part of the same business unit several years ago before they were separated into two distinctive business units. During this period, each business unit followed its own strategy and the relationship between them was close to a customer-supplier relationship.

“With the previous system, called integrated margin, the performance of P&I was underestimated because, as an integrated production system, EP was in charge of selling the final product. The margin of those products represented the sum of the value added by P&I through the production of intermediates goods and the value of further transformations realized by EP. While it is clear that the EP was overrated, it is also clear that P&I was underestimated.” (Business Unit Senior Controller PePol)

Before the reorganization, the shared results of the two business units were declining: between 2014 and 2015, net sales dropped by 10% and profits decreased by 5.7% in 2015 and 1.3% in 2014. In contrast, during the first quarter of 2016, thanks to the creation of PePol, the EBITDA of the division rose by 54% year over year (YOY), the best results among Solvay’s global business units, and this result is more important if we compare it with the EBITDA of the whole group that realized a growth of 2% year over year. In the second quarter of 2016, the EBITDA rose by 24%, in the third quarter by 25% and, finally, in the fourth quarter, by 131% YOY. In 2016, the production volume of the new global business unit increased by 3.5% and the operating profits (EBITDA) by 57%. According to the PePol press releases, in 2016, PePol was the only vertically integrate actor in this market as shown by Figure 1.

Figure 1: A comparative analysis of market position between Solvay and its main competitors



Source: adapted form Performance Polyamide GBU (2016, p. 4)

Facing four main competitors in the polyamide market, PePol has the production technology that covers all the polyamide value chain. Intermediates products and polyamide were produced by P&I before the reorganization, and EP was in charge of transforming polymers in standard and specialty compounds. BASF, the main competitor, does not have the same integration upstream, and controls only part of intermediates' manufacturing. Apart from companies shown in figure 1, the majority of PePol competitors only operates in compounding and does not have polymerization plants, and Invista is a joint-venture partner of Solvay in the early stages of polymerization.

We will now examine how Solvay succeeded in integrating the different functions of the two associated business units. The conducted analysis allowed identifying nine organizational challenges that were faced by Solvay during the integration process, which is an evolutionary process, and the functions affected by these challenges and those potentially concerned in a medium- and long-term perspective. The organizational challenges and associated functions are indicated in table 2.

Table 2: Major organizational challenges and concerned functions

Organizational challenges	Concerned functions	Potentially concerned functions
(1) Maximizing combined results (overall outcomes)	<ul style="list-style-type: none"> Strategy & Marketing Production Finance Purchasing Department 	
(2) Reconquering a global market	<ul style="list-style-type: none"> Production 	

segment	<ul style="list-style-type: none"> • Sales Department • Finance 	
(3) Integrating assets, production plants and materials	<ul style="list-style-type: none"> • Supply Chain 	<ul style="list-style-type: none"> • Production
(4) Integrating people and teams	<ul style="list-style-type: none"> • Strategy & Marketing • Communication Department • Purchasing Department 	<ul style="list-style-type: none"> • Human Resources • Customer Service • Sales Department • Research & Technology
(5) Sharing technology		<ul style="list-style-type: none"> • Production • Research & Technology
(6) Communicating ideas, information, know-how and new solutions for common problems	<ul style="list-style-type: none"> • Research & Technology • Strategy & Marketing • Communication Department • Purchasing Department • Supply Chain 	<ul style="list-style-type: none"> • Customer Service • Sales Department
(7) Improving coherence and trust-building	<ul style="list-style-type: none"> • Communication (Internal) • Strategy & Marketing • Production (<i>Commodities</i>) 	<ul style="list-style-type: none"> • Customer Service
(8) Creating a shared network and improving communication in regard to the external network	<ul style="list-style-type: none"> • Strategy & Marketing • Purchasing Department 	<ul style="list-style-type: none"> • Customer Service • Sales Department
(9) Reducing costs and improving resource allocation	<ul style="list-style-type: none"> • Strategy & Marketing • Purchasing Department • Finance • Supply Chain 	<ul style="list-style-type: none"> • Production • Human Resources • Customer Service

Maximizing combined results

The first organizational challenge concerns the maximization of the results shared by the associated business units. It is thus necessary that they pursue common goals.

“The first advantage that I see in the merger of EP and P&I is that now they have a common project. [...] They don’t reason as a customer facing a supplier anymore, but as an integrated GBU.” (Global Polyamide & Performances Fibres Strategic Marketing Manager)

The goal of the global business unit is to maximize sales of performing polyamide worldwide, in order to have a margin on each phase of the production process. It will thus produce an important amount of intermediate products that will then be transformed into specialty compounds. The problem of “integrated margin” was overcome during the previous separation of the two business units by integrating a “market margin” system.

“The new system was introduced in 2013 and it looks at the margin as if P&I was selling intermediates to EP. Everyone is responsible for the margin generated. This system was also kept after the merger.” (Business Unit Senior Controller PePol)

After the reorganization, the purchasing department also contributes to maximize shared results, since it has a complete overview of the stocks, buys raw materials to face downstream needs and is likely to increase its negotiation power with suppliers because of the higher volume produced.

Reconquering a global market segment

The reentry into a global market segment concerns the *commodity* market.

Commodities represent the top transformation of polymers for P&I, and are classified as essential products in EP value chain. It's a range of essential low-cost plastics that are sold without any complementary service. [...] After the separation of EP and P&I in 2013, we lost this market because the two business units were implementing their own strategy. Now we have the opportunity to reconquer this market, as PePol works in order to maximize the overall outcome. (Americas Region & Commodity Activity Director PePol)

The production and sales departments have an important role in this process, since their teams need to collaborate worldwide to produce and sell adequate products and provide customer service in this market segment. The financial department will have to follow the margins created at the different stages of the value chain.

Integrating assets, production plants and materials

For the integration of assets, production plants and materials, the main synergies are developed at the supply chain level.

"We realized important synergies on stocks. After the merger, we only need one total stock of raw materials instead of the two stocks for EP and P&I that were needed before." (Purchasing Manager for Strategic Raw Materials PePol)

In the same way, the integration of production plants in the long term may help to generate synergies. A global production system will help to better serve international key accounts. The example of a plant in France shows that merging production units should allow creating synergies, even if this process may require time and investments in the long term.

"This plant is a center of excellence. [...] In this plant, average production costs are among the lowest in the world and total cost is the lowest of PePol plants. [...] Creating other plants on this model will allow us to create economies of scale, reducing transaction and transport costs and, finally, total costs." (Business Unit Senior Controller PePol)

Integrating people and teams

The integration of people and teams represents one of the main issues in this reconfiguration and can be analyzed from a business network perspective. As pointed out by Vahlne and Johanson (2017, p. 1090), micro and mille-micro levels are deeply tied and "shared experience may give rise to routines and capabilities which are at the very heart of incremental change and cooperation and are an essential element of the Uppsala model." It can contribute to the development of growth synergies through the creation of more efficient nodes in internal and external networks. This is more specifically the case for the strategy & marketing, communication and purchasing functions. The reorganization is thus likely to improve the overall skills and competencies in these fields.

EP has the best communication skills in branding, innovation, proximity with clients, with a lot of employees at the customer service, and managing complexity. P&I has very good skills in community and crisis management and internal communication. In the past, EP and P&I had different goals and developed different skills, and they had to communicate on different subjects. [...] Now, after merging the communication department, we have taken the best from the two worlds. Internal communication is mostly

managed by people coming from P&I, and external communication is managed by people having a previous experience in EP. (Communication Director PePol)

There are also four other functions where new synergies could be developed by integrating teams: human resources, customer service, sales department and research & technology. It thus seems important to train the staff and to recruit people so that they can gain the necessary technical expertise to work for different types of businesses, e.g. in the fields of customer service, sales and research & technology. Thus, the new global business unit could recruit people who can work for several areas.

Sharing technology

Concerning the sharing of technologies, it is important to note that this organizational challenge requires more time. Synergies could thus be created in the field of innovation and may help to develop new ideas, to accelerate the realization of projects and to reduce costs. New challenges have been set up to have a wider overview of common problems and of how to solve them. New synergies could also concern the unification of production systems and plants.

Communicating ideas, information, know-how and new solutions for common problems

The better communication of ideas, information, know-how and new solutions for common problems mainly concerns the research & technology, strategy & marketing, communication, purchasing and supply chain functions. This organizational challenge has a strong impact on hierarchical relationships and formal networks, but also on informal networks. Our observations show that, after the reorganization, people coming from the two business units take coffee together, participate in the same events and conferences, find common problems and shared solutions. All interviewees agreed that this was a major challenge, because it suddenly connected people.

“Internal communication allows sharing information, best practices, know-how... it represents *per se* a value that we realized immediately.” (Demand Manager PePol)

“Internal communication is a powerful item. Now, only to make an example, we have common meetings for both teams in all subsidiaries worldwide, and steering committees are thinking how they can exploit new synergies in order to answer to different team needs.” (EMEA-NA Region Director P&I)

Even if the two customer services were not fully merged, the reorganization led to a better coordination of activities since they have the same team leader.

“The same manager and the same type of management: that’s what makes different people a team. [...] I think that the same team leader for the whole customer service all around the world, with a deputy team leader in all subsidiaries, will improve coordination benefits.” (Customer Service EMEA Team Leader PePol and Coatis)

Improving coherence and trust-building

The reorganization allowed reinforcing the global coherence and trust-building at different levels. For example, internal communication was strengthened by press releases, a newsletter and informal communication. The strategy & marketing department encouraged joined actions to provide the same vision of shared goals. In the same way, the commodity market helped in developing trust between production teams, sales managers and customer services.

Creating a shared network and improving communication in regard to the external network

The reinforcement of internal networks allowed improving communication towards the external network. This is the case for the strategy & marketing and the purchasing departments. For example, market intelligence allows gathering information about the market and using it within the global business unit:

“We can understand what’s going on and what are the new trends in the market. To share knowledge means creating new opportunities.” (Global Polyamide & Performances Fibres Strategic Marketing Manager)

In the same way, a shared stock of raw material allows reinforcing the position towards suppliers.

“By maximizing shared production, we will have a better negotiation power facing suppliers.” (Purchasing Manager for Strategic Raw Materials PePol)

Possible synergies may also concern customer service and sales managers. For example, if a purchasing company or a specialized distributor is a client of both intermediates and compounds, the sales managers can better negotiate quantities and prices.

Reducing costs and improving resource allocation

Lastly, the reconfiguration led to significant cost-savings and improved the allocation of resources, thus increasing the profitability of the global business unit.

“The main quick-wins realized after the merger were the common exploitation of the plant of Onsan, in South Korea, the reconfiguration of the offices in Brazil for business services and the integration of crisis management teams. In those cases, we reduced fixed costs and we improved the experience of teams thank to the integration of specific know-how from EP and P&I” (Demand Manager PePol)

The merger of the strategy & marketing and purchasing functions led to significant cost reductions and synergies. The same strategy may be implemented for human resources. For the finance department, the reorganization presented an opportunity to optimize capital expenditure and to implement financial tools.

Concerning the supply chain, the new global business unit only needs one big stock with an optimization of just needed inventory. In the same way, a just-in-time strategy could be implemented thanks to better forecasts.

“Integrating forecasts allowed us not only to reduce the just needed inventory for the new GBU as a whole but also to have a better vision on the value chain and a strategy that is more just-in-time.” (Demand Manager PePol)

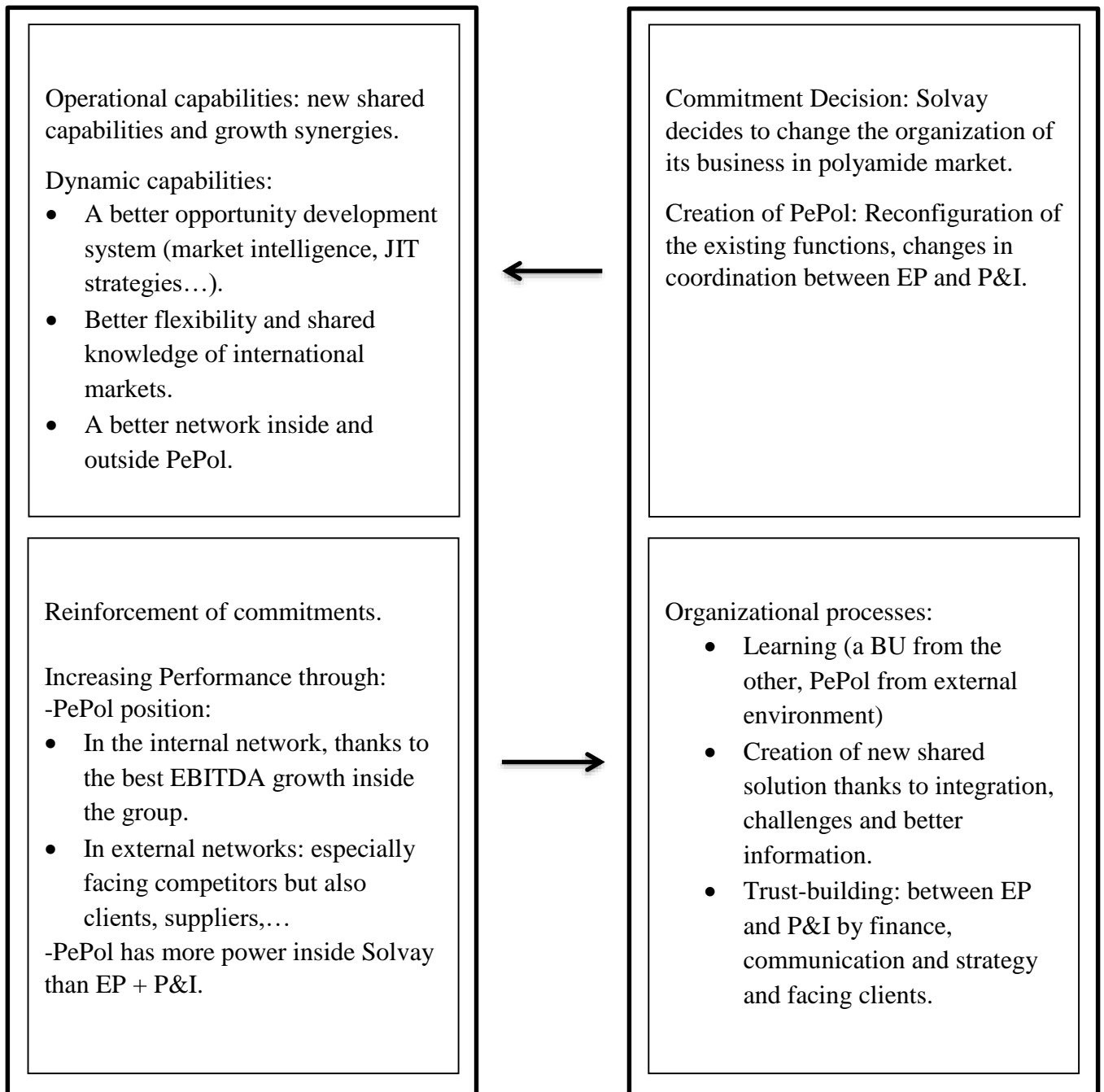
The unification of production plants and customer services will also help to improve the just-in-time strategy and forecasts management.

The findings of our study show that cooperation, communication and growth synergies were developed within the different functions, but also between them. The customer-supplier relationship between the two business units was replaced by a shared sense of being part of the same global business unit. The new GBU took the name Performance Polyamides (PePol) following a bottom-up process, emerging from employees and finally used at the corporate level.

Discussion of findings

The case-study presented in this research allowed us in identifying nine organizational challenges that characterize the evolution and reconfiguration process that took place at the Solvay group. Following the updated Uppsala model, these nine challenges can be integrated into a network process that contributes to a better understanding of the different stages of the integration process.

Figure 1: The reorganization as a network process



The reorganization resulted from a commitment decision of Solvay that involved an internal reorganization of global business activities. This process led to synergies, communication and cooperation and it was important to build trust, especially internally,

thanks to a sense of fairness in judging the role of the two former business units in the value chain. The new global business unit Performance Polyamides (PePol) has thus improved its position within Solvay, but also in the external network of the company, becoming one of the leaders in the international marketplace. It has thus acquired a better network power (Vahlne and Johanson, 2013) and its evolution led to reinforced commitments and an impressive performance (Vahlne and Johanson, 2017) in terms of market position and operating profits (EBITDA). The issue of evolution, which characterizes the latest version of the Uppsala model, was perceived as a fundamental tool from interviewees:

“It’s like what happens in evolution. Everyone tries to boost his outcomes, each GBU tries to be the best one and to show how it can improve its performance. Together EP and P&I are maximizing outcomes and performances.” (Global Polyamide & Performances Fibres Strategic Marketing Manager)

When Polyamide & Intermediates (P&I) and Engineering Plastics (EP) were separated, they were part of the same value chain, but they were affected by a liability of outsidership as a consequence of lack of communication and coordination (Johanson and Vahlne, 2009). In line with theoretical arguments (Ambos et al., 2016), the teams of the different functions were separated, knowledge sharing was limited and thus market knowledge was biased. Through integration, the new global business unit Performance Polyamides (PePol) acquired new operational capabilities, for example communication capabilities, but also dynamic capabilities to develop and exploit opportunities in international markets and to build networks inside and outside the organization (Blankenburg Holm et al., 2015). This process led to a reinforcement of the commitment decision and a better integration, also with a reconfiguration of functions that were not supposed to be integrated. For example, in customer service, several actions were undertaken to strengthen the integration process, e.g. major distributors in regions like Europe and Asia, now only have to deal with one customer service representative (instead of two). The company was able to build a shared organizational culture within the new business unit, which is a consequence of the trust building process (Vahlne et al., 2012). We can thus argue that, between the micro and millimicro level, a co-evolution of behaviors seems to have a primary role in evolution, as pointed out by Vahlne and Johanson (2017, p. 1090).

“PePol is now fully integrated, and people have the same way to look at the world. Now we can say that we have a real merger between EP and P&I. [...] A lot of old conflicts have been solved and replaced by a sense of cooperation. [...] This merger was realized faster than other important mergers in the history of Solvay.” (Customer Service EMEA Team Leader PePol and Coatis)

The successful integration of the two business units was followed by other important processes. Since communication between employees has considerably improved, coordination mechanisms and new solutions are implemented. As insiders performs better than outsiders in networks (Almodóvar and Rugman, 2015), employees who feel part of the same business perform better and contribute to innovation (Birkinshaw and Duke, 2013). In the same way, a fully integrated global business unit is likely to achieve better results in international markets, as shown by the increase of the total sales and the operating profits. Our analysis shows that overcoming an internal liability of outsidership (Johanson and Vahlne, 2009) seems to be a good way to overcome, at the same time, external liability and thus to win network power (Vahlne and Johanson, 2013) reinforcing commitments and performance (Vahlne and Johanson, 2017).

Conclusion

Facing the rapid transformation of the global economy, multinational enterprises need to reshape their organization to compete in international markets. The case study of Solvay shows that MNEs can become more competitive and performant thanks to successful reconfiguration, conceived as a major evolutionary issue. Relying on the business network view and the revised Uppsala model, our contribution shows how MNEs can strengthen both their internal and external networks. In international business literature, networks have mainly been studied as powerful tools to enter foreign markets, but little is known about the role of networks in the integration of business units within multinationals. Following the evolutionary framework proposed by Vahlne and Johanson (2017), we argue that this issue can have a central role in helping the company to become more competitive and performant both at an organizational level and on international markets. The originality of this paper is to propose an extension of the business network view to the study reconfiguration and reorganization processes. In fact, those processes can be a way to overcome communication and coordination problems based on an inter- and intra-organizational liability of outsidership. The unification of the value chain of polyamide allowed the Solvay group to generate significant synergies and to become the only vertically integrated actor in this sector. The reconfiguration of a business has led to significant transformations of internal and external networks. Our study proposes an extension of the revised Uppsala model, helping scholars and managers to deal with situations of internal reorganizations that take place in multinational enterprises. Another contribution of our research is the importance provided to the mille-micro level, which is mainly due to the role that individuals and teams play for a successful reorganization. Considered as a “black box” deeply tied with the micro-level (the firm level) by Vahlne and Johanson (2017), further studies in international business may help scholars in developing this aspect.

Our research presents several limitations and research perspectives. The empirical study is mainly based on interviews, observations and secondary data collected within the new global business unit created by Solvay. Even if generalization is not the goal of our qualitative research, it seems necessary to gain a wider view on how a better integration of business units within the same group can help MNEs to become global players again. As Solvay is a Belgian group, it would be interesting to extend this study to other European and non-European firms to understand how corporate and national cultures shape relationships between business units. Finally, it seems useful to conduct further studies on internal reconfigurations from a business network point of view, integrating evolution as a central issue, to better understand integration processes that take place within multinationals.

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