Perspective Management

Multinational Corporations

Meaning of MNC

- A Multinational Corporation is an organization doing business in more than one country
  - Considers opportunities throughout the globe
  - Invests considerable portion of their assets internationally
  - Engages in international production and operate plants in a number of countries
  - Has a global perspective in management and decision making

- David E Lilien's definition
  - "MNCs mean corporations which have their home in one country but operate and live under the laws and customs of other countries as well."

- According to Raymond Vernon
  - A MNC means "a company that attempts to carry out its activities on an international scale as though there are no national boundaries on the basis of a common strategy directed from a corporate centre."

Characteristics of MNCs

- Large Size
- Multinational Management
- Multinational Ownership
- Huge Financial resources
- Varied Activities
- Advanced Technology
- Brand reputation
- Transfer of resources from parent company to subsidiaries

Advantages of MNCs to Host Countries

- Promote foreign investment
- Facilitate transfer of technology
- Accelerate industrial growth
- Help in promotion of exports and reduce imports
- Provide services of professionals
- Efficient utilization of resources
- Provide benefits of advanced R & D
- Support enterprises in the host country
- Promote global trade and co-operation

Advantages of MNCs to Home Countries

Facilitate inflow of foreign exchange

Optimum utilization of resources

Promote bilateral trade relations

Help in promotion of exports and reduce imports

Create opportunities for domestic firms to tap overseas markets

Create employment opportunities for people of home country both at home and abroad

Demerits of MNCs

- Usage of outdated technologies in developing/ underdeveloped nations
- Repatriation of huge profits to the parent company
- Unbalanced growth in the host country
- Morality and Ethics/Tax Evasions
- Exploitation of Host Country Resources
- Loss of culture in the host country
- Threat to Indigenous producers

Management Orientations towards International Business – EPRG Framework

Management Orientations to International Business

- A company's response to global business opportunities is dependent on management's belief about the nature of the world.
- EPRG concept of various orientations (Perlmutter in 1967)
  - Ethnocentric
  - Polycentric
  - Regiocentric
  - Geocentric
  - Based on view of company personnel towards
    - New business opportunities in new markets
    - Culture of various markets
    - Preferences of consumers in a foreign market

Ethnocentric Orientation

- Involves a home country orientation
- Domestic strategies, techniques, and personnel are perceived as superior and more important.
- International markets are secondary, regarded primarily as outlets for surplus domestic production.
- Company believes that domestic strategies, technology and human resources are best fitted for foreign operations.
- Even if ethnocentric companies conduct business outside home country,
  - Belief that products that succeed in the home country can be sold everywhere without adaptation
  - In an Ethnocentric International company, foreign operations are secondary to home country operations
    - Valuable managerial knowledge and experience in local markets may go unnoticed
    - Differing consumer needs are ignored
- Advantages
  - Simple Organization structure
  - Overcomes shortage of trained and qualified managers in foreign markets
  - Uniform corporate culture
- Disadvantages
  - Cultural shortsightedness
  - Ignorance of many opportunities outside home country
  - Lack of flexibility and responsiveness

Polycentric Orientation

- Focuses on the importance and uniqueness of each international market
- Marketer believes that every market is unique in nature
- Opposite of Ethnocentric Approach
- Firms establish independent business subsidiary in each target country.
  - Fully decentralized, minimal coordination with headquarters
- Extensive R & D programs to develop country specific products.
- Marketing and other business strategies are specific to each country.
- Advantages
  - Local personnel get maximum freedom
  - Low level of interference from parent company
  - Product Development and Marketing Strategies developed to suit different target markets
- Disadvantages
  - No economies of scale
  - Duplicated functions
  - HQ gets isolated from foreign subsidiary
  - Reduces opportunities to achieve synergies

Regiocentric Orientation

- Management views regions as unique and seeks to develop an Integrated Regional Strategy
- Regions are formed based on cultural, geographical and political similarities
  - Eg., India- Pakistan- Nepal and Bhutan
  - BRIC countries
  - NAFTA countries – Canada- Mexico- USA
  - EU countries
  - Eg., A US company focusing on NAFTA countries has a regiocentric orientation
  - A European company focusing on the EU countries has a regiocentric orientation
- Detailed research done on the region
  - Competitive strategies evolved based on the research
- Every region has standardized business operations
- Market Entry could be through
  - Setting up of a subsidiary
  - Joint ventures etc

Geocentric Orientation

- *Views the entire WORLD as one market*
- Strives to develop integrated world market strategies
- Such companies are called global or transnational companies
- Ambience or services provided worldwide are similar
  - Products are manufactured according to the local needs
- Maximizes efficiencies worldwide
- Efficient use of human resources
- Attempts to balance global integration and local responsiveness

BE GLOBAL, THINK LOCAL

Forms of International Business

Forms of International Business

Direct Exporting

- Exporting by the manufacturer himself
  - Through its own export department
  - Deputing sales representatives abroad to get orders through personal contacts
  - By opening its branches/ sales offices abroad
  - Without using services of merchant exporters/ export houses etc

Forms of International Business

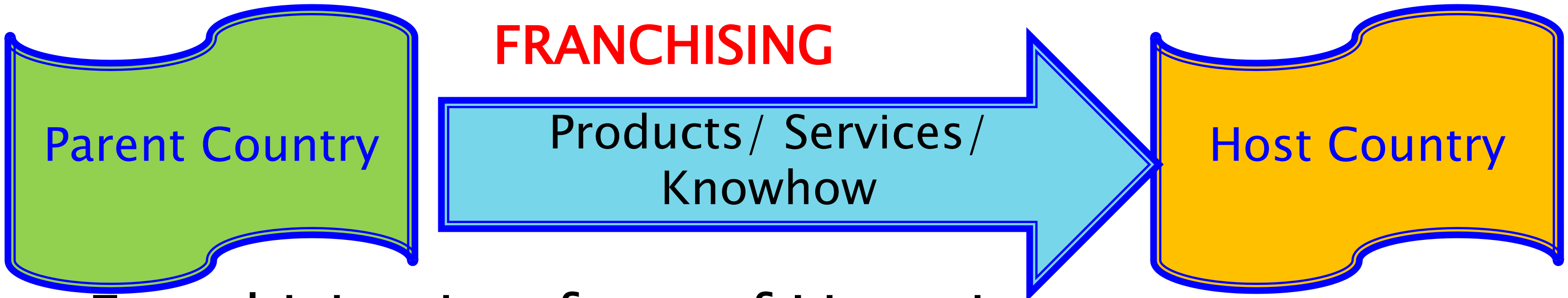
Indirect Exporting

- Selling to a Merchant Exporter or an Export House in India
- Selling to Visiting/ Resident Buyers
- Selling through Overseas Import Houses

Forms of International Business

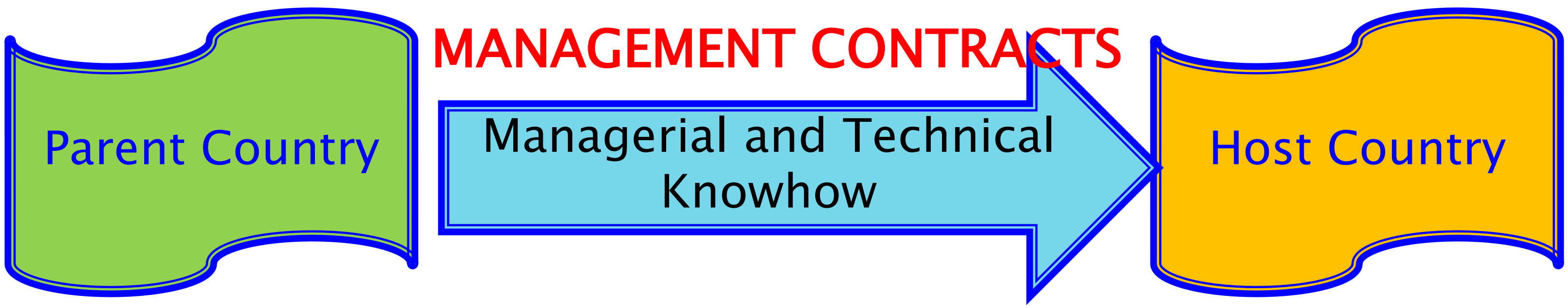
- A firm in one country (licensor) permits a firm in another country (the Licensee) to use its intellectual property
  - patents/ trademarks/ copyrights/ technology/ technical knowhow, marketing skill
  - Licensee will pay a royalty or fee to the licensor
  - Licensing can also be cross licensing
    - Mutual exchange of knowledge or patents
    - Cash payments may not be involved

Forms of International Business



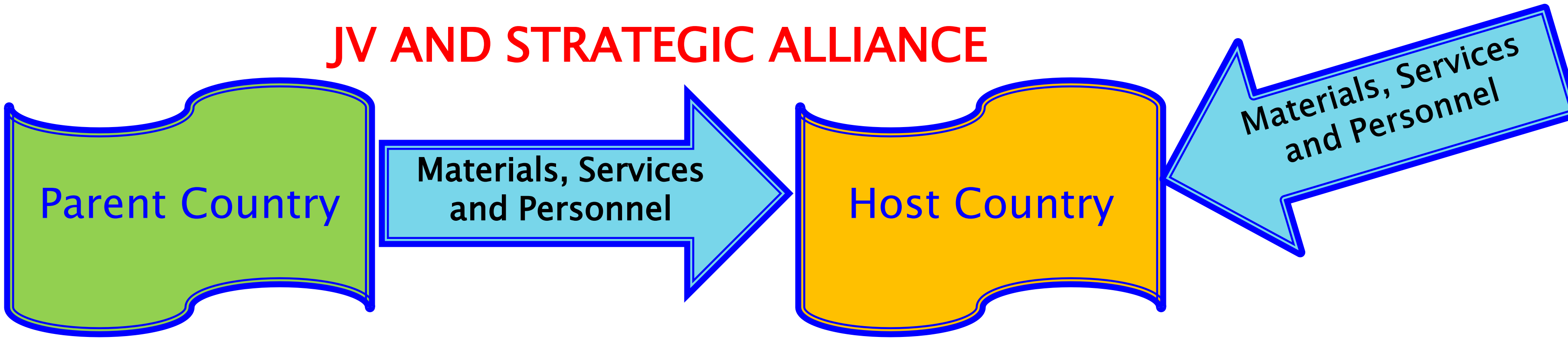
- Franchising is a form of Licensing
- Contractual association between the franchisor (manufacturer) and franchisee (independent business)
  - Franchisee buys the right to own and operate the business in a particular country
  - Franchisor not only supplies the product but also provides services such as brand name, trademarks, technical knowhow etc
  - Franchisor also provides support systems like advertising, training employees, quality assurance etc
  - Depending on socio cultural requirements of the country, franchisor may allow product adaptation
    - McDonald’s sells beef burgers in East European countries while it sells vegetable burgers in India
  - Examples of franchisees in India are
    - Domino’s Pizza/ KFC/ McDonalds/Barista /Costa Coffee

Forms of International Business



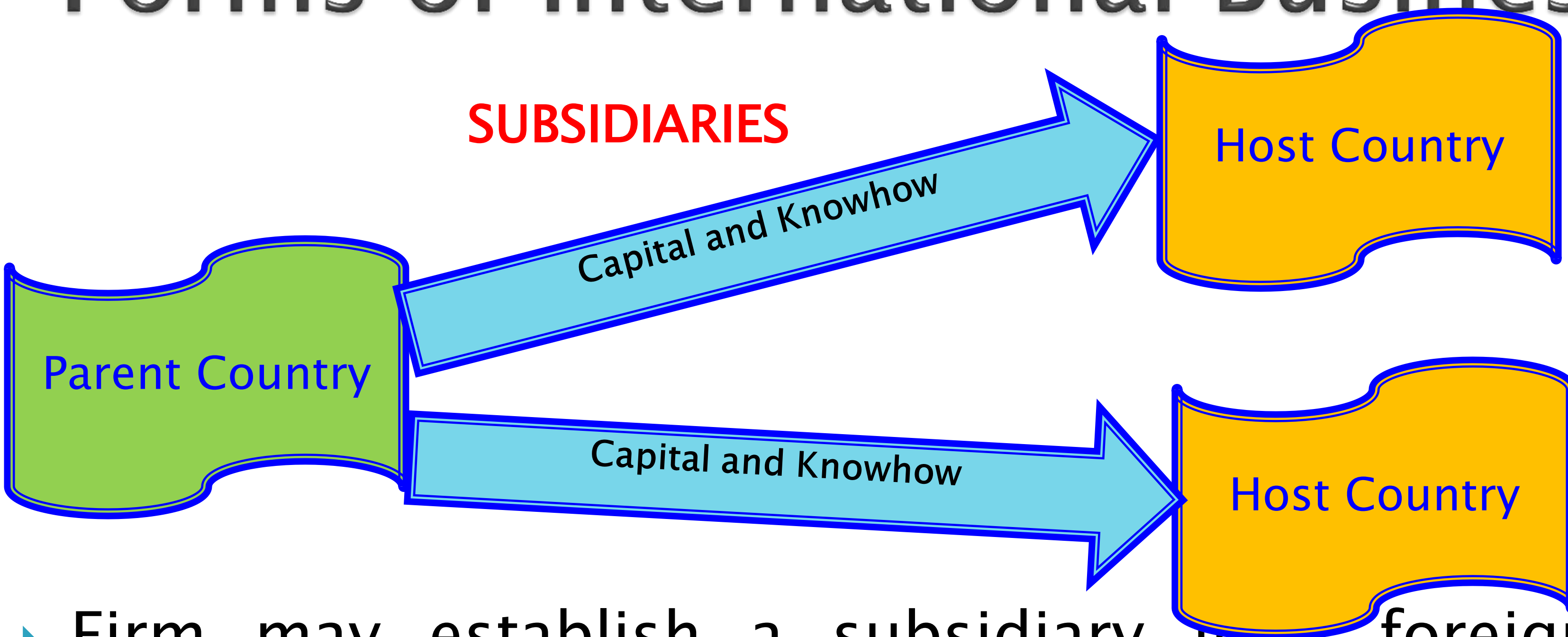
- Agreement between two companies wherein one company provides managerial and technical assistance to the other;
  - For which appropriate monetary compensation is paid
- Companies with low level technology and managerial expertise may seek the assistance of a foreign company
- Compensation could be
  - A fixed amount or lump sum fee
  - A percentage of sales
  - A share in profits

Forms of International Business



- A Joint venture involves partnership between a foreign company and a local company
  - Useful to the foreign company for easy entry into the new market
  - Foreign company may bring finance and technical knowhow whereas the domestic company can provide local knowledge and marketing facilities
  - Could also be in the form of a strategic alliance

Forms of International Business



- Firm may establish a subsidiary in a foreign country
  - Subsidiary may manufacture and market the products in the foreign country
  - Subsidiary may purchase raw materials from the foreign market and send them to the foreign manufacturer
  - Foreign manufacturer may manufacture the products and send them back to the subsidiary for distribution to consumers

Unifying and Conflicting Factors

- Contact between parent firm and host country may be affected by both Unifying and Conflicting Factors

Some Unifying Factors

- Similar business environment
- Sharing of technical and managerial knowhow by parent company
- Sharing of human resources
- Global organizational structure
- Equitable policies

Some Conflicting Factors

- Nationalistic self interest
- Sociocultural differences
- Inadequate communication
- Subsidiary feeling overwhelmed by large MNC parent

International Management Cultural and Country Differences

What is Culture??

- The word culture, is derived from the Latin word colo, –ere, with its root meaning being "to cultivate“.

- Culture is learned, socially acquired traditions & life styles of the members of society, including their patterned, repetitive ways of thinking, feeling & acting.

- A perceptual structure of human activities that include, behaviors, values, arts, beliefs, languages, custom, dress, rituals, manners, religion, laws, morality, & code of honors.

Geert Hofstede’s Model of Cultural Dimensions

Hofstede's Cultural Dimensions

- Geert Hofstede
  - Dutch management researcher
- Gathered data from 100,000 IBM employees
  - Wanted to determine values on which cultures vary
- Surveyed workers from 50 countries and 3 regions
- Concluded that there are five dimensions used to differentiate and rate cultures
  - Power Distance
  - Uncertainty Avoidance
  - Individualist – Collectivist
  - Masculinity – Femininity
  - Long term – short term

Power Distance

- Extent to which people view inequality as normal
- Extent to which less powerful members of institutions accept that power is distributed unequally
  - High Power Distance
    - Power is a scarce resource
    - Society accepts unequal distribution of power
    - Inequality is natural and inevitable
    - Blindly obey orders of superiors – Respect for authority
    - Hierarchical organization structure – centralization emphasized
      - Eg., Mexico/ India/ South Korea/ Malaysia/ Arab countries
  - Low Power Distance
    - Minimal power differences
    - Society less accepting of power
    - Superiority not rigid – Less emphasis on authority/ title/ rank
    - Decentralized decision making
    - Flat organizational structures
      - Eg., USA/ Austria/Finland

Uncertainty Avoidance

- Extent to which people within a culture are made nervous by situations which they perceive as unstructured, unclear, or unpredictable
  - Extent to which they feel threatened by ambiguous situations
  - High Uncertainty Avoidance (Germany/ Japan/ Spain/ Greece/ France)
    - Avoid ambiguity and high need for security
    - Strict codes of behavior
    - Belief in absolute truths
    - Strong belief in experts
  - Low Uncertainty Avoidance (Denmark/ US/ India/)
    - Accept ambiguity and lack of structure
    - More inclined to take risks and "think outside the box"
    - Rules are rejected or ignored

Individualist–Collectivist

- How people define themselves and their relationship to others
  - Individualist (UK/ USA/Australia)
    - Believe individual is most important
    - Stress independence over dependence
    - Reward individual achievement
    - Value uniqueness of individual
  - Collectivist (Japan/ China)
    - Views, needs, and goals of group most important
    - Obligation to the group is the norm
    - Self is defined in relation to others
    - Focus on cooperation, not competition

Masculinity–Femininity

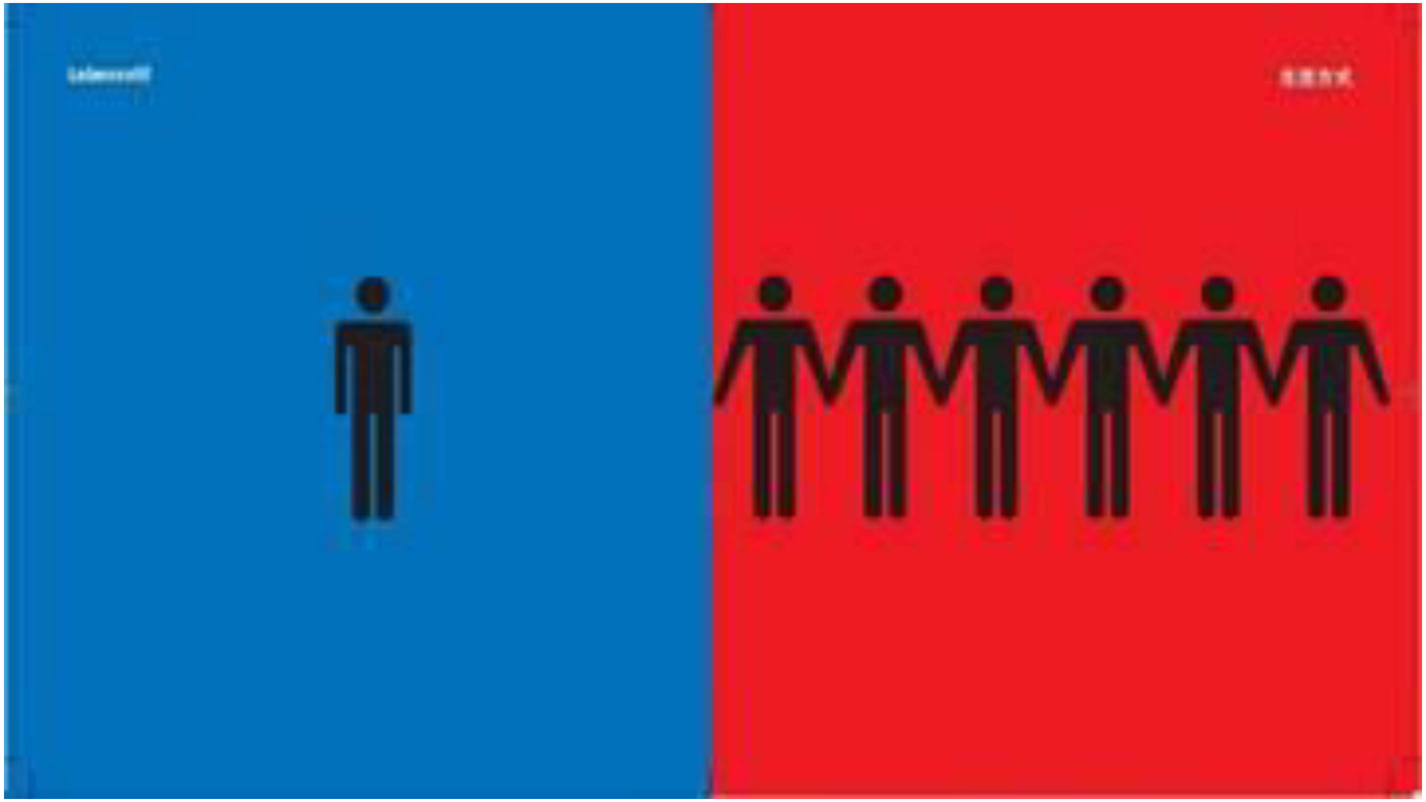
- Relationship between gender and behavior
  - Masculinity (eg., Germany/ Japan)
    - Distinct roles
    - Men are assertive, ambitious, and competitive
    - Women are supportive, nurturing, and deferent
  - Femininity (Eg., Norway/ Denmark)
    - Fewer rigid gender roles
    - Relationship orientation
    - Quality of life favoured
    - Men and women are more equal
    - Focus on Interpersonal relationships

Long-term/Short-term

- Long-term Orientation
  - Focus on long term goals
  - Willing to sacrifice short term profit for long term gains
  - Accept delayed gratification of material, social and emotional needs
  - Savings driven
  - Eg., China/ Japan/ Taiwan
- Short-term Orientation
  - Immediate gratification
  - “Make money, spend money”
  - Less willing to sacrifice short term profits
  - Consumption driven
  - Eg., US/ UK/ Canada

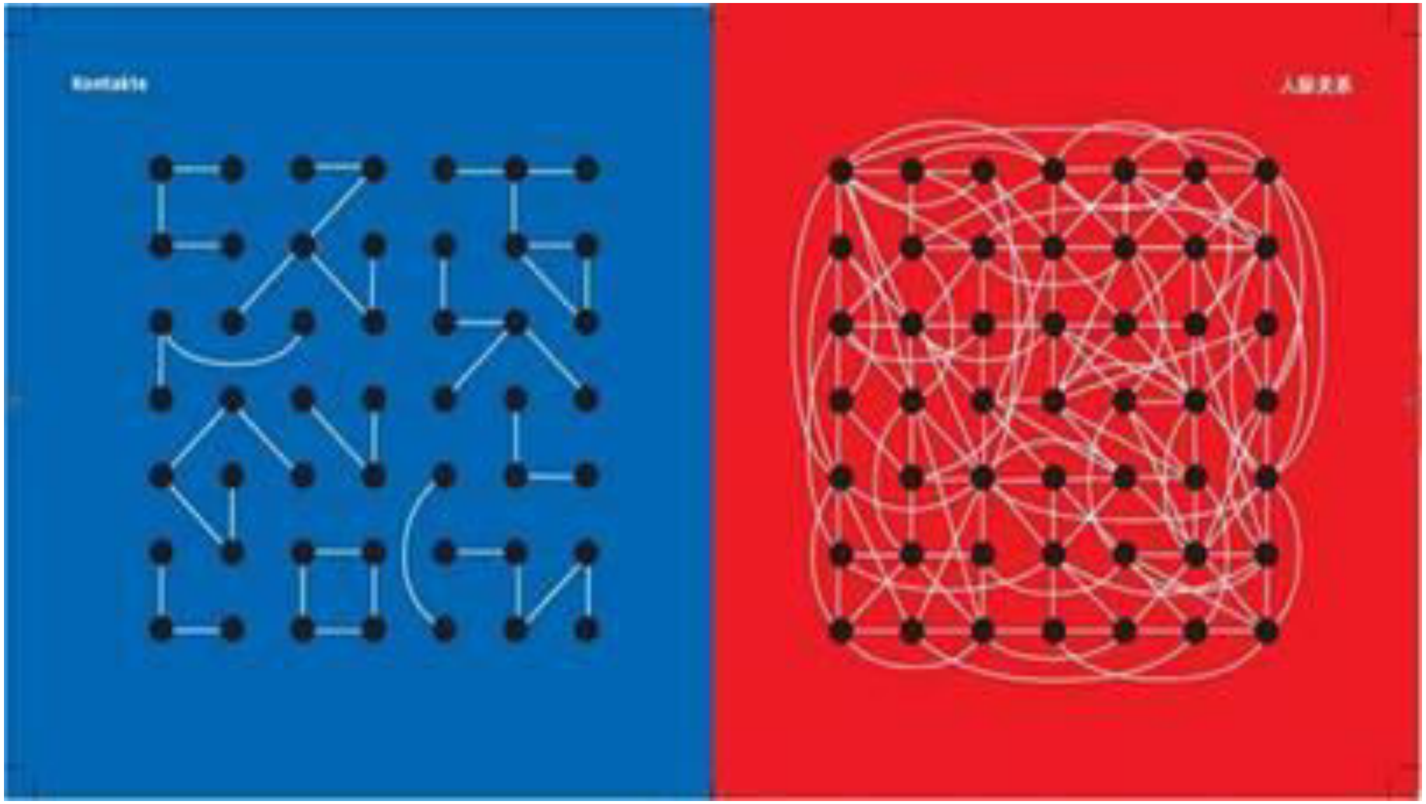
Behaviors in Different Cultures
Cultural Divide???
East v/s West

Way of Life



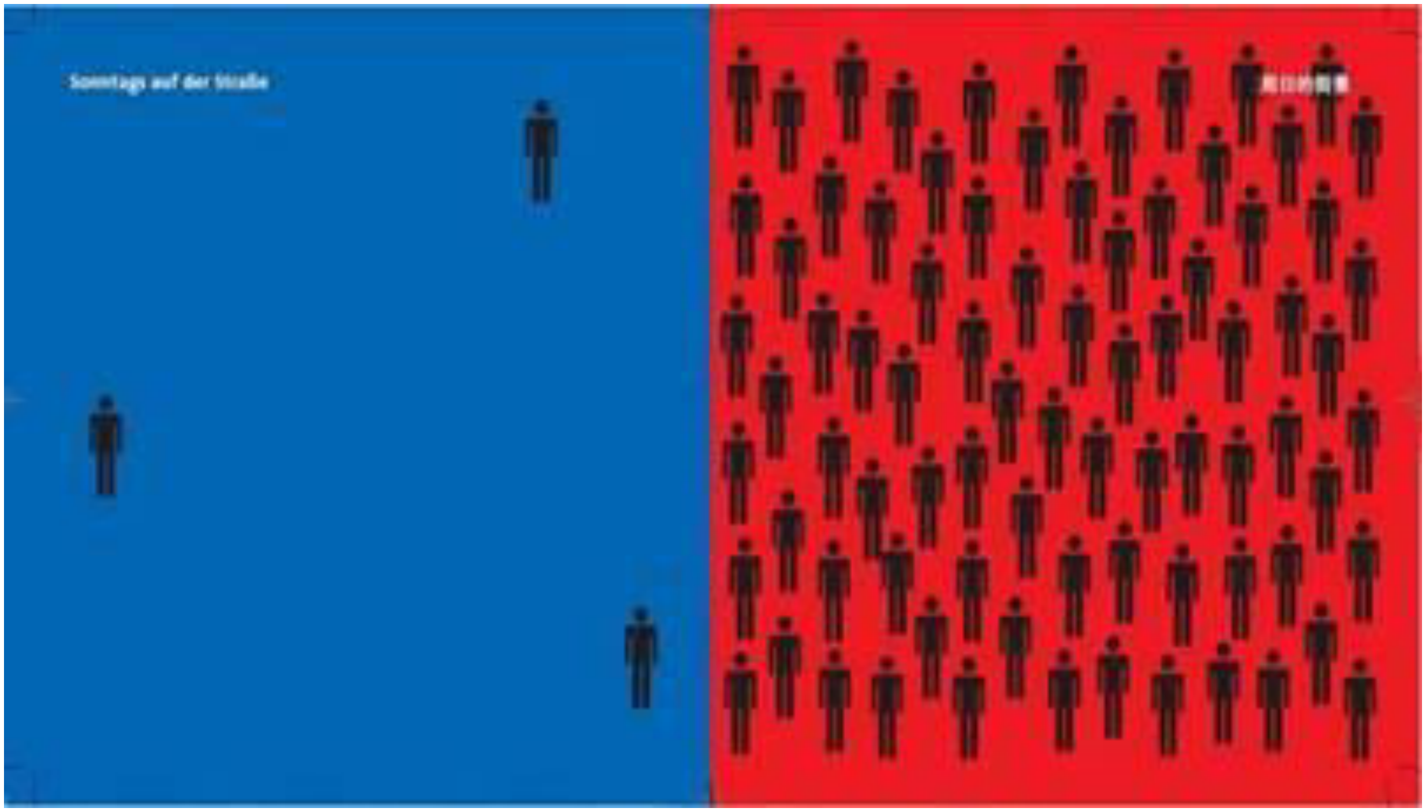
Westerners – Individualism– Think only about oneself
Asians – Enjoy Gathering with friends and relatives, solving their problems

Contacts



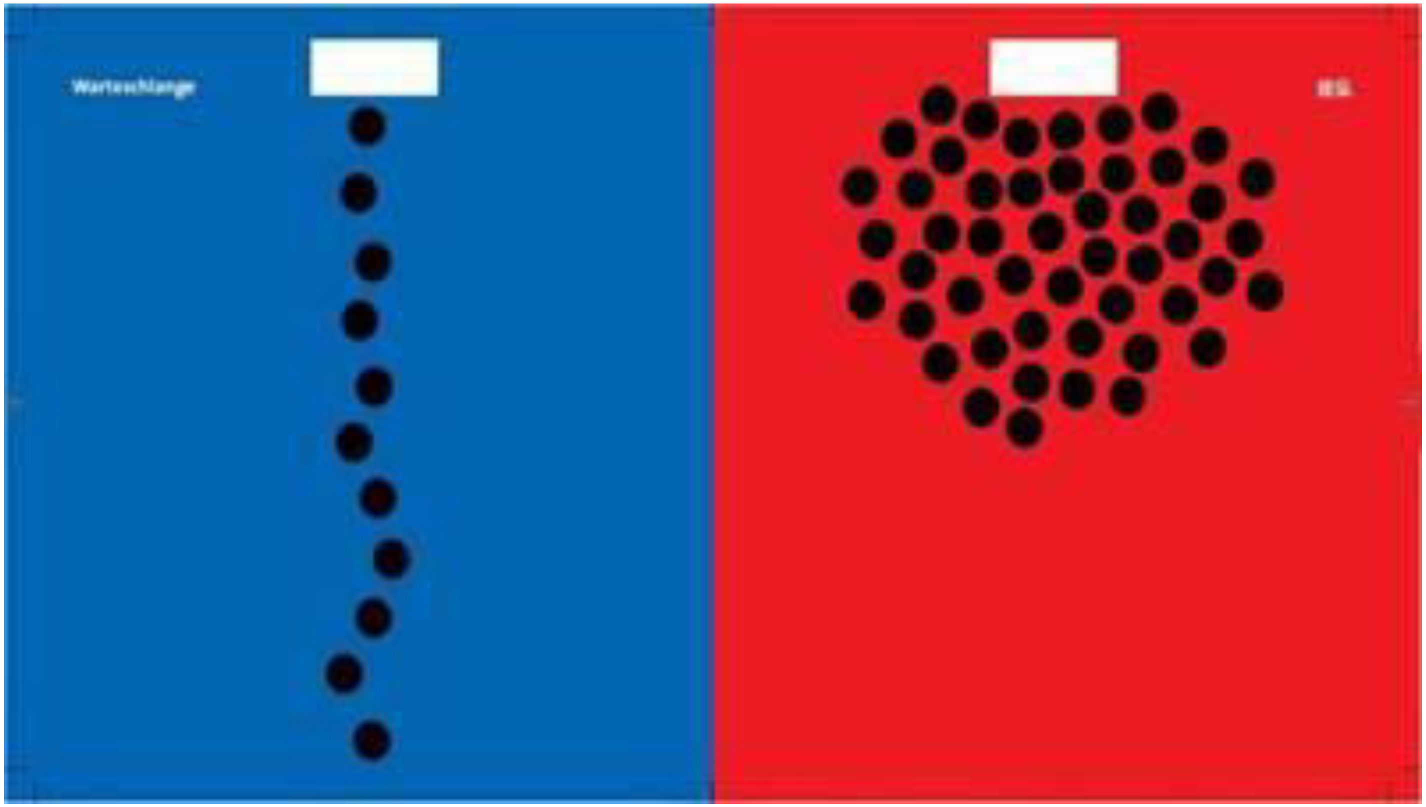
Westerners: Contact to related person only.
Asians: Contact everyone everywhere, business very successful.

Sundays on the Road



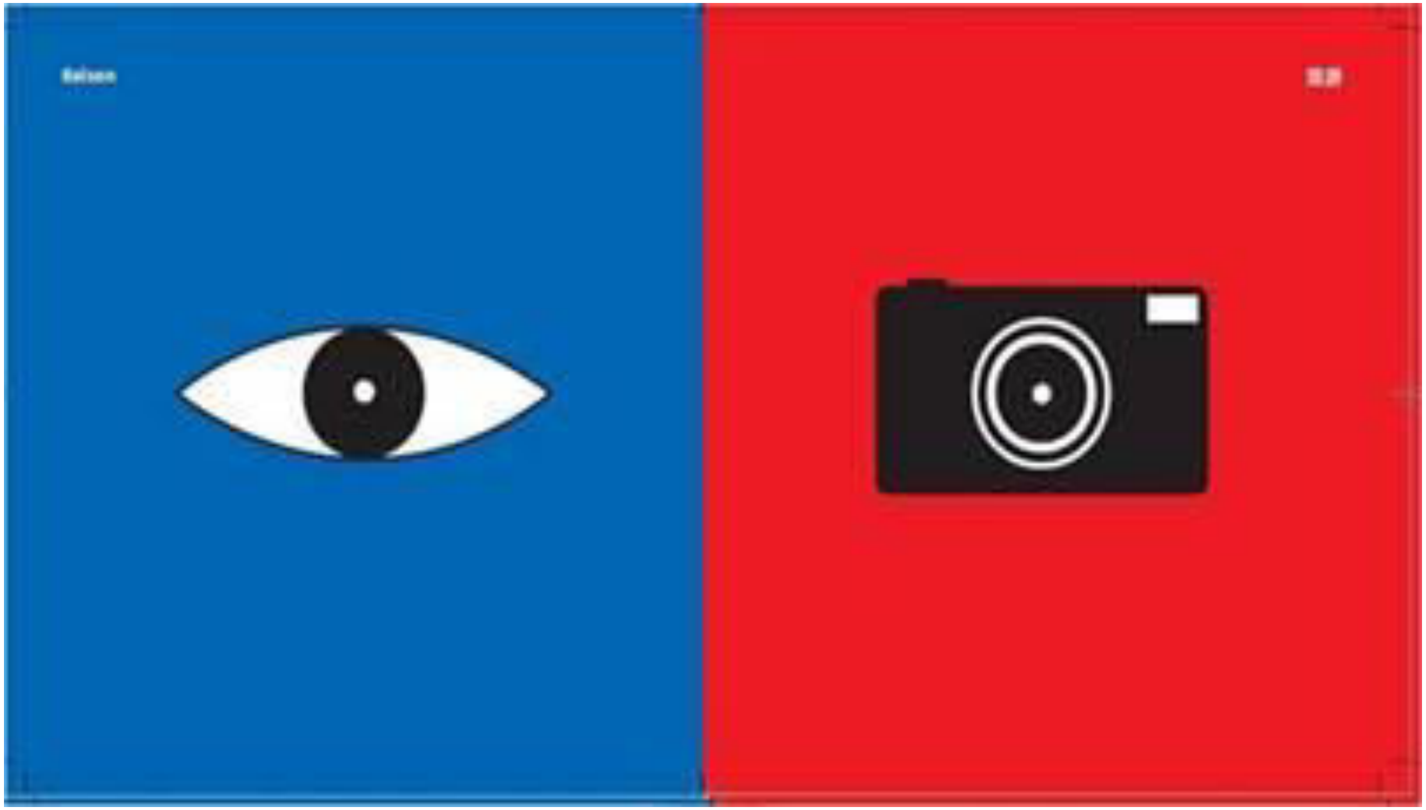
Westerners: Enjoy weekend relaxing peacefully.
Asians: Enjoy weekend in crowded places, like going to the mall.

Queue when Waiting



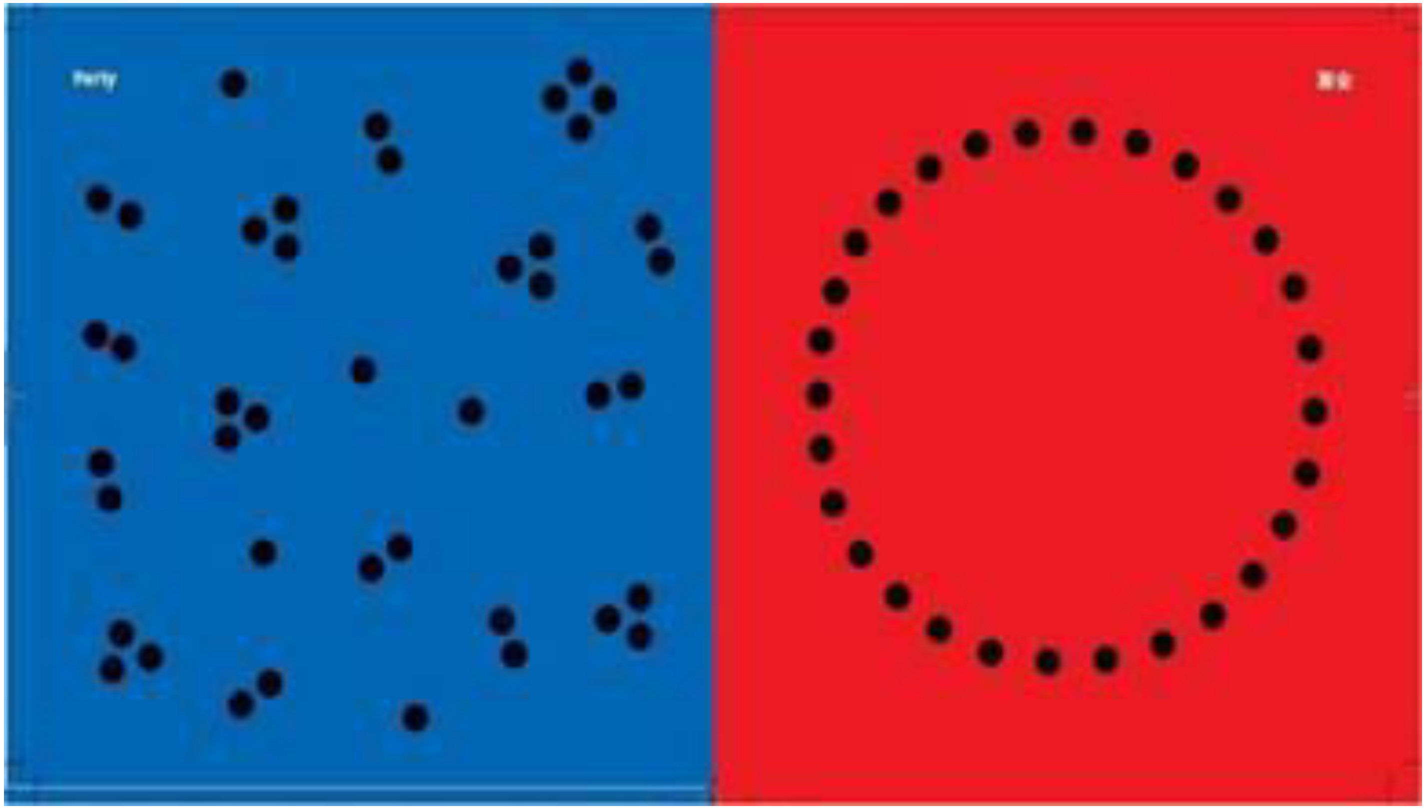
Westerners: Queuing in an orderly manner.
Asians: Queuing?! What's that?

Travelling



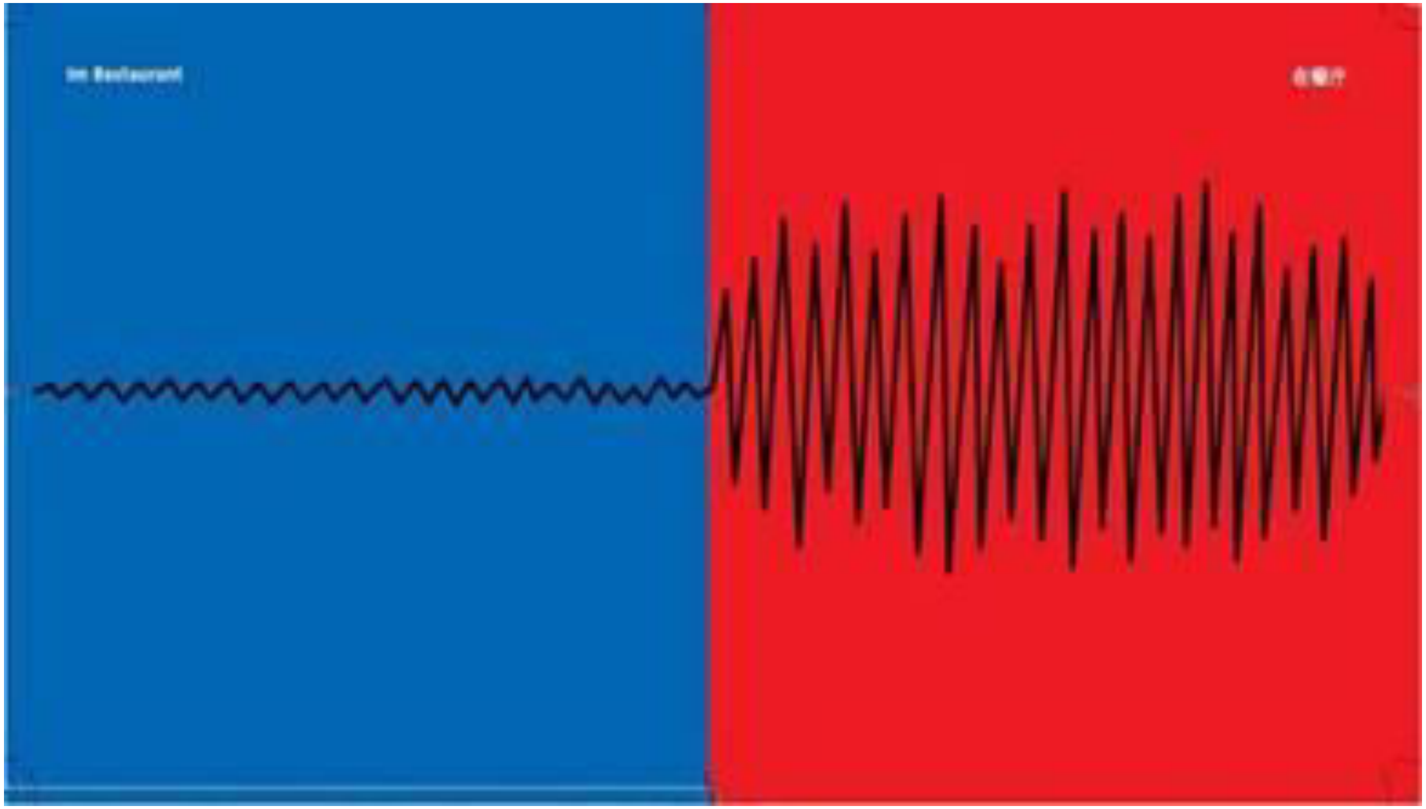
Westerners: Love sightseeing and enjoy the scenery.
Asians: Taking picture is the most important; scenery is just for the background.

Party



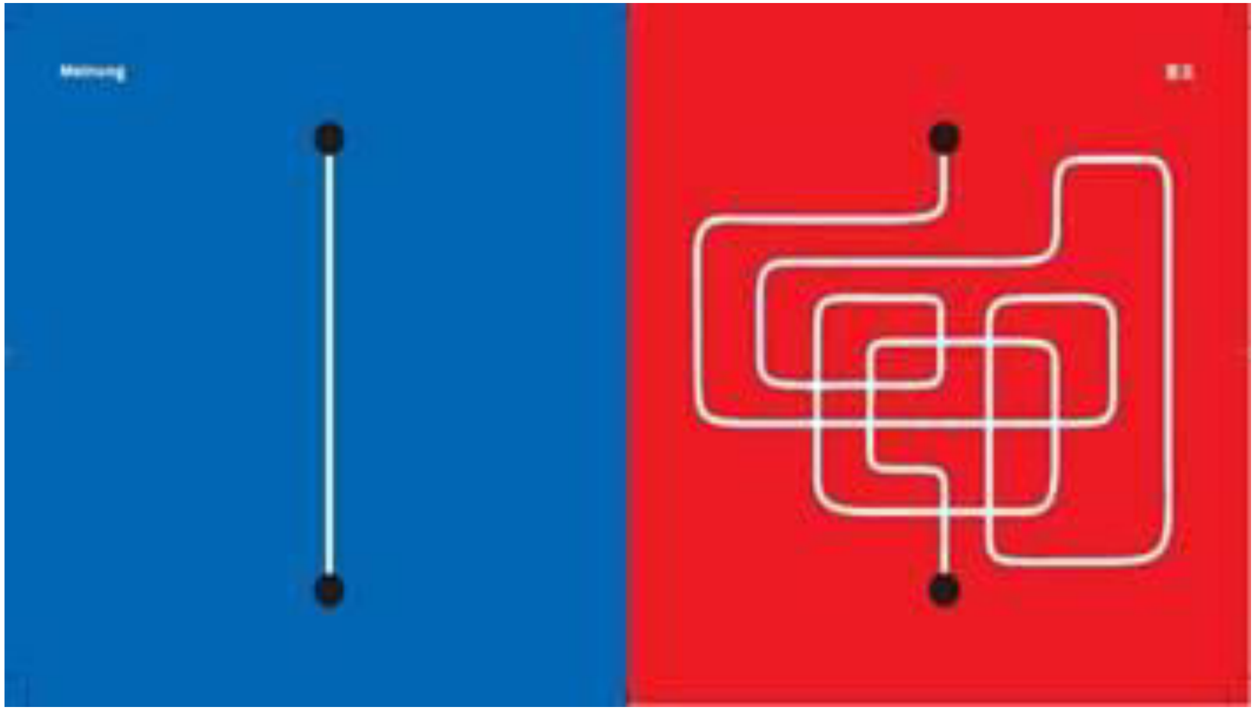
Westerners: Only gather with their own group.
Asians: All focus on the one activity that is hosted by the CEO.

In the restaurant



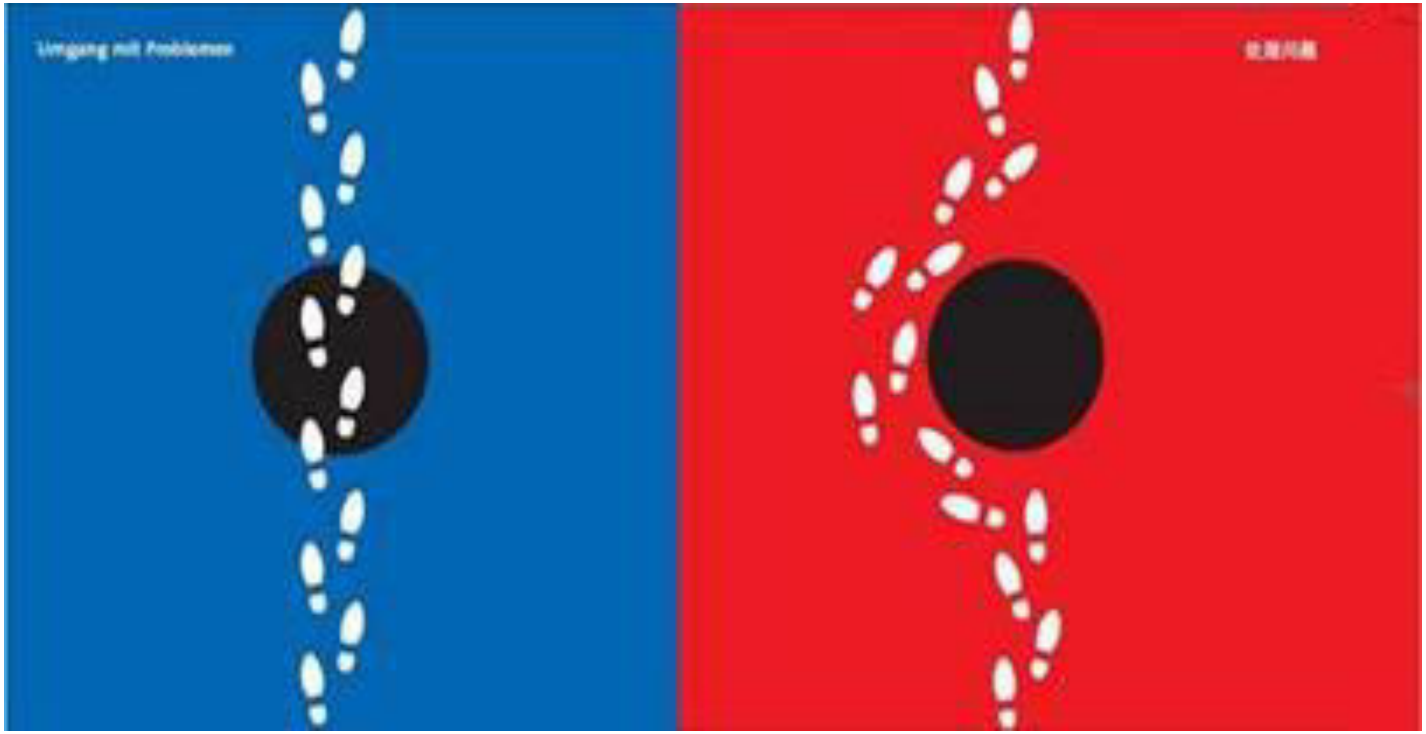
Westerners: Talk softly and gently in the restaurant.
Asians: Talk and laugh loudly like they own the restaurant.

Opinion



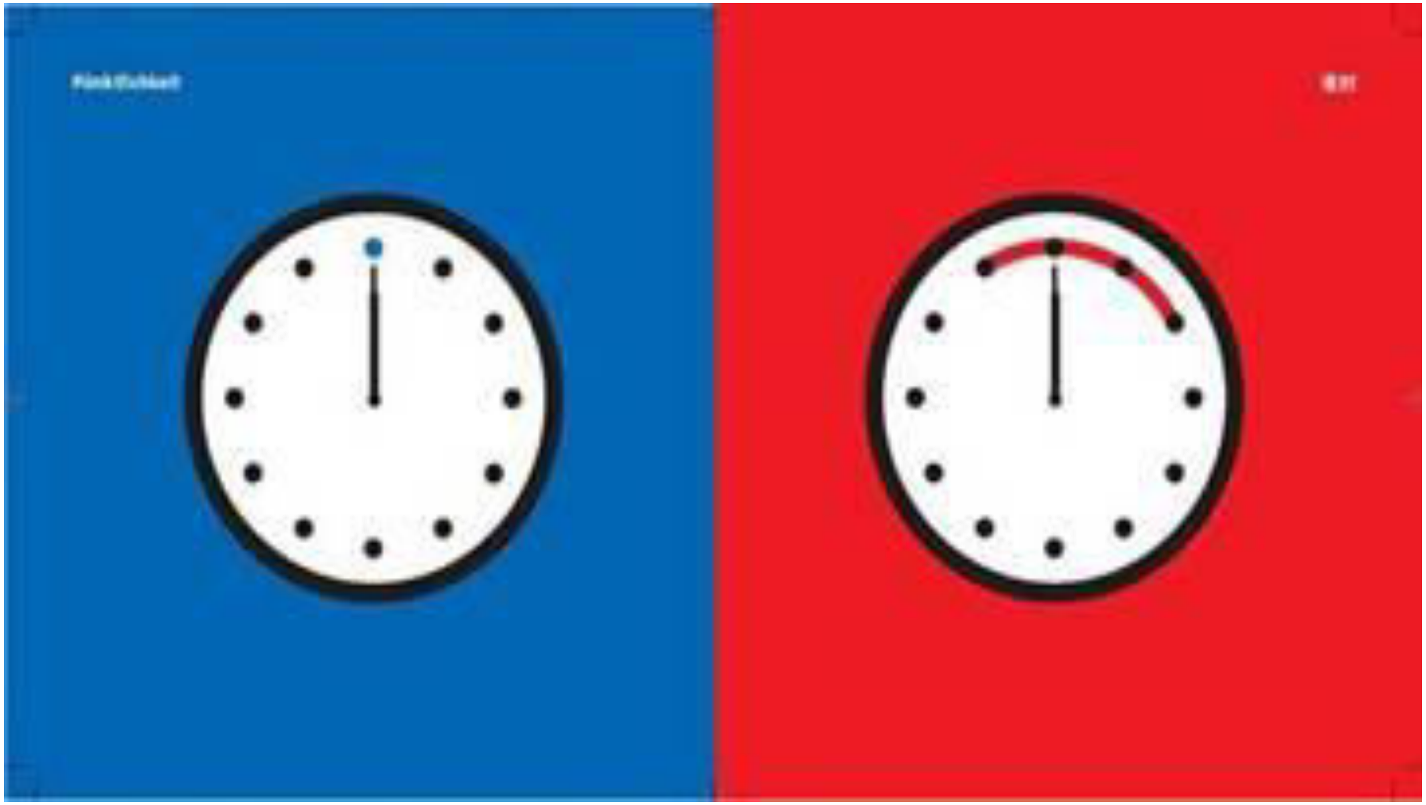
Westerners: Talk to the point
Asians: Talk around the circle, especially if opinions are different .

Handling of Problems



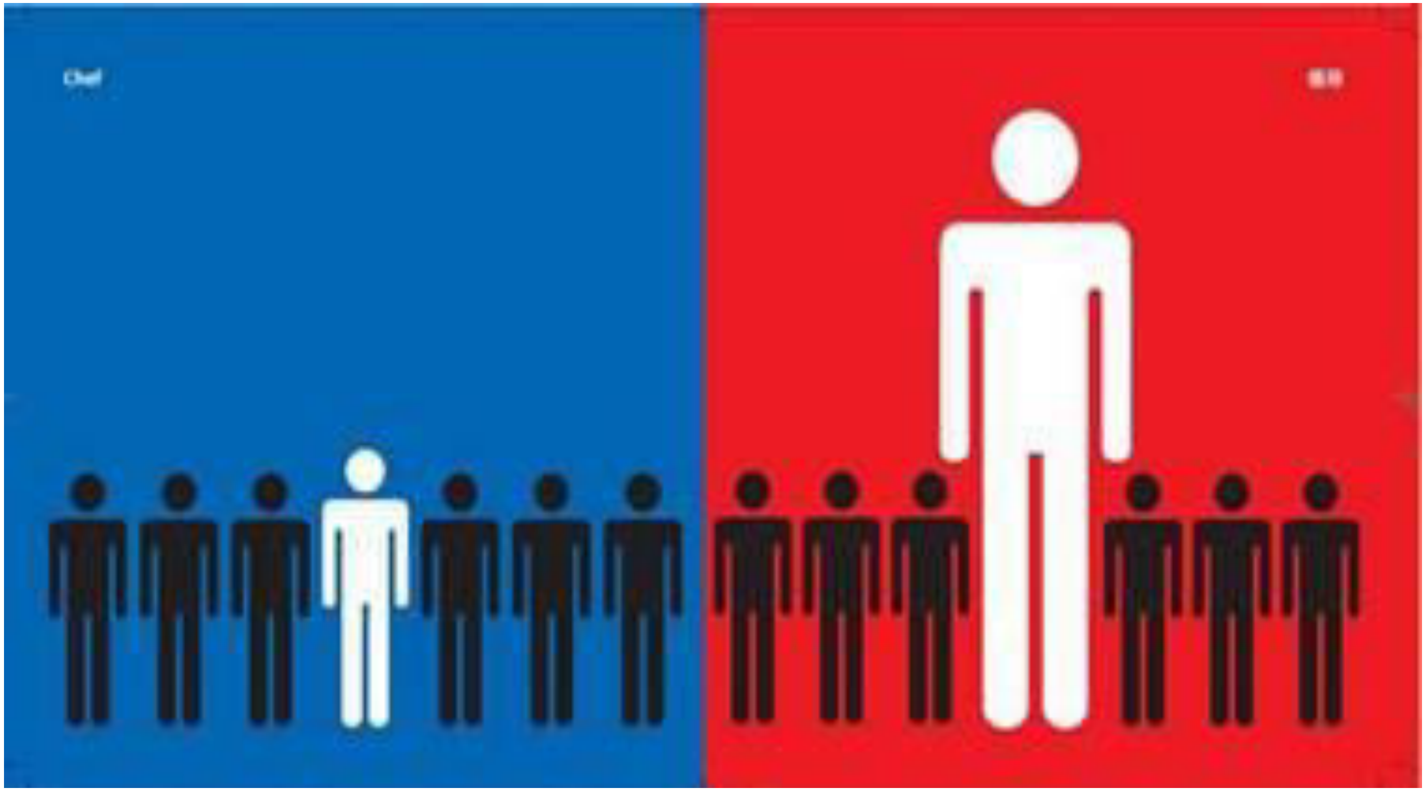
Westerners: Take any steps to solve the problems.
Asians: Try to avoid conflicts, and if can, don't leave any trail.

Punctuality



Westerners: on time.
Asians: in time.

The Boss



Westerners: The boss is part of the team.
Asians: The boss is in charge.

Competencies required in International Managers

Competencies required

- Knowledge of One's own country
- Global Perspective and Mindset
- Knowledge of Other countries
- Understanding of International Business Environment
- Understanding of International Business Partners
- Knowledge of customers
- Knowledge of silent and spoken international language
- Knowledge of Business Etiquettes of host country