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Academic Scripts

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### **Introduction**

**According to Andrew S. Grove” You have no choice but to operate in a world shaped by globalization and the information revolution. There are two options: Adapt or die.”**

Students learn that any company that aspires to industry leadership in the 21st century must think in terms of global, not domestic, market leadership and companies in industries that are already globally competitive or in the process of becoming so are under the gun to come up with a strategy for competing successfully in foreign markets.

Students should be able to understand the complexity of the MNC's environment and the control problems that are faced by MNCs. They should understand the major issues in MNCs strategic planning with assumptions. They also understand the mission statement and its use.

### **Definition**

A corporation that controls production in more than one country, such facilities having been acquired through the process of foreign direct investment

Firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not Multinational Corporation.

### **Multinational Corporation**

This was type of the corporation popular when many companies internationalized during the prewar (1920s and 1930s) when the trade barriers were very high

According to Ghoshal and Bartlett the multinational corporation is defined by the following characteristics: a decentralized federation of assets and responsibilities, a management process defined by simple financial control systems overlaid on informal personal coordination, and dominant strategic mentality that viewed the company's

worldwide operations as portfolio of national businesses. In a multinational organization, the decisions obviously are decentralized.

### **Merits of MNCs**

1. It helps increase the investment level and thereby the income and employment in host country
2. The transnational corporations have become vehicles for the transfer technology, especially to the developing countries.
3. They also kindle a managerial revolution in the host countries through professional management and the employment of highly sophisticated management techniques.
4. The MNCs enable the host countries to increase their exports and decrease their import requirement.
5. They work to equalize the cost of factors of production around the world
6. MNCs provide an efficient means of integrating national economies.
7. The enormous resources of the multinational enterprises enable them to have very efficient research and development systems. Thus, they make a commendable contribution to inventions and innovations.
8. MNCs also stimulate domestic enterprise because to support their own operation, the MNCs may encourage and assist domestic suppliers.
9. MNCs help increase competition and break domestic monopolies.

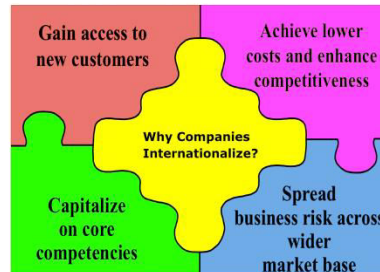
### **Demerits of MNCs**

1. As Leonard Gomes points out, MNC's technology is designed for worldwide profit needs and relative factor scarcities in these countries. In general, it is asserted, the imported technologies are not adapted to the consumption needs, the sign of domestic markets recourse availabilities, and stage of development of many of the LDCs
2. Through their power and flexibility, MNCs can evade or undermine national economic autonomy and control, and their activities may be inimical to the national interests of particular countries.
3. MNCs may destroy competition and acquire monopoly power.
4. The tremendous power of the global corporations poses the risk that they may threaten the sovereignty of the nations in which they do business. On political involvement, MNCs has been accused on occasion of: supporting repressive regimes, paying bribes to secure political influence, not respecting human rights, paying protection money to terrorist groups; and, destabilizing national governments of which they do not approve.
5. MNCs retard employment in the home country.
6. The transnational corporations cause fast depletion of some of the non renewable natural resources in the host country. They have also been accused of the following environmental problems: polluting the environment; not paying compensation for the environmental damages; causing harmful changes in the local living conditions; and, paying little regard to the risks of accidents causing major environmental catastrophes.
7. The transfer pricing enables MNCs to avoid taxes by manipulating prices on intra company transactions.

8. MNCs have been criticized for their business strategies and practices in the host countries. They undermine local cultures and traditions, change the consumption habits for their benefit against the long term interests of the local community, promote consumption, dump harmful products in the developing countries

### Why companies internationalize

Company may opt to expand outside its domestic market for any of four major reasons:



- a. To gain access to new customers – Expanding into foreign markets offers potential for increased revenues, profits, and long-term growth and becomes an especially attractive option when a company's home markets are mature.
- b. To achieve lower costs and enhance the firm's competitiveness – Many companies are driven to sell in more than one country because domestic sales volume is not large enough to fully capture manufacturing economies of scale or learning curve effects and thereby substantially improve the firm's cost-competitiveness.
- c. To capitalize on its core competencies – A company may be able to leverage its competencies and capabilities into a position of competitive advantage in foreign markets as well as just domestic markets.
- d. To spread its business risk across a wider market base – A company spreads business risk by operating in a number of different foreign countries rather than depending entirely on operations in its domestic market.

### **Competitive Advantage in international/Foreign Markets**

#### ◆ *Three ways to gain competitive advantage*

1. **Locating activities** among nations in ways that lower costs or achieve greater product differentiation

***Two issues companies have to face at the time of locating activities:***

- a. Whether to
- i. Concentrate each activity in a few countries ***or***
  - ii. Disperse activities to many different nations
- b. Where to locate activities
- i. Which country is best location for which activity?

2. **Efficient/effective transfer** of competitively valuable *competencies and capabilities* from company operations in one country to company operations in another country

***Transferring*** competencies, capabilities, and resource strengths across borders ***contributes to***

- a. Development of broader competencies and capabilities
- b. Achievement of dominating depth in some competitively valuable area

Dominating depth in a competitively valuable capability is a strong basis for **sustainable competitive advantage** over

- c. Other multinational or global competitors **and**
- d. Small domestic competitors in host countries

3. **Coordinating dispersed activities** in ways a domestic-only competitor cannot

◆ **Aligning activities** located in different countries **contributes** to **competitive advantage** in several ways

➔ Choose where and how to challenge rivals

Shift production from one location to another to take advantage of most favorable cost or trade conditions or exchange rates

➔ Use online systems to collect ideas for new or improved products and to determine which products should be standardized or customized

➔ Enhance brand reputation by incorporating same differentiating attributes in its products in all markets where it competes

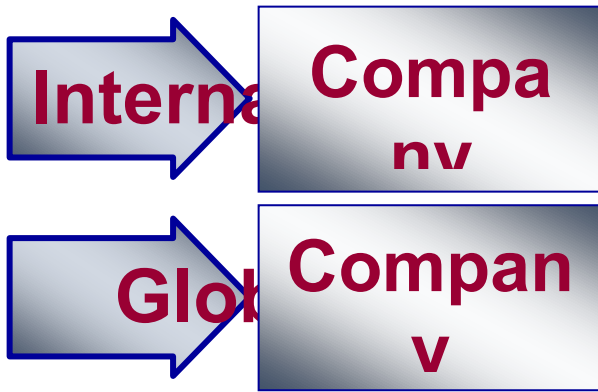
### **Strategy Options for Entering and Competing in Foreign/ international Markets**

1. There are a host of generic strategic options for a company that decides to expand outside its domestic market and compete internationally or globally:

- a. Maintain a national (one-country) production base and export goods to foreign markets - using either company-owned or foreign-controlled forward distribution channels
- b. License foreign firms to use the company's technology or to produce and distribute the company's products
- c. Employ a franchising strategy
- d. Follow a multicountry strategy – varying the company's strategic approach from country to country in accordance with local conditions and differing buyer tastes and preferences
- e. Follow a global strategy – using essentially the same competitive strategy approach in all country markets where the company has a presence
- f. Use strategic alliances or joint ventures with foreign companies as the primary vehicle for entering foreign markets – and perhaps using them as an ongoing strategic arrangement aimed at maintaining or strengthening its competitiveness

### **Complexity of the multinational environment**

### **International vs. Global Competition**



### Cross-Country Differences in Cultural, Demographic, and Market Conditions

- ◆ Cultures and lifestyles differ among countries
- ◆ Differences in market demographics and income levels
- ◆ Variations in manufacturing and distribution costs
- ◆ Fluctuating exchange rates
- ◆ Differences in host government economic and political demands

### How Markets Differ from Country to Country

One of the biggest concerns of companies competing in foreign market is whether to *customize* their *product offerings* in each different country market to match the tastes and preferences of local buyers or whether to *offer* a mostly *standardized product* worldwide.

- ◆ Consumer tastes and preferences
- ◆ Consumer buying habits
- ◆ Market size and growth potential
- ◆ Distribution channels
- ◆ Driving forces
- ◆ Competitive pressures

### Different Countries Have Different Location Appeal

- ◆ Manufacturing costs vary from country to country based on
  - ➔ Wage rates
  - ➔ Worker productivity
  - ➔ Inflation rates
  - ➔ Energy costs
  - ➔ Tax rates
  - ➔ Government regulations
- ◆ Quality of business environment varies from country to country

- ◆ Suppliers, trade associations, and makers of complementary products often find it advantageous to cluster their operations in the same general location

### **Fluctuating Exchange Rates Affect a Company's Competitiveness**

- ◆ Currency *exchange rates* are *unpredictable*
  - ➔ Competitiveness of a company's operations partly depends on whether exchange rate changes affect costs favorably or unfavorably
- ◆ *Lessons of fluctuating exchange rates*
  - ➔ Exporters always gain in competitiveness when the currency of the country where goods are manufactured grows weaker
  - ➔ Exporters are disadvantaged when the currency of the country where goods are manufactured grows stronger

### **Differences in Host Government Trade Policies**

- ◆ Local content requirements
- ◆ Restrictions on exports
- ◆ Regulations on prices of imports
- ◆ Import tariffs or quotas
- ◆ Other regulations
  - ➔ Technical standards
  - ➔ Product certification
  - ➔ Prior approval of capital spending projects
  - ➔ Withdrawal of funds from country
  - ➔ Ownership (minority or majority) by local citizens

### **Others complexities of the multinational environment**

- Expansion into global operations in different geographic locations or markets:
  - Makes implementing international strategy increasingly complex.
  - Can produce greater uncertainty and risk.
  - May result in the firm becoming unmanageable
  - May cause the cost of managing the firm to exceed the benefits of expansion.
  - Exposes the firm to possible instability of some national governments.

### **Risks in an International Environment**

- **Political Risks**
  - Instability in national governments
  - War, both civil and international

- Potential nationalization of a firm's resources

- **Economic Risks**

- Differences and fluctuations in the value of different currencies
- Differences in prevailing wage rates
- Difficulties in enforcing property rights
- Unemployment

## **Two Primary Patterns of International Competition**

### **Characteristics of Multi-Country Competition**

Rival firms battle for *national championships* –winning in one country does not necessarily signal the ability to fare well in other countries!

- ◆ Market contest among rivals in one country not closely connected to market contests in other countries
- ◆ Buyers in different countries are attracted to different product attributes
- ◆ Sellers vary from country to country
- ◆ Industry conditions and competitive forces in each national market differ in important respects

### **Characteristics of Global Competition**

- ◆ Competitive conditions across country markets are strongly linked
  - ➔ Many of same rivals compete in many of the same country markets
  - ➔ A true international market exists
- ◆ A firm's competitive position in one country is affected by its position in other countries
- ◆ Competitive advantage is based on a firm's world-wide operations and overall global standing

### **Multinational strategic planning**

Strategic planning is a process intended to provide enhanced performance through a systematic analytic process. Strategic planning is first applied in a homogeneous political setting, then expanded as the company expands. Previous planning methodologies are modified to accommodate the new complexities of the international environment and foreign subsidiaries. But new, different types of environments and operating characteristics often are not similar enough to the original domestic situation, in which their planning system was first applied, to sustain its effectiveness. Inputs to strategic planning can be rendered of dubious quality when they are filtered through cultural differences.

### **Subsidiaries' Inputs to the Strategic Planning Process**

Central staff needs local data to allocate operating and strategic resources among subsidiaries, and to assess performance and establish performance expectations for each subsidiary.

### **Cultural Distance, Conflict, and Universal Management Techniques**

This potential conflict stems from the very nature of the MNC, its decentralized operations in different countries. The potential for conflict increases as the MNC's home country and the subsidiary's host country become more different culturally.

## **Co-Alignment of Home Office and Subsidiary**

It is one of those factors is the extent to which MNC and subsidiary share the same goals. That goal alignment is not automatic is underscored by the MNC's continuing and important search to find ways to motivate subsidiary top managers to comply with corporate strategic decisions.

## **Assumptions of Multinational strategic planning**

The assumptions that drive the process of strategic planning originate both in national culture and in the derived culture of the business institution.

### **Assumption Cluster 1: Rationality in Decision Processes**

- Problems can be solved through systematic, objective analysis and making decisions.
- Data must be reliable and objective, and capable of being analyzed scientifically.
- Data are accurately and promptly recorded, and readily available to each individual who needs it to discharge his/her duties effectively.
- Frank and open—and rational—discussion will occur about the utility of alternative courses of action open to the corporation.

### **Assumption Cluster 2: Timely Implementation through the Reward-Seeking Individual**

- Each person can influence the future through present actions
- Each person wants to advance in the corporation and be rewarded for his/her achievements.
- Timely action is crucial, and adhering to deadlines and schedules is natural.

### **Assumption Cluster 3: The Individual as Agent of the Organization**

- The management system of the corporation takes priority over personal desires and preferences of the individual.
- Those closest to the local situation are best able – and are motivated – to make decisions necessary to operate effectively in that situation.

### **Assumption Cluster 4: Motivation, Achievement, and the Individual**

- Monitoring progress and evaluating accomplishments is normal and an ongoing process, intended for continual improvements.

It is useful to note that these assumptions, upon which strategic planning methodologies are based, are not commonly nor consistently found around the world. Indeed, one or more of the above may be inconsistent with the assumptions and values that underlie other cultures such as Islamic societies and Latin cultures.

## **Global challenges in Strategic Planning**

### **The Applicability of Corporate Practices**

The first set of challenge relates to the use of very obvious and, a corporate people might add, very successful, past practices and their applicability to other cultures.

### **Communicating Values**

The second set of challenge is related to language and meaning of different culture.

### **Timeliness and Reliability of Data**



The third set of challenge is related to accuracy in planning, and to differing performance expectations. Strategic planning in multiple countries continues to be an exercise in understanding.

### **Location and coordination**

How a particular firm should address location and coordination issues depends on the nature of its industry and on the type of international strategy that the firm is pursuing.

### **MNC's mission statement**

#### **Definition**

Any institution—whether it is a government organization, non-profit, or for-profit—mobilizes a body of people to achieve a specific set of goals. When formulated precisely into words, these goals become a mission statement. The basic structure of a mission statement contains the following information:

❑ **WHO the organization is (e.g., name, type of agency)**

❑ **WHAT it does?**

❑ **For WHOM it does these things (possibly defined by a community or geographical area)?**

❑ **HOW the WHAT is accomplished?**

Beyond simply communicating purpose, mission statements also express the motivation behind this purpose. The principles that motivate and guide an organization's actions ground its overall message and as such are an important part of the mission statement

#### **Uses of the Mission Statement**

The length of a mission statement often reflects how the organization hopes it will function. Some organizations prefer to post a brief mission statement, of only one to two sentences in length, so it can be more easily memorized and repeated.

Other organizations use the mission statement as an opportunity to articulate critical information about their purposes and goals to investors and the general public; these statements may be a paragraph or a full page in length.

Often, a short tagline or motto is written with longer statements to summarize the mission in a succinct and catchy way. Regardless of length, a mission statement should always work to inspire action. It should send a message to existing or prospective supporters compelling them to buy, donate, vote, etc.

As a part of an organization's outward presentation, the mission statement is an essential public relations tool. It educates members of the community about the organization's cause and serves as a beacon to attract new people and resources.

A for-profit business may find it difficult to attract investors if it lacks a well-constructed mission statement. The IRS requires a clear statement of purpose before it grants tax exemptions to non-profits.

#### **Summary**

In this session students got idea about MNCs and its merits and demerits.

At the end of this session students learnt about why companies internationalize? What are the reasons behind it? Moreover they understood the complexity of multinational environment and strategic planning.

Students understood the mission statement as a starting point for multinational corporation expansion, the firm's mission statement needs to be reviewed and revised. As a multinational corporation's operation fundamentally alter the direction and strategic capabilities of a firm, its mission statement, if originally develop from a domestic perspective, must be globalized.

The MNC mission statement provides the firm with a unity of direction that transcends the divergent perspective of geographically dispersed managers. It provides a basis for strategic decisions in situations where strategic alternatives may appear to conflict. It promotes corporate values and commitments that extend beyond single cultures and satisfies the demands of the firm's internal and external applicants in different countries. Finally, it ensures the survival of the MNCs by asserting the global corporations legality with respect to support coalitions in a variety of operating environments.