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Strategies of MNCs in the Digital Era

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STRATEGIES OF MNCS IN THE DIGITAL ERA

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1 GLOBALIZATION OF BUSINESS

LEARNING OUTCOMES

1. To understand the factors affecting globalization
2. To review the determinants of economic development

INTRODUCTION

Globalization refers to the broadening set of interdependent relationships among people from different parts of a world that happens to be divided into nations. Globalization is the integration of world economies through the reduction of barriers to the movement of trade, capital, technology and people. IB is a mechanism to bring about globalization.

International business consists of all commercial transactions between two or more countries. Most managers, regardless of industry or company size, need to approach their operating strategies from an international standpoint.

Hyundai, a South Korean company chose Chennai as its manufacturing hub. Chennai offered skilled labour at low wages. Auto part manufacturers like Wheels India, Brakes India, Sundaram Fasteners, Sundaram Brakes, Bimetal bearings, Tractor and Farm Equipments Private Limited, India Pistons were based in Chennai.

Globalization is the strategy of optimizing the resources available in various countries and catering to customers throughout the world with internationally standardized products at competitive prices.

Globalization has led to improvement in international business operations. Developed countries are now realizing the potential of developing countries. Supra national organisations are getting involved in world trade. But globalization has not benefited all countries equally. Many of the poorest countries are bypassed by globalization and promises of rich countries are not fulfilled.

Globalization does not mean only internationalization of business. It also means cross border movement of financial crisis. Securitization of assets is the process of conversion of existing assets or future cash flows into marketable securities. Securitization deals with conversion of assets which are not marketable into marketable ones.

FACTORS AFFECTING GLOBALISATION

1. Increase in expansion of technology
2. Liberalization of cross border trade
3. Develop services that support international business and development of institutions needed to support and facilitate international transactions
4. Growing consumer pressures
5. Increased global competition
6. Changing political situations
7. Expanded cross-national co-operation by way of treaties, agreements and consultation.

We need more globalization that reaches poor countries. Poor countries are not seeing the inflow of foreign investment. FDI can be the strongest engine of growth in developing world trade.

Multinational corporations transfer much of their production and distribution abroad. These companies invest time and resources adapting to individual foreign markets and are much more integrated at a local level than global companies and organizations. Global companies and organizations tend to have a much more centralized presence in their home country and simply export goods and services abroad.

DETERMINANTS OF ECONOMIC DEVELOPMENT

Different countries have different levels of economic development. Gross National Product is used as a yard stick for the economic activity of a country. GDP is the market value of everything produced within a country. GNP is the value of what is produced by a country's residents no matter where they live.

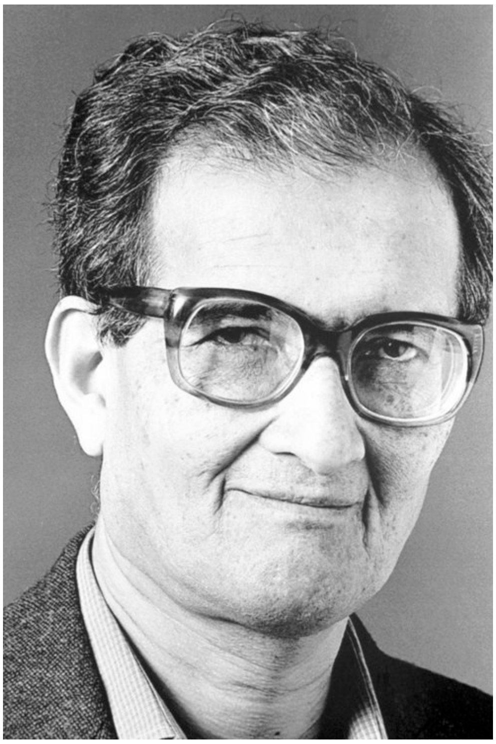


Fig (Amartya Sen, economist)

According to famous economist Amartya Sen, development must be assessed not by GNP but by capabilities and opportunities that people enjoy. Development is a process of expanding the real freedoms that people experience. Development involves removal of poverty and social deprivation, provision of basic education for women, basic healthcare of children. United Nations has developed the Human Development Index to measure the quality of human life in differentiations.

Human Development Index measures life expectancy at birth (as a result of health care), literacy rates (enrolment of poor children in schools) and checks whether average incomes are sufficient to meet the basic needs (food, shelter, clothing and health care).

A country's economic development is a function of its economic and political systems. Innovation and entrepreneurial abilities are engines of economic growth so you need a market economy, legal protection of property rights and state policies that enable democratic influences on economic development.

Due to a favorable geography, some nations are in a better position to trade than others and they are open to develop market based economic systems. Education is another determinant of economic development. Increase in market based economies and de regulation are other indicators of economic development.

De regulation involves removal of legal restrictions to facilitate the free play of markets and establishment of private enterprises. Privatization is the transfer of ownership of state property into the hands of private individuals, sale of state assets through auction. Legal systems are needed to protect intellectual property rights.

The economic issues that influence international business are

1. Inflation
2. Unemployment
3. Debt
4. Income distribution
5. Poverty
6. Balance of Payments

Inflation results when aggregate demand is greater than aggregate supply. Prices rise faster than income growth. Balance of Payments is the statement of international transactions of a country that take place between governments, companies or individuals. Managers use the balance of payment as an indicator of a country's economic stability.

MARKET ECONOMY

This is characterized by non intervention by government; individuals have freedom to decide where to work, doing what, how to spend or save money, whether to consume now or later.

COMMAND ECONOMY

Government owns and controls all resources.

MIXED ECONOMY

This is a combination of public and private enterprises. Government intervenes in private economic decisions.

State directed economy is one in which the state plays a significant role in directing the investment activities of private enterprise through industrial policy and regulating business activity in accordance with national goals. Japan and South Korea are examples of state directed economies.

A state directed economy differs from mixed economy in so far as the state does not routinely take private enterprises into public ownership. It nurtures private enterprise but proactively directs the investments made by private firms in accordance with the goals of its industrial policy.

Unemployment can depress economic growth, create social pressure and provoke political uncertainty. Debt is sum total of government's financial obligations (from its population, World Bank, foreign governments, foreign organizations and international lenders). Inequality in income distribution indicates a skew between the incomes of rich and poor.

2 DIMENSIONS OF GLOBALIZATION

LEARNING OUTCOMES

- To understand the different aspects of international business
- To examine the currents of globalization
- To identify the routes of globalization

INTRODUCTION

Globalization involves economic integration among the countries across the globe. There are four aspects of International business:

1. Globalization of market presence
2. Internationalization of supply chain
3. Globalization of capital base – extent to which company is accessing optimal sources of capital on a worldwide basis
4. Globalization of corporate mindset – ability of company to understand and integrate diversity across cultures and markets. General Electric (GE) is an example of a firm with a global mindset. Each nation's global outlook is assessed considering 4 variables:

    a. Political Engagement – extent of a nation's memberships in world bodies HR and financial contributions to UN Security Council mission.
    b. Technological connectivity – The number of internet users, internet hosts, secure servers
    c. Personal contact – international trade and tourism, international telephone traffic, remittances of compensation to employees
    d. Economic integration includes trade, foreign direct investment, portfolio capital flows and income from investment

Government's role in international business involves introducing a host of incentives to attract FDI. Other factors that lead to growth in international business are:

1. Liberalization of trade and investment
2. Deregulation of domestic industries
3. Privatization of state owned enterprises

Relative competitiveness of India depends on the role of international business executives like Azim Premji and Narayan Murthy. These people are responsible for putting an emerging economy like India on the global map. The world has become a global village. There are ample job opportunities for youth in India as an outcome of globalization. Indian leaders who are known across the globe can subtly influence strategies and resource allocation. India is in a unique position to absorb the opportunities resulting due to globalization. India is expected to be the 3rd largest economy in the world in 2050 after China.

CURRENTS OF GLOBALIZATION

Way back in 2005, the Boston Consulting Group had indicated that there are 5 currents of globalization.

a. Growth of rapidly developing economies (RDE)
b. Continuing cost and capital advantages of rapidly developing economies
c. Development of talent and capabilities in rapidly developing economies
d. Migration of customers to rapidly developing economies
e. Emergence of RDE-based global competitors

India, China, Brazil, Mexico, South East Asia, Central and Eastern Europe are considered rapidly developing economies. ABB, Emerson, Schneider Electric and Siemens have seen their China sales grow substantially. RDEs offer opportunities to minimize costs and capital investments and also hire technically skilled people. More of manufacturing is moved to RDEs. Therefore, suppliers in home countries also have to follow selected customers to their new locations.

There is money in international business. It is said that 90% of total earnings of Infosys, the Indian IT behemoth are from foreign countries. Resource is another driver of globalization (technology, manpower, natural resources in a particular country). Globalization is also triggered by bodies like WTO.

WTO helps free trade and regulates and promotes business across nations. WTO helps negotiate further opening of markets. They enable settling of trade disputes between members.

The positive features of globalization are

1. Adds to employment in developing countries
2. Free trade results in countries specializing in the production of goods and services that they can produce most efficiently. These countries can also import goods that they cannot produce efficiently.

The negative features of globalization are

1. Decrease in employment – regular salaried jobs are cut down through VRS
2. Increase in contractual employment
3. Sub-contracting and outsourcing

The argument in favor of low wages is that it can lead to competitive advantage for nations to attract foreign investment and promote development. Globalization helps reduce child labor because the developing countries can impose sanctions so child labor is curtailed in developing countries.

IMF & WB mandate structural adjustments in economies before sanctioning aid to the developing countries. For example – when privatization and automation increase layoffs, poor parents cannot afford to send their children to school. This increases the instances of child labor.

Has globalization benefited all countries equally? No. Only developed (rich) countries have benefitted. Poor countries have become poorer. International business has resulted in inequalities of income within nations, between nations and globally. Rich become richer and poor become poorer.

The four dimensions of globalization are

1. Globalization of market presence – extent to which company targets customers in all major markets globally. IBM, Cannon, Sun Microsystems are examples of globalized companies.
2. Internationalization of supply chain – this refers to the extent to which company accesses the most optimal locations for performing the various activities in supply chain. Example – Toyota imported diesel engines from Thailand, transmission systems from Philippines, steering gears from Malaysia and engines from Indonesia.
3. Globalization of capital base – this refers to the extent to which company is accessing optimal sources of capital on a worldwide basis.
4. Globalization of corporate mindset – this refers to the ability of a company to understand different cultures and different markets. GE is an example of a company with a global mindset.

A true global company is one which scores on all above dimensions.

ROUTES OF GLOBALIZATION

1. Exports and Imports
2. Use of assets – Licensing/ Franchising
3. Performance of services (Fees)
4. Tourism and transportation are routes of globalization for shipping, airlines, hotel, travel agency
5. Direct investment – this is one that allows the investor a controlling stake in a foreign company. The foreign direct investment can be in the form of a joint venture or a wholly owned subsidiary. Joint venture can involve shared ownership in foreign business.

3 EXPORT PROMOTION ZONES

LEARNING OUTCOME

- To examine the significance of Export Promotion Zones

SIGNIFICANCE OF EXPORT PROMOTION ZONES

Non-profit organisations and export promotion councils develop and promote exports of specific products. There are 21 export promotion councils in India and all of them are given financial assistance by Government.

Export promotion councils seek to project India's image abroad as a supplier of quality goods and services. Export promotion zones are created to boost exports. They are given tax incentives and subsidies so that companies can compete with other firms at an international level. This leads to an increase in the foreign exchange inflows in the country.

Special economic zones (SEZ) have been set up to promote exports. These zones are poised to open new opportunities to countries involved. 80 special economic zones exist in 30 countries while there are 3000 special economic zones in 120 countries.

In 1965, India established Kandla Free Trade Zone. All these zones have created 50 million jobs across the globe, of which 60% of the jobs are created in China. Some countries like South Korea adopted the SEZ model to wean its people away from manufacturing to services.

In the US, the objective was to bring in equality by facilitating SEZs in relatively poor urban areas. Japan's setting up of special economic zones was part of its experiment with economic reforms. India set up special economic zones to attract FDI and enacted a legislation to tell foreign investors that change in political fortunes will not affect the policy.

4 MULTINATIONAL COMPANIES

LEARNING OUTCOMES

- To analyze the differences between multinational corporations and transnational corporations
- To examine the reasons for a firm to venture into international business operations

INTRODUCTION

A multinational corporation (MNC) is a company that does business in more than one country. Transnational company produces, markets, invests and operates across the world. It is an integrated global enterprise that links global resources with global markets at profit. These companies have sales offices / manufacturing locations in many countries.

- MNCs consider opportunities globally
- MNCs invest their assets globally
- MNCs engage in international production
- Operations in number of countries
- Managerial decisions based on global perspective.
- MNCs produce the products in one or few countries and sell them in most countries. Transnational corporations produce the products in each country based on specific needs of customers of that country and market these. A transnational corporation mostly uses the inputs of the host country where it operates unlike a MNC.

ILO DEFINITION

Home country – Managerial headquarters in this country

Host country – where the enterprise carries out the operations

A corporation that controls production facilities in more than one country, such facilities acquired through the process of FDI. Firms that take part in IB only by exporting or sourcing new technology cannot be called as Multi National companies.

Global Corporation – produces in home country/ single country but markets products globally. Some operations are centralized, some are decentralized. International Corporation conducts operations in one or more foreign countries, but with a domestic orientation. They believe that domestic policies are better than foreign policies so extend the domestic factors for doing business globally in other foreign countries. MNC operates in more than one country, but operates like a domestic company of the country concerned. TNC produces, markets, invests and operates across the world.

DIFFERENCES BETWEEN MULTINATIONAL AND TRANSNATIONAL CORPORATION

Organisational features	MNC	TNC
Assets and capabilities	Decentralised and nationally self sufficient	Dispersed, interdependent, specialized
Role of overseas operations	Sense and exploit local opportunities	Differentiated contributions by national units to integrated worldwide operations.
Development and diffusion of knowledge	Knowledge developed and retained within each unit	Knowledge developed jointly and shared world wide

WHY DO COMPANIES BECOME MNCs?

- Protection from uncertainties of business cycles, political policies of the domestic country
- Tap global markets
- Grow business
- Increase profits
- Reduce costs
- Overcome tariffs – In some countries, the companies need not pay tariffs, if they manufacture in that country and export those goods. So, such companies set up manufacturing facilities in those countries. E.g. NAFTA countries like USA, Canada and Mexico. (NAFTA – North American Free Trade Agreement).
- For technological advantage – instead of licensing, companies produce goods directly.

ADVANTAGES AND DISADVANTAGES OF MNCS TO HOST COUNTRY

Advantages – Contributes to economic and industrial growth, employment generation, access to latest technology, more business for domestic suppliers, more competition for domestic business, reduction of imports, favorable effect on balance of payments, domestic consumers get plethora of products and services. MNCs who export also earn foreign exchange. Good utilization of natural resources.

Disadvantages – Unsuitability of technology to host country, MNCs may not operate within the boundaries of national sovereignty, they may indulge in monopolistic practices, indiscriminate use of natural resources, focus only on consumer goods but not capital goods or development of infrastructure in host country, pollution, dumping of material, use of outdated technology to host country.

In Plachimada in Kerala's Palakkad district, village was in a legal dispute with American soft drink giant Coca cola due to groundwater depletion. The villagers said, "We want drinking water. No Coke, No Pepsi".

HLL was accused of mercury contamination in Kodaikanal – a hill station in Tamil Nadu, India.

ADVANTAGES AND DISADVANTAGES OF MNCS TO HOME COUNTRY

Advantages: Create demand for home country products, create employment for home country people, and earn forex for home country. MNCs produce products required by home country consumers by producing in foreign countries with foreign resources. This saves domestic country from environmental pollution and generates profits for home country by earning profits through business operations in host countries.

Disadvantages

- Transfer capital to other countries, unfavorable balance of payments
- Less employment opportunities in home May neglect industrial development in home country as transnational companies follow secular approach

WHY DO FIRMS DO BUSINESS ACROSS DOMESTIC SHORES?

- Increase Profits
- Seek larger markets
- Achieve economies of scale through larger operations
- Seek economies of global supply chain
- Spread the business risk over different locations
- See new technology and knowledge

CHARACTERISTICS OF AN IDEAL MNC

- Lose its parent identity and blend in where it operates
- Citizen of the world (absence of a polycentric approach)
- Takes up CSR (Corporate Social Responsibility) efforts
- Meet customer requirements across the world
- Seek efficiencies
- Seek new technology and new knowledge
- Act within the framework of local law, rules and regulations

The ideal MNC transcends the national boundaries and detaches itself from narrow national considerations. Therefore some people refer to MNCs as transnational corporations. A transnational corporation is globally integrated i.e. its considerations are for the entire worldwide operations as a whole; but at the same time, it respects the local (national) requirements.

Multinational companies with total control from home country or companies with decentralized operations in different countries move towards becoming a transnational corporation. Global companies with a firm base in the home country and tight control over foreign operations also move towards becoming a transnational corporation.

5 ORGANISATION STRUCTURE OF MNCS

LEARNING OUTCOMES

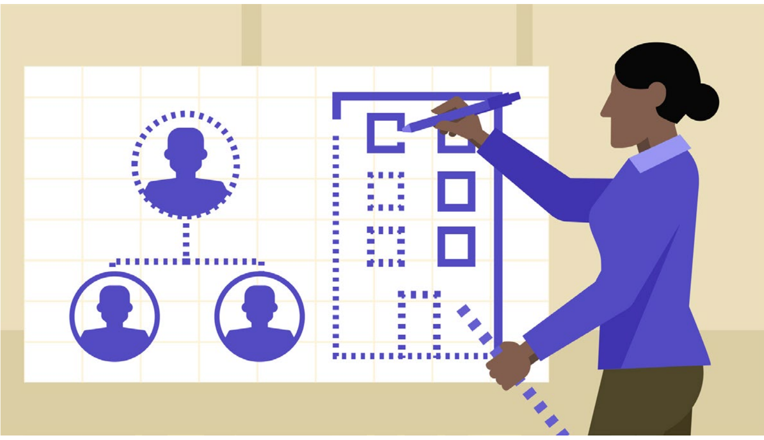
- To describe steps in designing organization structure
- To examine the various organizational structure of MNCs
- To understand what a strategic business unit is

STEPS IN DESIGNING ORGANISATION STRUCTURE

Organisation design deals with structural aspects of organizations. Organisation design leads to a more or less formal structure.

Analyze present and future circumstances, analyse environmental factors, detailed planning and implementation.

Organisation analysis includes scanning external environment, clarify goals of organisation (survival, growth, profit maximization), specific targets to achieve, action plans to achieve objectives, decisions to be taken, relationships, job structure, grouping of activities, span of control. Understand how the working atmosphere should be in the organisation.



Vertical/Tall organizations – more centralized authority. Increase in the length of the organisation's hierarchy chain of command. Authority and responsibility flow from top to bottom.

Horizontal/ Flat organizations – increase in breadth of an organisation's structure. Authority is more decentralized. Decisions made by employees who are at the helm of the affairs. Managers with broad span of control must grant more authority to his sub ordinates.

DIFFERENT APPROACHES TO ORGANISATION STRUCTURE OF MNCS

There are 7 approaches

1. Product Organisation Structure
2. Geographical Organisation Structure
3. Decentralized business divisions
4. SBUs – Strategic business units
5. Matrix Organisational Structure
6. Team Organisational structure
7. Virtual Organisational structure

Product Organisation Structure

Activities divided on the basis of individual products, product line, services and are grouped into departments. Marketing, production, finance and human resource are contained within each department.

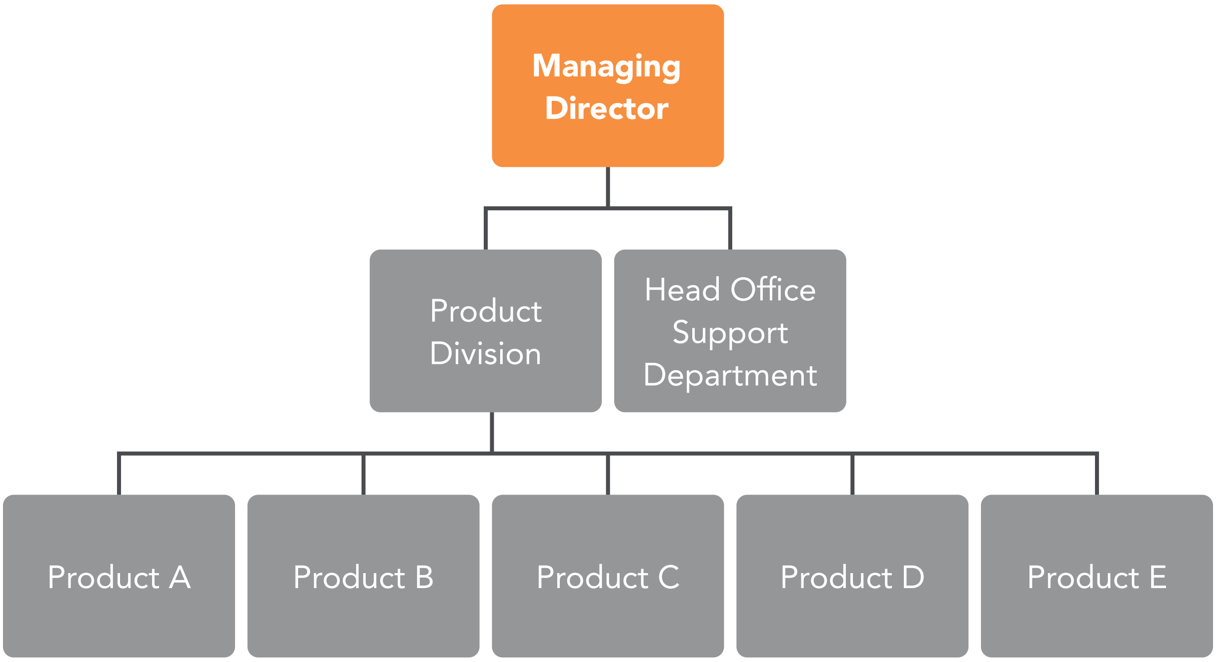


Fig: Product Organizational Structure

ADVANTAGES

- Better co-ordination among functional areas like product design, producing, distributing, marketing as all functions are performed in each department
- Decisions at departmental level, quick decisions, organizational competency increases
- Clear accountability for market share, sales, profit / loss. Credit for success or blame for the failure of a product can be clearly attributed to a particular department

DISADVANTAGES

- Unnecessary duplication of equipment and personnel among various departments
- Decisions like pay, promotion, product quality, design and pricing strategy may be inconsistent between departments.
- Inter departmental conflicts arise regarding sharing of common resources, allocation of budget, common and overhead expenses.
- As each department has their own resources, there is no scope for purchasing specialsied equipment or using the skills of specialized personnel.

GEOGRAPHICAL ORGANISATION STRUCTURE

Functions are grouped into departments based on the activities performed in the geographical areas/ regions. Each geographical unit includes all functions required to produce and market the products in a particular geographic area. Examples – banks, insurance companies, restaurant chains, dairy products, power companies. MNCs serving in expansive geographic areas are organized based on geographic structure.

Advantages of Geographic Structure

Products and services better suited to climatic and cultural needs of specific geographical region. Firm can quickly respond to technical needs of a particular geographic area. Firm can satisfy the needs of consumers in different geographies. Firm can easily adapt to different legal requirements in different geographies. Firms can pinpoint the responsibility for profits or losses. Strategy can be tailored to meet the needs of each geographical market. The structure takes advantage of economies of local operations. There is better functional coordination with target market. Good training ground for higher level general managers.

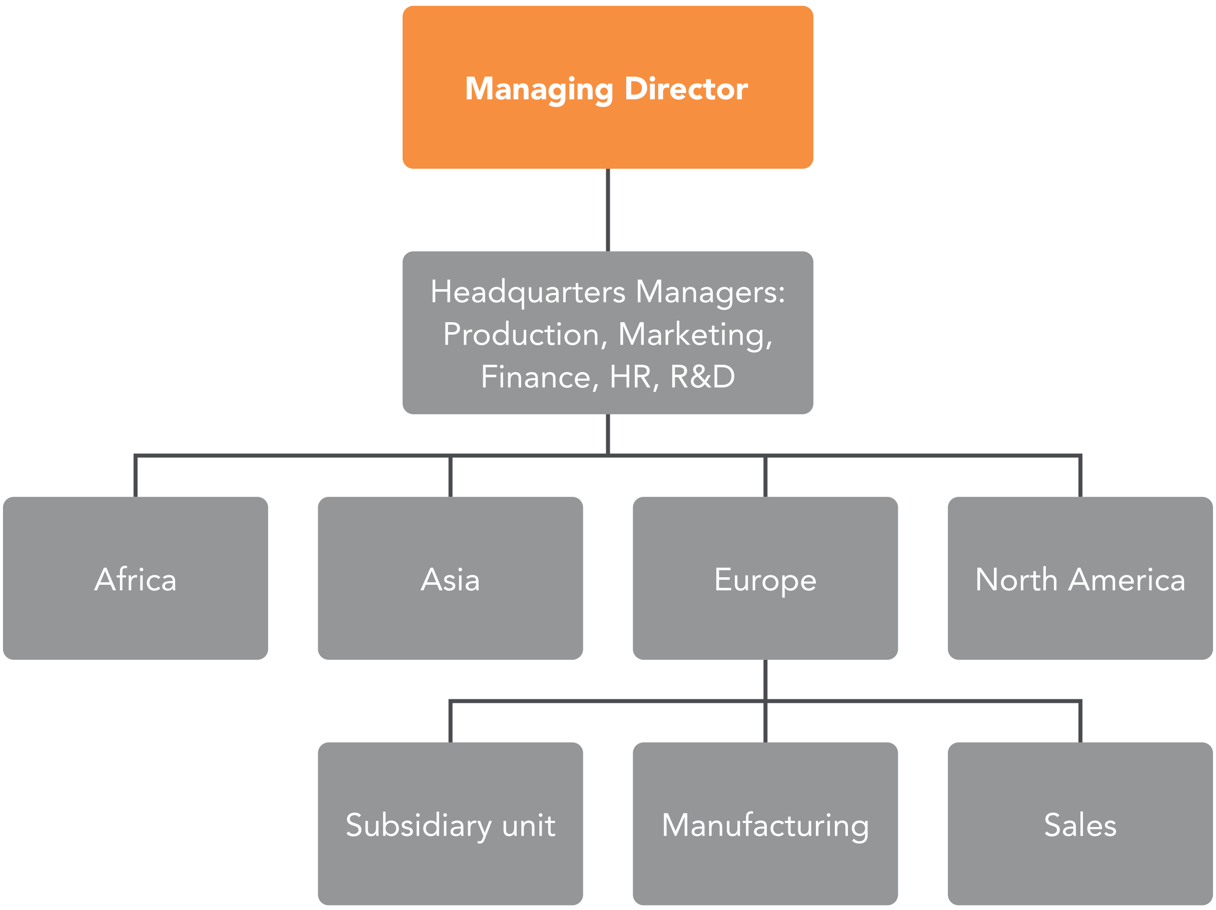


Fig: Geographical Organisation Structure

Drawbacks of Geographical Structure

1. More functional personnel are needed. The firm cannot appoint specialists.
2. Duplication of equipment & facilities
3. Co-ordination of companywide activities is a challenge
4. Difficulties in maintaining uniformity amidst diversity (how much diversity should be allowed among different units)
5. Difficult to maintain consistent company image or reputation in all areas.
6. Another layer of management needs to be added to run geographic units.
7. Inconsistent decision making from one region to another
8. Focus on regional goal than company goal
9. Unhealthy competition among different geographies for resources.

DECENTRALISED BUSINESS UNIT STRUCTURE

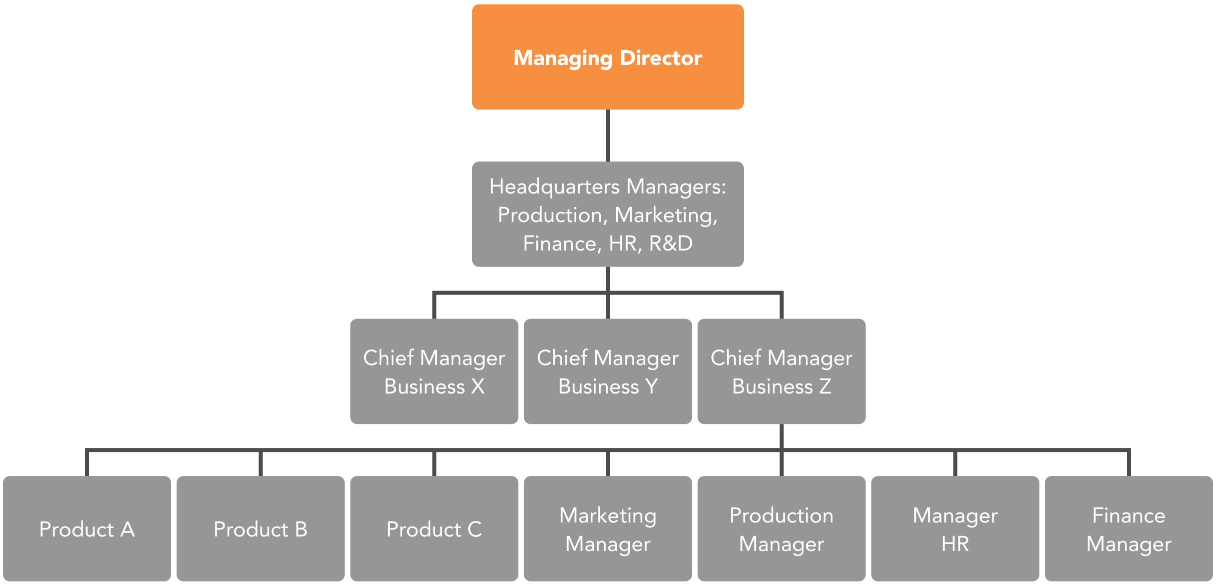


Fig: Decentralized structure

Diversified firm – basic organizational building blocks are its business units, each business operated as a standalone profit centre. The benefits are decentralized decision making and delegation of authority to a manager at each business unit. Each business unit has a chief manager who has delegated authority to formulate and execute business strategies. Each business unit structured on the basis of functional or geographic structure depending on strategy, key activities and operating requirements.

The drawbacks are: coordination of activities across business units is a challenge. There is lack of strategic coordination as general manager of each business unit functions independently. Without the greater involvement of corporate department, things can become complex.

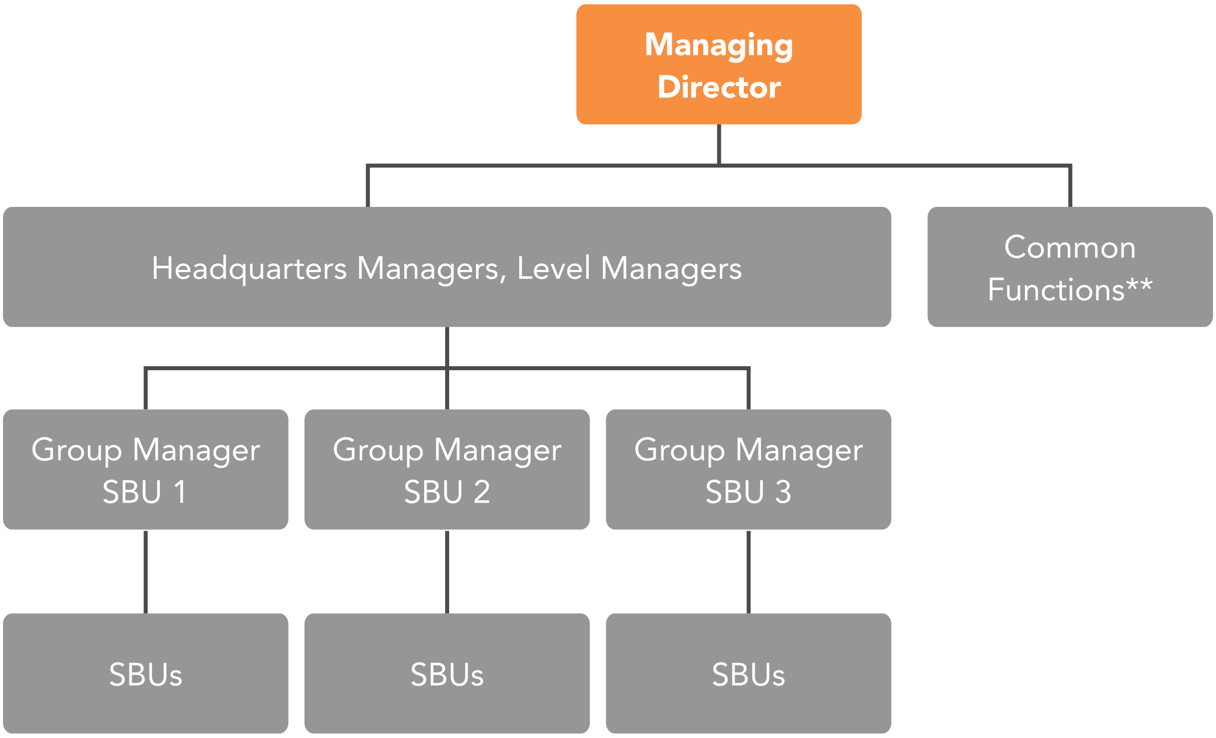
If there are too many diversified units, a large number of Chief Managers will be needed and all of them will report to MD.

STRATEGIC BUSINESS UNIT STRUCTURE

Group related businesses into strategic units and delegate authority and responsibility for its management to a senior executive. If there are a number of decentralized units, a single CEO cannot control everything. The senior executive will report to the CEO. This improves strategic planning and implementation. Top management co-ordinates interests of the diversified business units.

A SBU is a grouping of business subsidiaries based on some important strategic elements common to each. Common elements can be – same set of competitors, closely related strategic goal, a common need to compete globally, achieve integrated strategic planning, common success factors and common growth opportunities.

Benefits of SBU	Drawbacks of SBU
For a broadly diversified company, this is a strategic way to organize business	If grouping of SBUs is done more for ease of it with little consideration to strategic benefits, then grouping loses real significance
Better coordination , leverage strategic fit within each SBU	SBUs can be myopic in charting future direction, roles of top management needs greater clarity
Better cohesiveness among the SBUs	Unless SBU head is strong willed, little coordination can result between the different business units in the SBU
Strategic planning done at the most relevant level Top management review of strategies more effective	Skewed performance recognition – risk of success goes only to business unit heads and not to group manager
Allocation of resources to those areas where there are maximum growth opportunities	Risk of SBU goals differing from overall corporate objectives
Better co-ordination among businesses facing similar issues	



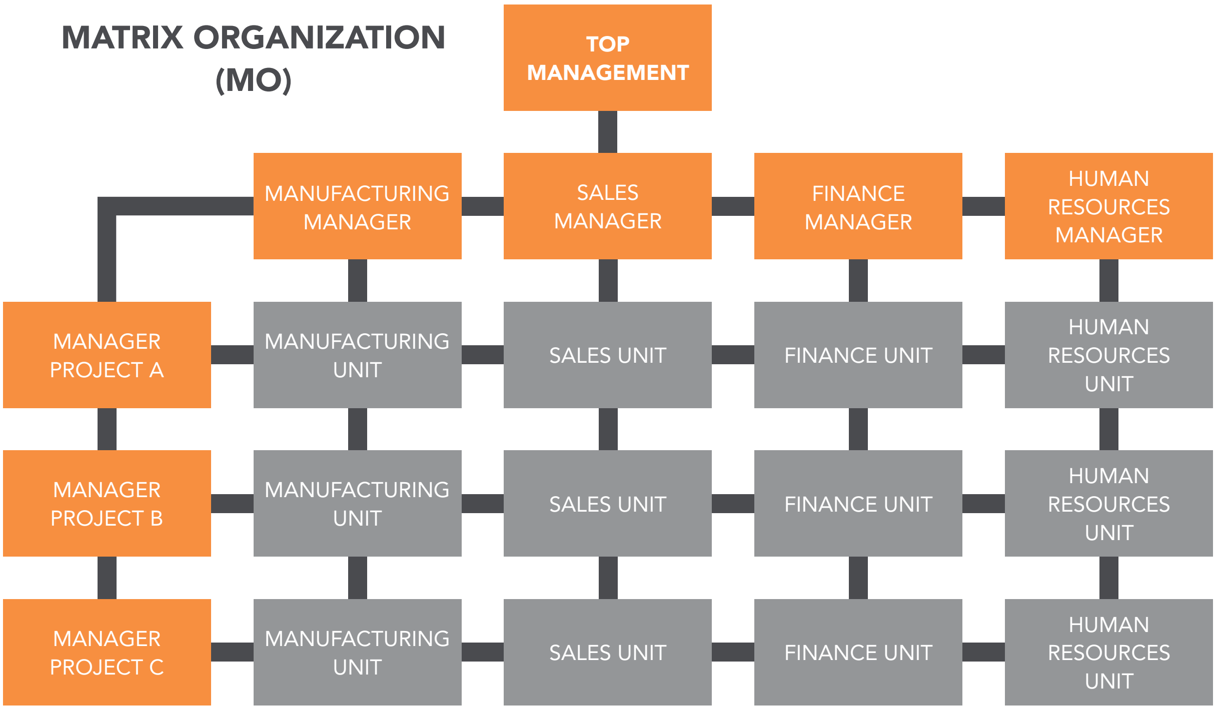
Common functions – Marketing, Finance, Production, HR, R&D

MATRIX ORGANISATION STRUCTURE

Dual chain of command - Both functional and project managers exercise authority over organizational activities, in matrix structure. Personnel have 2 superiors – a project manager and manager of the functional department at the headquarters level. A Matrix structure is needed when management wants to focus on one or 2 key issues, lots of information need to be processed, problem solving is complex (when business environment is uncertain, complex products or technology) economies of scale dictate that human resources are shared.

Matrix structure is used for those firms where technological change is rapid. Company can have benefits of functional and project type structure, functional personnel paid for when their services are used by project managers, flexible structure – personnel can be transferred from one project to another depending on the requirement. Lower level executives are involved in decision making. As each project manager is in charge of a unit, he can be developed as a general manager through performing general management functions.

The matrix structure incurs greater administrative costs, lot of time spent in meetings and sharing of information, conflict between functional and project managers. Functional employees stressed out. Reporting to two bosses creates role ambiguity and role conflict. Managers need to have greater interpersonal skills. More bureaucracy exists in this structure.



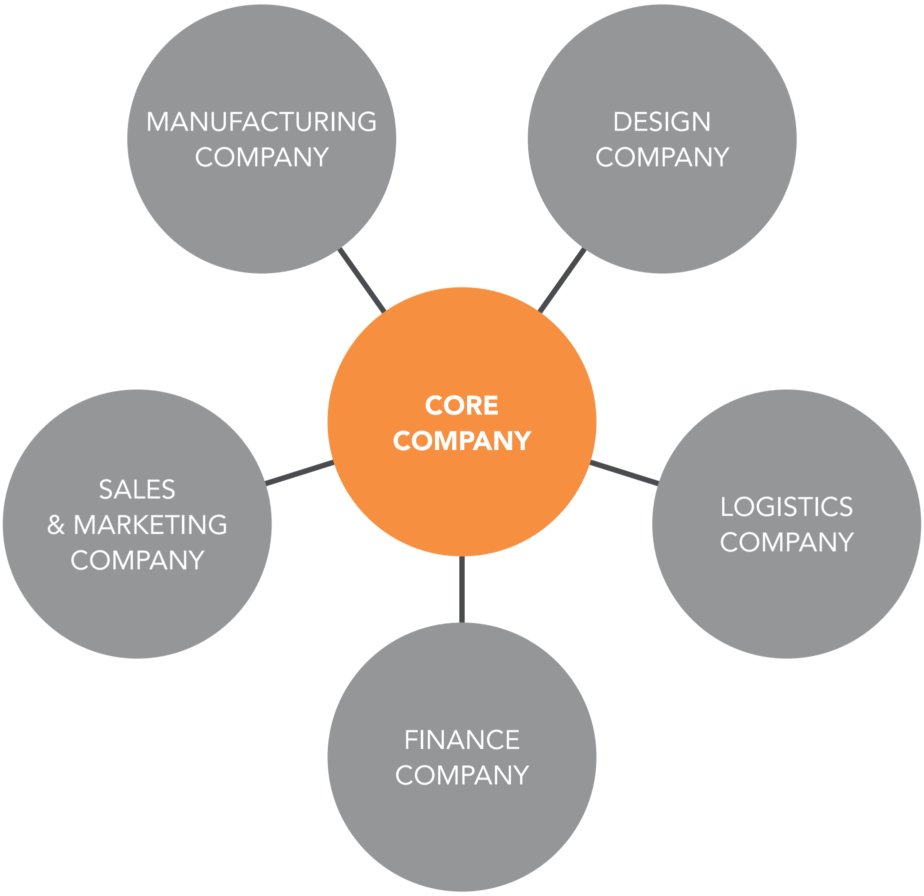
In team organisation structure, special structures added to the basic organisation structure like Project team, Task Force team and venture team. Project teams are self sufficient work groups for a specific purpose for completing certain activities like starting a new plant, producing a new product. A task force team has top level executives and specialists in different areas within the organization. This leads to collaborative approach for problem solving.

Venture team is a group of individuals formed to create a new business or a specific product. It may be a totally new venture for the organisation. Problem of sourcing the funding of the venture and freeing the venture from bureaucratic hassles. Venture is an activity distinct from the main business. Project is an activity within the framework of the main business.

VIRTUAL ORGANISATION STRUCTURE

It does not physically exist but its effect is felt. Cobblers in Kanpur, Kharagpur and in many cities of India manufacture shoes for BATA as per the specifications. Transport Corporation of India transports shoes from manufacturing to all retail outlets appointed by Bata. Comm Ads advertises for Bata. Different organizations perform different tasks for Bata. This type of arrangement through outsourcing is called as virtual organizational structure. Globalization and IT have helped this sort of arrangement.

Virtual Organization



Advantages of this structure are

- Less capital
- Less Human resources
- Less inputs
- Flexible operations
- Better response to demands

Disadvantages of this structure are

- Companies lack strength in operations, too much dependency on outsourcing, failure in network results in failure of the entire organization.,

6 STRUCTURAL DESIGN OF MULTINATIONAL ENTERPRISES (MNES)

LEARNING OUTCOME

- To learn and understand about the structural design of multinational corporations

INTRODUCTION

Organizational structure refers to the manner in which an organization arranges people and jobs so that its work can be performed and business goals can be met. Organizational structure provides for specialization and interfaces among specializations for collaborative synergism and competitive dynamism. For Multinational Enterprises (MNEs) deciding the organization structure is very important because it cannot be the same for all units and at the same time cannot be just one design for all. Whatever the design, it must be organic enough to adapt to situations. The structure must have stability to facilitate day to day activities to go on consistently and flexibility to facilitate taking advantage of opportunities that environment throws up.

Organizational structure is vital for success of a business in the market. Structure outlines the framework or lines of communication, authority, responsibility and accountability. The structure clarifies the firm's reporting relationships, processes, procedures, controls, decision processes and authority. Structure plays a crucial role in the implementation of business strategy.

An organizational structure is effective if it leads to synergy among the various cross-functional disciplines. It makes the organization more vibrant to deal with competitive challenges in the market. Multinational organisations cannot have the same structure for all the units and design needs to be flexible to meet the demands of the local market.

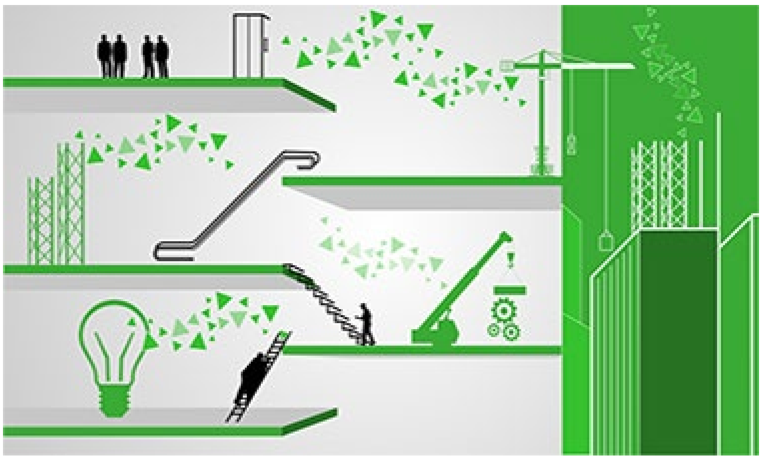
Multinational enterprises need to understand the degree of variety and uniformity needed in the structure. There are three aspects of organizational structure namely differentiation, formalization and centralization.

DIFFERENTIATION

There are three types of differentiation namely horizontal, vertical and spatial differentiation. Horizontal differentiation results due to differences in orientation, nature, tasks and skills of the organizational constituents. Vertical differentiation indicates the depth of the structure and the number of hierarchical levels. Spatial differentiation refers to the geographical spread of an organization.

A multi-national organization that operates in multiple locations has all three types of differentiation. As the firm operates in different locations spread across multiple geographies, spatial differentiation increases. Differentiation influences organizational style, culture and decision making. Complexity increases with greater differentiation because communication, co-ordination and control of organizational functions become more complex. This affects the flow of work and relationships.

Johnson & Johnson is an example of a multinational enterprise that has a differentiated structure and autonomous units across the world. The company gives operational freedom to all its subsidiaries. This promotes harmony between headquarters and subsidiaries and enhances the business performance.



FORMALIZATION

Formalization refers to the adherence to set rules and procedures. This is an attempt in reducing complexity and confusion that result from differentiation. Formalization affects organizational functioning in a positive manner. All organizational functions cannot be formalized. Too much of formalization increases compartmentalization in the organization and makes it difficult for the organization to innovate or adapt to competitive dynamics in the market.

Events in an organisation are diverse. Different practices and procedures are needed to deal with diversity. Alternative approaches to deal with diversity are strongly recommended.

CENTRALIZATION

Centralization refers to the degree to which decision making is concentrated at a few points. If the organization is centralized, higher is the concentration of decision making authority. Decisions are taken remotely without consulting subsidiaries. This can demotivate them.

Differentiation, formalization and centralization give shape, orderliness and uniformity to organizations. However these should not be stretched beyond a limit because then it will lead to organisations losing their synergy. Managers have to tighten the structure if it is loose and they should loosen the structure if they find it too rigid.

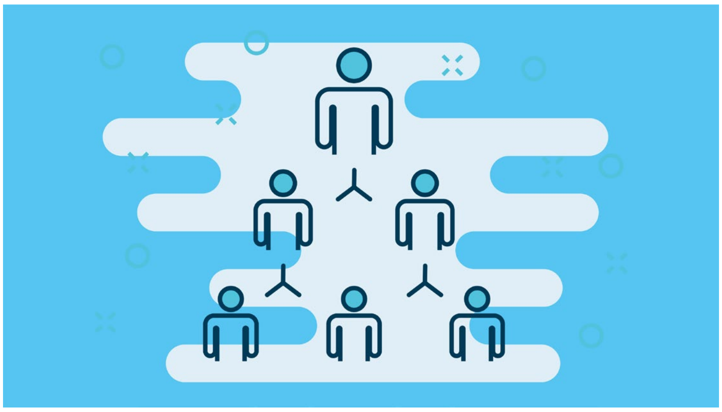
In 1999, P&G restructured its operations and set up 5 global business product units. This was part of their attempts to build global brand equity. The company realised the need to build flexibility within their subsidiaries and this led to the "Think Global, Act Local" strategy.

SPIN-OFF ORGANIZATIONS

A spin-off is a new entity formed by a split from a larger one. In a pure spin-off, a parent company distributes 100% of its ownership interests in a subsidiary operation as a dividend to its existing shareholders. A partial spin-off is one where the parent company sells to the public an interest of less than 20% in the new subsidiary in an initial public offering for cash proceeds.

Examples of organisations that have established spin-offs

- Johnson & Johnson
- Toyota Motors
- Raychem
- Thermo Electron



In the United Kingdom, spin off companies have strategic tie-ups with educational institutions.

A subsidiary may prove its worth by developing and manufacturing a product line better than headquarters. This subsidiary is called as 'Lead Subsidiary' and is considered valuable for a business. These subsidiaries will start playing a dominant role in the parent's global network. A leading subsidiary can play an important role in global and regional responsibilities for R&D, manufacturing, product management and key marketing functions. If the role of subsidiary is exceptional, the company may choose to shift the headquarters to that location so that they can benefit from cutting edge innovations.

7 CONTROL IN MULTINATIONAL ENTERPRISES (MNES)

LEARNING OUTCOMES

- To examine how multinational enterprises exercise management control
- To understand the differences between tactical and transactional controls

INTRODUCTION

Management control in multinational enterprises (MNEs) is assuming importance now. Due to the advent of digital technologies, there is a need for MNEs to become more transparent. MNEs are careful not to allow any governance issues in host countries to harm their global business reputation. When managers from parent country are involved in control, it is called as higher level control (strategic control). If subsidiary / country level managers are involved, this is termed as lower level control (operational control).

Another way of classifying control is categorising them as

1. Management control
2. Tactical control
3. Transactional control

Management control falls under the purview of management control. Tactical control is a joint effort by corporate and subsidiary unit. Transactional control is the responsibility of the subsidiary. The structure of MNE (ethnocentric, geocentric, polycentric or region centric) also determines the locus of control.

Strategic control system offers the following benefits

1. It is forward looking and provides inputs to corporate planning
2. Managers have access to quantitative and qualitative information
3. It enables a business to deal with an uncertain and dynamic business environment
4. It facilitates change management

In contrast, operational control refers to internal response needed to ensure achievement of targets. Performance measurement tactics and operational control measures are used by managers to achieve targets set by business. We need to remember that all control measures are intended to achieve the business objectives.

Management control helps a business meet its goals and ensures alignment of its strategy with its actions. Strategic control helps an organization to deal with the vagaries in the business ecosystem and advances in technology. Cost control and innovation efficiency are important for a MNE however marketing muscle is needed to grow sales.

Corporate managers must understand strategies of competitors. They must explore ways to gain primary mover advantage. They must examine options for organic and inorganic growth. Corporate managers are also responsible for NPD (new product development) approvals and resource allocation. Information flow between subsidiary and corporate managers has to be seamless. The subsidiary managers must assess the local market conditions and take actions that are aligned with the overall business strategy.

Tactical controls are intended to achieve short term results within the existing policy framework and budgetary allocations. Changes in production or procurement that are necessitated by business exigencies demand an adequate level of tactical controls. Agility is vital and at the same time, managers have to be flexible enough to protect business interests. Though tactical controls are generally the result of joint efforts of corporate and subsidiary managers, the role of the latter in tactical controls is more pronounced.

Transactional controls are more concerned with managing day to day operations. They are focused on individual tasks and processes. Operational control maps transactional controls to the overall control goals. Controls like managing inventory or planning actions against customers who have not paid their outstanding or reviewing procurement processes are essentially the responsibilities of the subsidiary managers.

8 STRATEGIES OF MULTINATIONAL CORPORATIONS

LEARNING OUTCOMES

- To describe how multinational corporations formulate and implement their strategies
- To examine some of the successful strategies deployed by MNCs

INTRODUCTION

In a MNC, the headquarters and subsidiaries will share information and resources. Decisions made by MNC headquarters will flow to subsidiaries. If subsidiaries are more, then MNCs have to make a permanent structural relationship between headquarters and subsidiaries. MNC supplies resources and inputs to subsidiaries and also receives inputs from latter. Headquarters coordinates activities across the functions. They control the operations of subsidiaries based on customer needs, competition, government policies, country regulations, terms of agreement with banks and suppliers.

The headquarters will formulate the global strategies and help subsidiaries to formulate the strategies for their countries. It directs, guides subsidiaries in implementing, evaluating and controlling strategies.

BASIC STEPS IN STRATEGIC MANAGEMENT

- Formulation of mission, objectives and goals.
- Internal & External environment scanning
- SWOT analysis
- Formulate alternative strategies
- Evaluate the strategies
- Select the right strategy
- Implement strategy
- Evaluate strategy
- Control

Most MNCs have broadened their mission. Shell Oil and AMOCO view their business as energy business rather than oil business. Coca cola and Pepsi view their business as food & beverages instead of soft drinks.

Some MNCs have reformulated their strategies in response to changes in external business environment. Based on SWOT analysis, Unilever reverted to its core strategy. Other SBUs like transport, oil milling, wall paper, turkey breeding was sold out. HLL limited its business to core activities like consumer goods and chemicals. Tata Oil Mills Company (TOMCO) was sold out to Levers as Tatas wanted to exit out of soap making. Based on SWOT analysis, MNCs formulate and reformulate strategies.

Deutsche bank created a network of 250 branches while McDonalds opened fast food restaurants. Stat oil, a Norwegian oil and gas company formulated a research strategy and prevented a big trouble. MNCs evaluate and control strategies. GM overtook Ford in Europe through systematic strategic evaluation and control – by revamping its models and production line. Honda, after the breaking of its alliance from the Indian company Hero cycles changed its business model and re-formulated its strategies.

So, scanning the environment, understanding business risks, doing a SWOT analysis – all these are steps in formulating a strategy in line with the overall mission and goals of the enterprise. This is an area where top management and board of directors are closely involved.

Implications of strategy on business are evaluated as part of risk management – in terms of resource optimization, Government [policies] and taxation. Once a strategy is in place, the next step is implementation for which the firm chalks out an action plan with defined responsibilities and accountabilities. Failures are analyzed and learnings from failures are fed back into the strategy formulation process.

Success stories are shared with other business units. It is important that the strategy is in alignment with the long term growth prospects and is devoid of issues like conflict of interest or ethical issues. All said and done, the underlying intent behind strategy formulation, implementation and evaluation is to positively impact the business top line and bottom line.

A clear cut strategy helps in predicting uncertain business environment and helps in understanding what the competition is doing or not doing.

A business that is future ready should gear its resources to use technology in strategy formulation and implementation. Data analytics, mathematical and statistical models are deployed gainfully to work towards a sustainable future for business. The MNCs thus leverage technology to the optimum. Walmart and Nestle used the Green Supply Chain Management strategy to reduce waste and generate savings.

The important thing to be noted is that MNCs review the strategies at regular intervals and tweak the strategy as per demand of the situation.

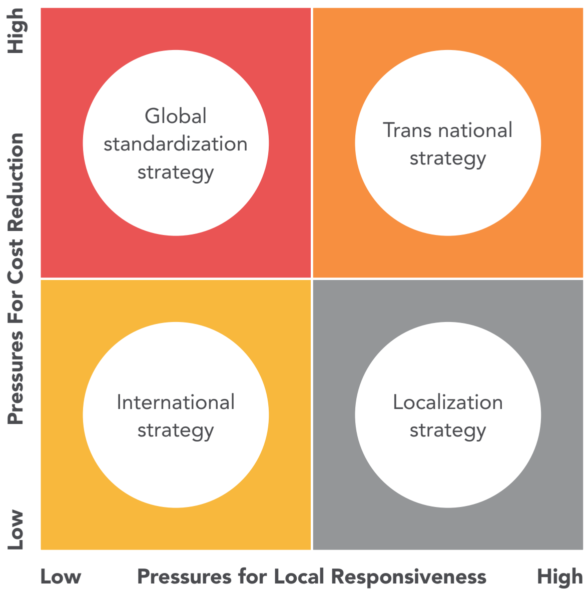
CHOOSING A STRATEGY

If a firm has to be locally responsive, it may not be possible for it to realize the full benefits from economies of scale (reduction in unit cost achieved by producing a large volume of product), learning effects (cost savings that come from learning by doing) and location economies (choosing the best location for setting up a manufacturing unit).

You can't serve the global market place from one single low cost location and produce a product that is globally standardized. Need to customize the product as per local requirements will work against the implementation of such a strategy – Japanese, American and European consumers demand different kinds of cars. Firms like Honda, Toyota and Ford are pursuing a strategy of top to bottom design and production facilities in each of these regions so that they can serve local demands better.

Even McDonalds had to customize its offerings to account for national differences in tastes and preferences. Trade off needed between cost savings and local customization.

Firms use four basic strategies:



Firms that pursue global standardization strategy focus on increasing profits by achieving cost reductions from economies of scale, learning effects and location economies.

Location economies are economies that arise from performing a value creation activity in the optimal location for that activity, wherever in the world that might be. Two benefits result from this strategy – low cost and differentiation from competitor's offerings.

Production, marketing & R&D activities are concentrated in a few favorable locations. Customization involves shorter production runs and duplication of functions, so this raises the costs.

Localization strategy increases the profitability by customization. This is a good strategy when there are substantial differences across nations with regards to consumer tastes and preferences and where cost pressures are less intense.

Transnational strategy – firms try to achieve low costs through location economies, economies of scale and learning effects; differentiate their product offering across geographic markets to account for local differences. This strategy places conflicting demands on the company. Ford and ABB found it difficult to implement a transnational strategy.

Caterpillar is one company that used a transnational strategy successfully. Caterpillar had to compete with low cost competitors like Komatsu. But different government regulations and variation in production practices meant that caterpillar had to be responsive to local demands. To deal with cost pressures, Caterpillar re designed its products to use many identical components and invested in a few large scale component manufacturing facilities at favorable locations to fill global demand and realize economies of scale. Company augmented centralized manufacturing of components with assembly plants in each of its major global markets. In these plants, caterpillar added local product features, tailoring the finishing product to suit local needs.

International strategy: Products first produced for domestic market and sell them internationally with minimal local customization. These firms are selling a product that serves universal needs, but they do not face significant competitors and thus unlike firms that pursue a global standardization strategy, they are not confronted with pressures to reduce their cost structure.

xerox

Example: Xerox - the technology of photo copier was protected by strong patents, so Xerox had a monopoly for several years and charged a high price for the product, it sold the same basic product world over. As Xerox did not have direct competitors, there were no pressures to minimize its cost structure.

Strategy	Advantages	Disadvantages
Global	Exploit experience curve effects, location economies	Lack of local responsiveness
International	Transfer distinctive competencies to foreign markets	Lack of local responsiveness, no location economies, failure to exploit experience curve
Multi domestic	Customize product offerings and marketing as per local responsiveness	No location economies; No exploitation of experience curve effects; failure to transfer distinctive competencies to foreign markets
Transnational Corporation	Exploit experience curve and location economies. Customize with local responsiveness. Global learning benefits.	Difficult to implement due to organizational problems

The strategy of multinational corporations is to generate a larger portion of sales from rapidly developing economies. These economies offer the benefits of lower costs and higher skill availability. For example – the number of Indian engineering graduates has been increasing. Growth of RDEs, continuing cost and capital advantages, development of talent and capabilities in RDEs has made more and more manufacturing companies move their production to RDEs. This has also affected the suppliers. Bharat Forge and Tatas are Indian companies that are going global.

9 MULTINATIONAL CORPORATIONS IN INDIA

LEARNING OUTCOMES

- To understand the role played by multinational corporations in India's economic development
- To examine the challenges faced by multinationals while doing business in India

ROLE OF MNCs IN INDIA

Though multinational corporations have entered India mainly to maximize their profits, they have also contributed to economic growth. MNCs have been created employment opportunities in India. They have increased India's exports and earned foreign exchange for the nation. They have also contributed to infrastructure development. They have been sources of tax revenues for the government. Due to reverse innovation gaining popularity,

ARGUMENTS FOR PROTECTION OF DOMESTIC FIRMS

Multinational organizations operating in India were criticized due to the following reasons:

- Dumping of goods
- Use of outdated technology
- Use of hire and fire policy to lay off people from their jobs
- Lack of interest in developing infrastructure – MNCs were more interested in investing in five star hotels and setting up manufacturing facilities to sell FMCG (fast moving consumer goods).

MNCs use aggressive marketing and advertisements to brain wash customers – sometimes using claims that are grossly exaggerated; MNCs in India have tried to use religious sentiments to their advantage. MNCs like Vodafone and Shell have entered into a tax dispute with India. MNCs do not bring latest technology to developing countries.

Look at the Honda example where they expected huge royalty payments from the local partner Hero – this despite the fact that Government feels that it is safer to ask MNCs to invest in India through joint ventures or technical collaboration with the Indian companies. MNCs are keener to increase their profits.

MNCs in India are concentrating only on the upper middle class and they leave the poor population's needs to be met by the local business. A more profitable business is grabbed by MNCs. They maintain a low profile when it comes to social responsibility.

MNCs exploit the Indian natural resources indiscriminately, export the products from India to other countries and transfer the proceeds of sales to their home countries. MNCs price the products exclusively based on supply and demand for products. E.g. Coke was involved in exploiting natural resources in India to produce coke – in Kerala, in a place called Plachimada and in the drought stricken state of Rajasthan. MNCs have also contributed in no less measure to the degradation of Indian culture. Indians can never forget the devastation caused by the gas leak in the Union Carbide plant in Bhopal.

These issues clearly point to the need for protecting domestic firms and encouraging entrepreneurship in India. Domestic firms should be encouraged so that they re invest the proceeds in India and also earn foreign exchange for India by exports. In fact, those domestic firms that manufacture raw materials that can act as import substitutes should be encouraged by Government.

The long accepted law of globalization – One World, one strategy does not hold good. Squeezing profits out of new markets like India with old products, sunset technologies and global corporate centres will not work. C K Prahlad, management guru said, "The needs of global competitiveness have ensured that the old ways of doing business will not suffice".

Ford Ikon designed only for India. LG is using "Sampoorna" brand for TV sets. Nokia Asha is another example of a mobile phone for the poor people. Some MNCs are selling Ayurvedic products – notably HUL and Colgate Palmolive. Electrolux is working on a refrigerator exclusively for Indian customers. Coca cola has redesigned its distribution crates and trucks for safe delivery through India's rough roads. This can be called as Indianisation of transnationals.

Examples of companies that became Indianised trans-nationals are:

Hyundai: Small car, local manufacture, used Shahrukh Khan for endorsements and developed a new business model: In global markets, Hyundai enters markets at premium end, stays only with imports, and emphasizes Korean engineering.

Reebok: new positioning for India, develop exclusive products for India, operate via multi brand stores. Global strategy – build brand around sports, sell same products globally, focus on select market segments, and maintain control over distribution

PEPSI – Indianised positioning and advertisements; had a free hand on investments. Indra Nooyi , an Indian born CEO, agreed to speed up entry, diversified into other food products, operated through local managers.

But Pepsi's global strategy is to maintain uniform brand image, control country budgets strictly, depute managers from head office and enter markets on own terms.

BATA'S MULTI DOMESTIC STRATEGY

Bata shoes commenced operations in Czechoslovakia in 1800s. The company has operations in 100 countries. The headquarters is located in Toronto, Canada. Bata is considered as a local company wherever it operates. The company lays a lot of stress on local culture, local markets. The company says that their first allegiance is to the communities and countries in which they do business.

Agencies that control MNCs in India are: Department of Company Affairs, RBI, Ministry of Finance and Ministry of Industrial Development. As they do not work in co-ordination, control of MNEs not efficient.

Government measures to regulate MNCs

1. Some industries are not allowed import of technology where it is not required.
2. Industries that imported technology – the government had a control on the royalty rate imposed (More recently, one of the reasons for the HERO-HONDA divorce was the high royalty levied on Hero by Japanese company Honda).
3. Restrictions on exports

Developing countries should note that the size of a country's domestic market may not be a limiting factor in the establishment of successful MNCs abroad. Small countries like Switzerland and Finland have spawned MNCs like Nestle, ABB and Wartsila. The growth of businesses need not follow a linear path. Companies can take the international route and scale up their business.

Off shoring is shifting an activity abroad. R&D can be outsourced but there is a risk of losing protection offered by intellectual property rights. Back office processes, technical support functions like data entry, data processing, secretarial services, telemarketing, legal transcription and business process outsourcing are services that are generally subject to off shoring.

Data processing, database services, software implementation, financial services, animation services and health services are also subject to off shoring. Medical transcription, diagnostics, testing and medical advisory services can be outsourced outside domestic country. An Indian radiologist in Chennai can interpret the X- ray report of a patient who is based in US. Due to the popularity of Ayurveda and Yoga across the world, the prospects of medical tourism are bright in India. Even engineering services like engineering design and architectural services are being off shored. Countries like India and China can be players where engineering services can be off shored.

North-North activity

In international business, North means developed nations. South means all other nations.

EXAMPLES OF OVERSEAS ACQUISITIONS

1. Tata Motors – assembly operations in Malaysia, Russia, Ukraine, South Africa, Kenya and Bangladesh. It sells Tata Indica in UK through a marketing alliance with Rover.
2. Tata Motors acquired Daewoo Commercial Vehicles in Korea.
3. Reliance purchased German polyester manufacturer Trevira for US $ 95 million in June 2004. Trevira has a capacity of 130000 tonnes per annum of polyester fibre and yarn spread across units in Germany, Denmark and Belgium. With this acquisition, Reliance has become the world's largest producer of polyester in terms of its capacity.
4. Infosys has 26 global software development centers in US, Canada, UK, Australia and Japan
5. 80% of the turnover of Tata Consultancy Services is from overseas.
6. Ranbaxy sold in more than 100 countries and had manufacturing operations in seven countries.
7. Dr Reddy's labs have operations in several countries.
8. Asian Paints, an Indian manufacturer has manufacturing facilities spread over 24 countries.
9. 30% of the turnover of Aditya Birla Group is from overseas business.
10. Essel Propack is the world's largest maker of tubes used to pack tooth paste. The firm has 17 plants in 11 countries including China.
11. Sundaram Fasteners acquired a plant in Chennai.
12. Indian companies are getting listed in the New York stock exchange and also on NASDAQ.
13. India is exporting cars, two-wheelers and auto components.

In 2004, a business magazine in India called as "Business World" developed the Global 100 rankings. It measured the Indian firms on two metrics:

1. Globalness i.e. Share of total revenues coming from international markets.
2. Global competitiveness which takes into account the revenues, profitability to support global expansion and the pace at which the company is growing.

Only a handful of Indian companies have both Globalness and global competitiveness. Many Indian companies scored high on global competitiveness but low on Globalness. This is because though they had financial capabilities, these companies had not ventured abroad.

APPLE USES INDIA AS A PRODUCTION HUB

Apple has started to export iPhones to some European markets from India. This move by Apple strengthens the Indian Government's Make in India plan. Apple has made India an export hub.

Wistron Corporation is the contract manufacturer to whom Apple has outsourced the manufacture of iPhones. Wistron started assembling iPhones in India way back in 2016.

iPhones are being exported in quantities of under 1 lakh units a month. Of the total manufacturing capacity at the Bangalore unit, the export volume stands at 80%.

This strategy by Apple Inc has cemented India's position as an attractive destination for foreign investment not only for fulfilling the needs of the domestic market but to also use India as a hub for exports. China is the largest base for contract manufacturing of iPhones. The ongoing US-China trade war is making multinational corporations like Apple more vigilant. Their strategy is to gradually shift the production out of China to countries like India. Apple is treating India as a production hub as it is in talks with Foxconn, a Taiwanese contract manufacturer to produce an output of 2.5 lakh phones per month. About 70-80% of this output is likely to be exported.

(The Economic Times, 11th July 2019)

As on 29th August 2019, the Indian government has liberalized norms for single-brand retail and this means that Apple can start selling its phones online directly to its consumers. Further, the government has also allowed 100% FDI in contract manufacturing, so this is expected to provide an additional impetus to Apple's expansion strategy in India.

CASELET: HOW PILSBURY CAPTURED THE INDIAN MARKET

The case describes Pillsbury's efforts to market wheat flour in India. Several obstacles had to be overcome. The case describes several adaptations made by Pillsbury to make their flour attractive to Indian consumers.

India is a huge potential market for wheat flour. India consumes 69 million tons of wheat a year, compared to 26 million tons in US. As the profit margin on Pillsbury's flour was thin, Pillsbury decided to sell huge amounts of flour and use the flour as an entry into Indian households for other Pillsbury products. The Pillsbury doughboy speaks six regional languages. Unilever is competing with Pillsbury in the Indian market.

Pillsbury used its Diageo unit to enter India. The unit initially considered selling high-value products in India, but due to low disposable income levels abandoned that approach. Instead, they decided to go with a high volume product. All P's of the marketing mix play a role in India. The product is tailored to Indian preferences, prices are set low because of the low income of most Indians, promotion is tailored to the Indian situation (e.g., the doughboy's new image) and distribution channels are being developed to fit the shopping habits of Indian housewives.

Pillsbury is a renowned brand that has developed innovative products and packages for food. It is able to offer pre-packaged flour with guarantee of freshness. Pillsbury found Indian market attractive due to its large size and due to the popularity of Indian wheat flour as a staple food item. The company was able to internalize imperfections in the market for exporting flour (e.g., transportation time, barriers to importing and exporting agricultural products).

ARGUMENTS FOR PROTECTION OF DOMESTIC FIRMS

POLITICAL

1. National Security – The Industrial Policy 1991 of Government of India lists industries under defence exclusively reserved for government sector.
2. Retaliation – Governments using threat to intervene in trade policy as a bargaining tool to help open foreign markets and force trading partners to provide free access. No sense for one nation to allow free trade if other nations actively protect their industries.
3. Protect local/ domestic jobs. Many firms in the US are legislating bans on such BPOs. Japan's quotas on rice imports. European Union has established common agricultural policy.
4. Protect human rights – do not trade with country like China that has poor human rights record. Human rights violation is at its peak in Myanmar.

ECONOMIC

1. Protecting infant industries. A country's emerging industries need protection from foreign competition during the early phases of development until they become globally competitive.
2. Government of India protects small scale industries through subsidies and incentives. Till the new industry grows and matures, the industry needs support and should be insulated from foreign competition.
3. Strategic trade policy – Countries dominate in the export of certain products simply because of first mover advantage enjoyed by some of their domestic industries. Given suitable protection, such companies can capture foreign markets, earn good profits and plough the money back to the country of origin.

10 MAKE-OR-BUY DECISIONS IN INTERNATIONAL BUSINESS

LEARNING OUTCOME

- To examine the factors a MNC must consider while addressing the make or buy decision

International businesses invariably face decisions about whether they make all or just some of the components used in their final product and therefore buy in from other sources (*outsourcing*) those components they decide not to make. This **make-or-buy decision** is related to the degree to which a firm is vertically integrated: that is, the extent to which a firm is its own supplier and market. At one extreme a firm can make all of its own inputs and be its own supplier; at the other extreme, it can buy all its inputs and rely on external suppliers. Partial integration implies that some components are made and others bought.

A major benefit of making inputs (backward or upstream integration) is the degree of control maintained over cost, quality and timeliness of delivery. Major drawbacks are the cost of investment and expertise needed to provide these inputs. A benefit of buying is the ability to choose one or more suppliers. A corresponding drawback is the reliance on suppliers.

The trade-offs associated with **make-or-buy decisions** are summarized in following table:

	Make	Buy
Advantages	• control over costs • control over quality • control over delivery • not competing for supply • develop new expertise	• choice among suppliers • avoid their business risks • no additional investment • no need to learn about a new business
Drawbacks	• increased investment • need for expertise • need for management • may be inefficient • overspecialization	• reliance on outsiders • need to compete for supplies • supplier may go out of business

Make-or-buy decisions in an international firm may be complicated because they are made relative both to the whole company and to each of its subsidiaries. Three make-or-buy options exist:

1. A subsidiary is fully integrated and makes its own parts
2. A subsidiary is vertically integrated with other parts of the company and buys inputs from other subsidiaries or from the parent company.
3. There is no vertical integration and inputs are obtained from outside suppliers.

The 'real world' is seldom so simple and a wide variety of combinations is possible. However, there is another way to obtain some of the benefits of vertical integration without incurring some of the costs through strategic alliances. The principal cost may be giving away technological know-how.

Strategic alliances in the make-or-buy context may come in two sizes. The larger is between two or more companies of similar size. Alliances between Kodak and Canon to manufacture copiers to be sold by Kodak; between Motorola and Toshiba to cross-licence their respective technologies; and between General Motors and Toyota to build the Chevrolet Nova as a joint venture can be considered under this context.

The smaller size of strategic alliance is between a large company such as Toyota and a number of small-parts suppliers, some of whom supply only Toyota while others supply most of their output to Toyota. This is the more likely scenario in make-or-buy situation, where Toyota does not have production facilities for all of the thousands of parts needed to construct a motor vehicle.

11 DECISION MAKING IN MULTINATIONAL CORPORATIONS

LEARNING OUTCOME

- To understand decision making processes in multinational corporations

INTRODUCTION

A multinational corporation (MNC) is a firm that owns productive assets in different nations and/or produces goods and/or services in different nations and has common elements of strategy/policy formulation and implementation across its business interests in different nations.

MNCs need to have a long term perspective if they wish to have a considerable stake in different countries. The definition of a MNC is linked to direct investment and significant business stakes in foreign nations. MNC has to operate internationally but act locally. There has to be a balance in the interests of a MNC in a foreign country and interests of MNC in the home country.

It is true that a microcosm of international business can be seen in national operations. In USA, the laws in California are different from those in Texas. Laws in Maharashtra (in India) are different from those in Punjab.

THE RISKS OF MNC

A MNC has to deal with two or more 'sovereign' nations. A domestic company can approach central government or federal government to resolve issues with the state government. But for a MNC, there is none to fall back on. GATT and WTO exist as international mechanisms but these are voluntary actions.

The degree of business risk is higher in case of MNC. The degree of helplessness is high for a MNC. When IBM was asked to wind up its operations in India, there was no opportunity for the company to appeal to any authority. IBM had to just comply.

MNCs can be discriminated by the Government. For example – the MNC may have the financial capability but the Government may put a cap on investment by foreign companies. Therefore, the MNC cannot freely exploit the economies of scale in the host country or gain control over its own business investment.

It takes longer time for a MNC to establish trust and credibility in the host country. The variations in business environments can be severe for the MNCs. MNC in multiple countries encounters much more multiplicity of regulatory/ law making authorities than a domestic firm. The operation of a MNC can therefore become more complex.

The geographical, inter cultural, economic, social, political and administrative distances may be far greater for a MNC with operations in several countries than for the domestic company. If a MNC operates in many countries, it needs a greater level of co-ordination.

International business is characterized by a higher degree of unpredictability and lack of control over events affecting the business. Businesses would crisscross the world that still comprises of nations as distinct political and governance regions. It would be essential for businesses of the future to study the international business environment with all its opportunities and threats. The threat of losing a great business opportunity can be severe.

WHAT CAN MNEs OFFER?

- Investment – Links to local companies; increased productivity; increased efficiency; capital formation
- HR – Training, employment and managerial skills
- Technology – R&D, Industrial upgrading, New capital equipment
- Trade – Export expansion, lower cost options
- Environment – Access to clean technologies, pollution abatement skills, companywide standards

GE's ecomagination initiative has generated pressure from various constituencies, including clients and shareholders concerned about profitability; various governments concerned with drafting regulations; employees concerned about changes in the company's strategies and goals and environmental lobbyists, NGOs and fellow businesses concerned with preserving the environment. Each of these groups has a powerful influence on how GE does business and on how successful it is in the market place.

Ecomagination was a groundbreaking strategy by GE to build more efficient machines that produce cleaner energy, reduce greenhouse gas emissions, clean water and cut its use, and make money while doing it.

Companies must satisfy shareholders, employees, customers and society. The effects of a multinational enterprise's activities may be simultaneously positive for one national objective and negative for another. FDI may result in a win-win, win-lose or lose-lose situation for both countries involved.

If customers receive higher quality products at a lower price, total sales may rise, leading to a possible rise in profits and therefore gains to shareholders. One observer says that MNCs are like animals in a zoo. Multinationals and their affiliates come in various shapes and sizes, perform distinctive functions, behave differently and make their individual impacts on the environment.

FDI can be positive for the shareholder wealth of MNEs, especially in emerging economies undergoing market liberalization and structural reform. Returns to MNEs were the highest when investments were made in countries with the best records on market liberalization and structural reform. Potential gains to host countries go up as local environments become more attractive for FDI.

Glaxo Smithkline (GSK), largest research based pharmaceutical companies in the world. There are two lines of business:

1. Pharmaceuticals (Prescription drugs and vaccines)
2. Consumer health care products

The UK based company operates in 117 countries, sells in 140 countries with 15000 employees working in R&D. To continue developing new products, GSK spends 14.5% of its revenues on R&D and is involved in the R&D, manufacturing, sales ends of the patented pharmaceuticals industry.

To fund its large R&D budget and because of the so many of the drugs it tries to develop never make it to the market and because other drugs take so long to get to market, the companies sell their successful drugs at a high price as long as they are covered by a patent.

After the product expires, the drug becomes generic and is therefore sold at a much lower price. Generic manufacturers specialize in selling drugs that are no longer patent protected. As generic drug manufacturers do not have to engage in R&D and are only selling proven products their costs are much lower and they are able to sell the drugs at a lower price.

Only 3% of GSK's revenues come from Middle East & Africa, where GSK offers preferential prices for vaccines. This practice is called as tiered pricing in which consumers in industrial countries pay higher prices and those in developing countries, especially consumers with low-income pay lower subsidized prices.

Tiered pricing for pharmaceuticals means that companies charge a market price for products sold in industrial countries and a discounted price for products sold in developing countries. Generic drugs are produced in China, Brazil and India. The generics are legitimate if the countries in which they are produced extend patent protection to patent holders.

AIDS is a health problem in Brazil. The government distributes AIDS drugs to anyone who needs them. In 2007, Merck offered to provide an AIDS drug at a 30% discount. The Brazilian government refused the offer and instead made it lawful for Brazilian firms to manufacture or buy generic versions of the drug while paying Merck only nominal royalty fees. Brazil has also adopted reverse engineering for certain drugs so that they can be produced at lower prices. Often, generics are pirated versions of the real thing.

TRIPS

Trade Related Intellectual Property Rights

Intellectual property rights are intangible property rights resulting from intellectual effort. An intellectual property right registered in one country doesn't necessarily confer protection in another.

India is a major manufacturer of generic drugs and is now moving to research and development of new drugs. Countries with health crises, such as African countries, with people suffering from AIDS, are allowed by TRIPS to manufacture or import generic drugs.

The WTO-agreement on TRIPS (Trade Related Aspects of Intellectual Property Rights) allows poor countries to counter the high cost of patented drugs by

1. Producing generic products for local consumption
2. Importing generics from other countries if they themselves do not have the capacity to produce generics.

The developing nation is compelled to license patented drugs from legal patent holders so the patent holders generate revenue on drugs they developed as opposed to buying the drug from pirated sources. Brazil and Thailand have permitted local companies to make unlicensed generics and take advantage of the TRIPS clause that allows them to avoid paying the royalties, even though some companies and countries dispute the decision.

Pharmaceutical companies worry that the generic products in developing countries will find their way back to the developed countries. They also worry about fakes. Preferential pricing is charging high prices in developed countries.

India has a new patent protection law since 2005. This has brought India in line with WTO guidelines. Many Indian R&D facilities have been set up since then.

LOCUS OF DECISION MAKING IN MULTI NATIONAL CORPORATIONS

1. The quality and timeliness of decision making plays a crucial role.
2. A firm's ability to make good decisions is important in the face of increasing global competition.
3. Increasing globalisation of markets has necessitated decision making rules for multinational corporations (MNCs).
4. MNCs that enforce decentralized decision making leave operational decisions to subsidiaries. Strategic decisions are made by the parent.

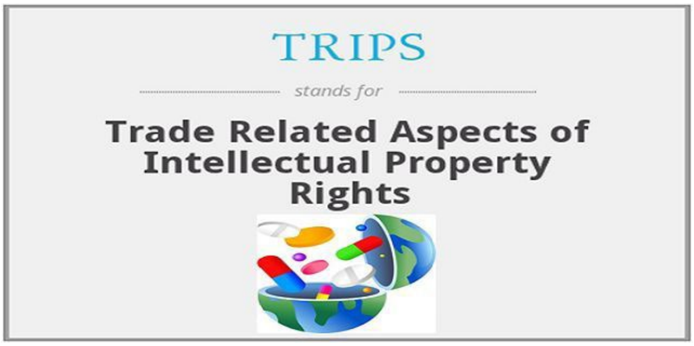
Locus of decision making refers to the degree to which decision making authority is centralized or decentralized. The company size influences decision making. Large organisations have a greater need for co-ordination and integration of operations. Multinational corporations will centrally manage all subsidiaries.

Centralization increases overall efficiency of operations. Greater the capital investment of MNCs, it is more likely that the decision making will be centralized. More important the overseas operation, greater is the need for control. The decisions of subsidiary managers will need the approval of the MNC's headquarters. The subsidiaries have to send periodic reports.

For managing the important overseas operations, the home office will appoint someone who they know will respond to their directives and will regard this individual as an extension of central management staff. In domestic situations, greater is the competition, the authority is decentralized by the appointment of a local manager who is vested with greater decision making authority. In the international arena, an approach that is exactly opposite is followed to deal with competition and prevent erosion of profits. The products are standardized and decisions are taken to improve operational efficiency.

Factors that influence a MNC to go for centralization of decision making authority are

1. Corporate culture
2. Industry type and business maturity
3. Technology infrastructure & information technology
4. Sourcing of third parties and multiple providers
5. Tax, legal and regulatory restrictions
6. Highly competitive environment
7. Large size
8. Low level of product diversification
9. Homogeneous product lines
10. More experience in international business



Factors that influence a MNC to go for decentralized decision making are

1. Availability of experienced professionals
2. Stable environment
3. Small investment
4. High level of product diversification
5. Low interdependence between units
6. Heterogeneous product lines

In July 2019, President Donald Trump ordered his top trade negotiator to impress upon WTO that China should not be treated as a developing nation. Trade negotiations between US and China were stalled in May 2019. China has too many factories with an excess production capacity. So, companies in China are losing their American customers. China is now toying with the idea of creating a free trade zone across the Asia Pacific region – if successful this is likely to open markets from Australia to India. China is also attempting to lower trade barriers with Japan and South Korea. China has also imposed higher retaliatory tariffs on American-made goods. The trade war with America has actually weakened its economy.

12 MULTINATIONAL CORPORATIONS AND MANAGEMENT OF CURRENT ASSETS

LEARNING OUTCOME

- To examine how multinational corporations manage their current assets

Multinational corporations have to manage their working capital efficiently. They have to select the right combination of assets that will maximize the value of the firm. They need to understand the impact of currency fluctuations, potential exchange controls, multiple tax jurisdiction, wide range of short-term financing and investment options available.

CASH MANAGEMENT

1. Minimizing cash balances
2. Minimizing currency conversion costs
3. Minimizing foreign exchange risks
4. No idle cash

An international business makes use of centralized treasury to minimize its company- wide cash holdings. This is also called as cross border pooling. Centralized treasury coordinates an MNC's worldwide cash flows and pools its cash reserves. These centralized treasuries located in market centers like Tokyo, New York and London. These centers have well developed financial services, excellent world communication links, truly convertible currencies and laws that facilitate international currency flows. Hong Kong, New Zealand, Australia act as depositories for MNCs with regional headquarters in those countries.

OPERATION OF CENTRALIZED TREASURY

1. Subsidiary sends to centralized cash depository a daily cash report and analysis of expected cash balances and needs over the short run – a week to a month.
2. Reports collated by central treasury staff - these form the basis for planning short term investments and borrowing strategies for the MNC.

3. Excess cash held by each subsidiary: treasury receives it and pools these funds and uses them to funnel these into subsidiaries when and if emergencies arise. Unexpected additional cash required by one subsidiary is met/ offset by equally unexpected excess of cash generated by another subsidiary.
4. Expertise of depository staff can be used to seek out the best short term investment opportunities available for the firm's excess cash holdings.

MINIMIZING CURRENCY CONVERSION COSTS

Managing the transaction costs is a tough task for international financial manager. Firms' foreign subsidiaries continually buy and sell parts and finished goods between each other. These transactions generate invoices and need to transfer funds between the companies' bank accounts.

Cumulative bank charges for transferring these funds and converting the currencies can be quite high. Most MNCs use netting operations where it is possible to minimize the amount of funds that must be converted in the foreign exchange market to settle transactions between the subsidiaries.

Bilateral netting occurs between two business units. Multilateral netting involves three or more business units.

EXAMPLE OF BILATERAL NETTING

Let us take the example of MNC that has a German subsidiary that sells goods worth $ 1 million to its Italian affiliate. The Italian unit sells goods worth $2 million to the German unit. This leads to combined flows of $ 3 million. On a net basis, the German unit needs to remit only $1 million to the Italian unit. This is called as bilateral netting.

This process helps reduce conversion costs. It works well only when subsidiaries sell back and forth to each other.

MNCs have to also manage foreign exchange risks. Firms have to do an exchange audit and audit all operations that have foreign exchange implications. Secondly, it must identify and measure the types of exposure it has to change in currency values. MNC needs to have a strategy to manage exposures. It has to develop a procedure for forecasting the amount, timing, pattern and probability of changes in forex rates.

Transaction exposure is the extent to which the income from individual transaction is affected by fluctuations in foreign exchange rates. Translation exposure is the process of restating foreign financial statements in the currency of parent company. For example – Pepsi will translate the balance sheet and income statement of its subsidiaries into dollars.

Translated financial statements enable the management and the shareholders to see how each unit is functioning. Translation exposure is a forex risk that the IB faces when translating foreign currency financial statements into the currencies of the parent companies. This is also called as accounting exposure. Translation exposure can have a negative impact on the firm.

Let us assume that a US based MNC has a subsidiary in India. If the value of the Indian rupee depreciates against the dollar, the dollar value of the Indian subsidiary's equity gets reduced. For the same rupees you can buy fewer dollars when rupee depreciates. This will reduce the total dollar value of the firm's equity reported in its consolidated balance sheet. This increases the leverage of the firm (debt ratio). This in turn increases the firm's cost of borrowing and restricts its access to the capital market.

ECONOMIC EXPOSURE

- Extent to which the Net Present Value of the expected after tax flows will be affected as exchange rates change.
- Extent to which a firm's future international earning power is affected by changes in exchange rates.

MNCs can reduce these exposures by techniques like forward exchange and currency swaps and through effective deployment of lead and lag strategies.

FORWARD EXCHANGE

Two parties agree to exchange currency and execute the deal at some specific date in the future.

CURRENCY SWAPS

- Simultaneous purchase and sale of given amount of forex for two different value dates.
- Swaps transacted between international businesses and their banks, between banks and between governments when it is desirable to move out of one currency to another for a limited period without incurring forex risk.

LEAD STRATEGY

- Collecting forex receivables early if currency is going to depreciate
- Paying them early if currency is expected to appreciate

LAG STRATEGY

- Delay collection of forex receivables if currency is expected to appreciate
- Delay payables if currency is expected to depreciate

To reduce firm's economic exposure, the firm has to distribute its productive assets to various locations. Japanese automakers established productive capacity in North America and Western Europe – post 1985. This was seen as a strategy for reducing economic exposure. Before 1985, Japanese automobile companies concentrated their productive assets in Japan.

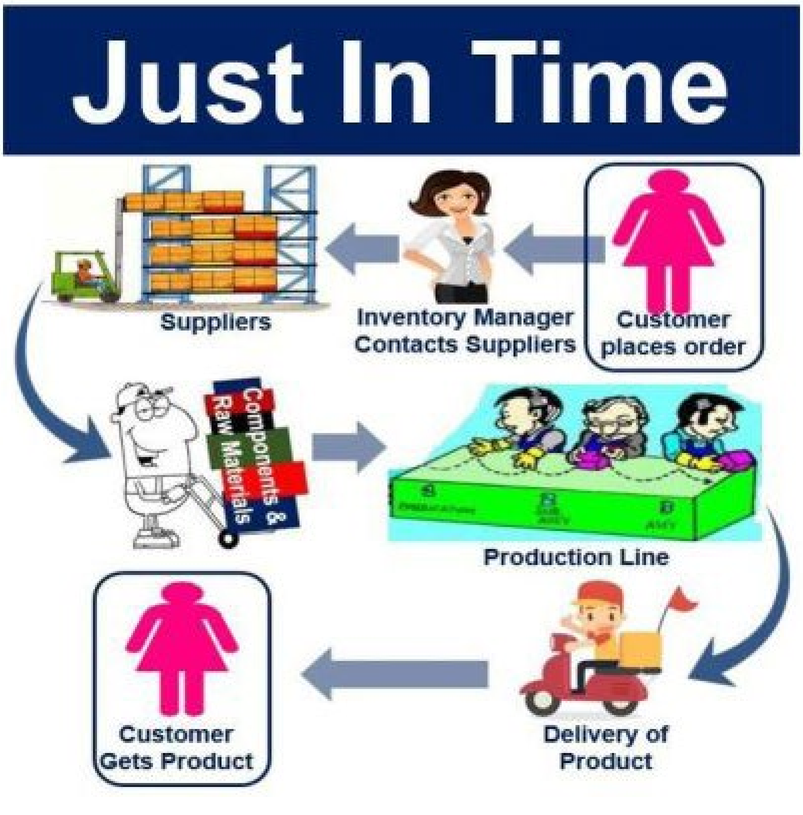
13 ONCE UPON A TIME IN AMERICA

LEARNING OUTCOMES

1. To learn about how the Japanese succeeded in their international business efforts in US
2. To examine the innovative quality management techniques used by Japanese automakers

INTRODUCTION

This case talks about the successful attempts of Japanese automakers to capture the US auto market by incentivizing suppliers. Manufacturers have often been concerned with inefficient manufacturing & delivery practices of their suppliers. Japanese re-defined the supplier relationship model using it as part of their TQM program and other world class manufacturing practices. How were these practices used in the US market? How did it create a competitive edge for the Japanese auto makers? Let us explore the reasons behind the success of the efforts of Japanese auto makers.



Source: https://marketbusinessnews.com/financial-glossary/just-time-definition-meaning/

THE SUCCESS STORY OF THE JAPANESE AUTO MAKERS IN THE US

In the 80's and 90's, Japanese automakers built significant production capacity in US. Focus of Japanese automakers was beyond JIT (Just in Time) and more on "Lean manufacturing". The Japanese realized that to achieve their lean focus in US, they had to adopt a polycentric strategy while appointing local US suppliers for their operations. They started engaging their suppliers with innovative management practices and production techniques that had been adopted by suppliers back home in Japan.

Cynics pooh-poohed the claim of Japanese to achieve success in lean in North America considering the size of continent and the weak transportation system. But the Japanese automakers did not give up. While they used a polycentric strategy in appointing local suppliers in the US, they were successful in implementing their ethnocentric supply chain management practices.

Once the Japanese achieved success, US auto makers were forced to follow in the footsteps of their Japanese counterparts in implementing Lean and JIT logistics. Empirical research proved that the logistics practices and internal management policies of auto makers had a profound impact on the supplier's lean systems.

Research was able to prove that US suppliers perform at much higher levels when they are supplying Japanese automakers than when working with US auto makers. Thus, we had Chrysler, Ford & GM – the American behemoth auto makers and on the other end, we had Honda, Nissan and Toyota.

WHY WERE THE JAPANESE MORE SUCCESSFUL THAN US AUTO MAKERS?

For one, the Japanese believed in long term relations. Though Toyota, Nissan and Honda brought their Japanese suppliers to US, there was pressure from the US government to explore local options. So, the Japanese were forced to adopt a polycentric strategy and the challenge was in finding a supplier in the US who would meet their stringent, cost, quality and delivery standards.

The Japanese had two options – either accept poor performance or invest in supplier relationship management. The Japanese chose the latter strategy. They established close relationships with a small number of suppliers and integrated these suppliers with plant production systems and JIT delivery through extensive information exchanges.

Johnsons Controls was building and delivering seats for Toyota. Thanks to Toyota, Johnsons Controls reduced its inventory levels from 32 days to 4 days.

SUPPLIER BEHAVIOR

Suppliers in US started maintaining lower levels of inventory for the Japanese MNCs than they did for US auto makers. From weekly deliveries, the strategy changed to daily deliveries.

TPS

Toyota Production System (TPS) specialists worked with everyone from CEO to employees on shop floor, developed standardized procedures for improving processes and helped suppliers slash inventories. Due to TPS, quality defects were eliminated, production doubled and the lost time accidents dropped from 242 per year to 2 per year.

Rather than putting up with the poor performance of US suppliers that could impact their bottom line and quality agenda, the Japanese auto makers started engaging with US suppliers and training them in the Japanese quality management techniques. Lean manufacturing is all about delivering the right part at the right place at the right time.

Success of lean manufacturing depends on a level production schedule – production of different items must be distributed evenly to minimize the uncertainty. Providing suppliers with a predictable schedule [stable orders & regular demand] is important in a lean logistics system.

Chrysler was better than Ford or GM in maintaining level production which enabled suppliers to reduce their inventory levels. US Suppliers were able to maintain a higher degree of level production for Japanese MNCs than they do for US auto makers. Japanese customers placed much less pressure on suppliers to fill a truck load than US customers. Ford wasn't able to implement lean because of insistence that suppliers should deliver full truck load to lower its transportation cost.

US suppliers who supplied to Japanese auto makers focused more on pro-active quality detection [stopping the production whenever abnormalities were deducted] – this is part of Lean. Japanese MNCs [auto makers] developed close working relations with core carriers, set stringent delivery requirements, used innovative delivery methods and efficient loading practices like mixed-product loading.

Japanese auto makers used a small group of select carriers known as "core carriers" – example – Toyota used only one carrier, General Motors used 7 carriers. This led to late deliveries and lower on time pick- ups. In case of transportation services, the lowest bidder need not provide the greatest quality service.

When customers establish stringent delivery requirements – regarding frequency, safety, efficient loading & unloading – suppliers are motivated to improve their operations. Suppliers to Japanese auto makers made more frequent shipments. This meant lower inventory holding costs.

Besides delivery, the focus is also on timely loading & unloading of shipments. Japanese automakers were so finicky about these minor details that they did not permit early unloading, unlike the American auto maker. In Japan, the suppliers were located close to the automakers but the Japanese auto makers used milk-run strategy. Milk runs involve stopping at several suppliers or assembly plants when a single plant cannot provide enough products to fill the truck many times every day. Toyota has become the master of cross-docking in North American auto industry. Cross docks accept truckloads of product at one side of warehouse and reconfigure them into different mixes of product on trucks leaving the other side.

In lean manufacturing, loading & unloading time is critical because there are no inventory buffers on the assembly line. Inventory sitting on a truck being unloaded for an extra half hour means that the assembly line will be starved for parts. Toyota used trucks that had side-loading capabilities that provided broad access to parts stored throughout the truck.

CONCLUSION

Actions of supplier's customers significantly affected the ability of suppliers to be lean. The suppliers that served Toyota were the leanest of all. Japanese automakers closely worked with US suppliers, engaged in level production, maintained disciplined delivery schedules and used lean transportation techniques and cross docking facilities. In lean transportation, the Japanese auto makers handled mixed load and small lot deliveries.

The central lesson of lean manufacturing is that speed does not necessarily mean increased cost and lower quality. Creating a lean supply chain requires a give-and-take partnership across all the links in the chain of value to a customer. Thus, one gets clear insights about how the Japanese companies managed to capture the market in the USA by using innovative quality management techniques.

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14 A FIRST-TIME US EXPATRIATE'S EXPERIENCE IN A JOINT VENTURE IN CHINA

LEARNING OUTCOMES

- To understand the cultural differences between US and China
- To relate to the challenges faced by an American expatriate in Chinese soil
- To describe the challenges associated with international HRM

James Randolf was traveling back to his home state of Illinois from his assignment in China for the last time. He and his wife were about three hours into the long flight when she fell asleep, her head propped up by the airline pillow against the cabin wall. James was exhausted, but for the first time in many days he had the luxury of reflecting on what had just happened in their lives.

James Randolf was a US- expatriate in China. Though he had been deputed to China for a period of three years, his assignment as a US manager of the company's joint venture near Shanghai came to an end in 13 months. He was replaced by a manager from Singapore. James was wondering about the circumstances that had precipitated his release from the assignment. There were rumors that senior managers were being laid off. After his return to the headquarters, James had to table a report and he was wondering how transparent he should be. Should he state the facts as they were?

On hindsight, James felt that it would be better to take the offer of retirement and set up a consultancy firm where he could use his managerial skills and technical acumen. James was satisfied that he was able to achieve the marketing goals in China. Operational excellence had not been achieved in the Chinese joint venture even though there was good cross functional interaction, collaboration and co-ordination.

James gazed at his wife, Lily. She was born in Shanghai but left China in 1949. Her perceptions about China were based on US television coverage – not all of which was true.

THE COMPANY

The company Controls had its headquarters in Chicago, Illinois with operations in Europe, Asia, and South America. Ten years ago, Controls was acquired by Filtration Inc. The need to use cheaper labour and stay close to prospective customers made it imperative that the company expand internationally at a frenetic pace.

A Joint Venture in China would give Controls an opportunity to tap the market for temperature control systems. If the joint venture was successful, the company could establish plants to supply products for the Asia Pacific region. The Freezer and Cooler Controls Business Unit headquartered in the US had sent a team of four consisting of two engineers and representatives from Finance and Business Planning departments so that they could identify a Chinese assembly operation. The budget was limited and the team could not complete the negotiations within the stipulated time. The team identified a Chinese firm and another team was sent for completing the negotiations with this state owned firm.

HOW IT ALL BEGAN

James was interested in an international assignment. When Controls Inc announced its intentions to expand its business operations to foreign shores, James felt that at the age of 51, he needed a change.

His last 15 years were spent in a single location in Pauley. He had experience as a manager in Engineering, Quality Control, Customer Support and Program Management. He mentioned his interest in international assignments during his performance reviews. Since his wife had her ancestral roots in China, he desired an exposure to the work atmosphere in the Asia Pacific region.

The HR team apprised him of the challenges involved in a foreign assignment – in particular, language and cultural issues. James was first chosen for an assignment in Tokyo but the decision was reverted and a younger and politically connected employee was given the offer. After a few months, the company decided that James was an ideal choice for the role of the manager in the Chinese joint venture located in Chongming Dao Island that was 25 miles north of Shanghai.

In mid-August 1992, James met Joe Whistler, the director of the Freezer and Cooler Controls Business Unit to discuss the joint venture. The negotiations were in the final stages. James was asked to leave the next week. But the communication from HR never came through. James felt that he was again sidelined for the role. But his supervisor gave him the positive news.

ORIENTATION

James and Lily went to Chicago for orientation training. Filtration Inc's HR function conducted a day-long program. Experts discussed pay benefits, moving arrangements and also a sightseeing trip that was scheduled two weeks later.

But the euphoria was short-lived. The Asia-Pacific regional office in Singapore said that they would manage the trip. But when they landed, no reservation had been made at the Shanghai Inn. Even arrangement for a rental car wasn't made. James and his family made their own sightseeing arrangements. They spent the next two days with an on-site consultant who was of American origin. She was the wife of an expat herself. She gave haphazard instructions to the Chinese driver that led to wastage of time. The Randolfs were shown American-style shopping and American-style restaurants.

After visiting the joint venture factory near Shanghai, the couple travelled to the regional headquarters in Singapore to participate in an orientation workshop. There was a perceptible difference in the orientation that was conducted in US and the one that was organized in Singapore. By now, James & Lily had their own apprehensions before relocating to China. The maintenance standards in the Chinese factory were sub-optimal compared to those in US. Environmental controls were nebulous. But they were confident that people in Shanghai would treat them with lots of warmth. This was one of the reasons they decided to accept the offer.

Followed by another round of orientation program, James became busy with the relocation. Opportunities were provided to him to learn more about the Chinese culture. He kept shuttling between China and US even as Lily was preparing for the transition. He also started learning Mandarin language. But all the programs envisaged in the orientation program could not be completed because James became busy with his work.

WORKPLACE ORIENTATIONS

China's official language Mandarin was spoken at the factory. Chongming Dao, the site of the factory, was situated in the Chuang Yangtze River. The residents of the island were poor farmers. James was able to maintain residences both at Shanghai as well as in the island. Chinese workers and managers lived close to their work place. The factory worked from Tuesdays through Saturdays. The schedules were planned to match the schedules of other factories so that power could be conserved. However the working conditions in the factory were much inferior to that in US. There were no temperature or humidity controls. Poor lighting apart even the safety standards in the factory were far from satisfactory.

The workforce was primarily young women. However in the other factories men over 40 were appointed as workers. Process controls were conspicuous by their absence but quality controls were extensive and excessive. Layout was poor. Production areas were narrow. Material movement was through human intervention. Storage was worse as bins were stacked haphazardly. Scrap lay everywhere. Though the plant employed an excess of QC operators, absence of process efficiency led to waste. James felt that he could speak to the Chinese management to correct the situation.

ADAPTING TO LIFE IN CHINA

Once he settled down in his new role, James realized that he could not expect much operational support from his home office. Filtration Inc kept sending updates to all expatriates by way of news clippings and executive briefs and that is how James was able to keep in touch with what was happening in the corporate world.

Filtration Inc had a few employees in Shanghai who were working towards setting up a joint venture with another Chinese manufacturer. Some representatives from Controls Inc were also located in the same office. But it is here that James got some excellent advice from his colleagues. In contrast to this, the support that James received from Controls Asia-Pacific was quite ineffective. They insisted on following many rules and regulations with ample paperwork thrown in for effect. For example – they did not pay translators well and so lost out on some good people. Even though the Singapore office's policies seemed to be detrimental to the Chinese JV, they seemed to be oblivious to all the negative impacts on the business. James did not have a translator for quite some time and this affected his performance.

The company residence in Shanghai was comfortable with all modern amenities. Accommodations on the island were characterized by small rooms, intense heat and menace of mosquitoes. James had to shift to a hotel that was 17 miles away from the island. The quality of construction was poor and this problem seemed to be endemic to China. Then a guest house was built within the island. Though other expatriates complained about lack of co-operation from Chinese workers, James did not face this problem because he spoke to the workers directly. The expat policies of Controls Inc and Filtration Inc were vastly different. The policies of Filtration Inc were more flexible and less restrictive.

The Controls JV negotiating team left for the US in December 1992 assuming that negotiations were over. But James discovered that some aspect of the agreement was always adjusted. The US team had also underestimated the significance and relevance of governmental approvals in China. This led to a production delay of 8 months. Actual operations in the Chinese joint venture began only on 1st August 1993 instead of the scheduled date of 1st January

1993. Chaos also reigned regarding the organizational structure of the Joint Venture and the roles and responsibilities of employees. Controls Inc had agreed that a Chinese person would hold the office of Managing Director.

CHINESE MANAGEMENT TECHNIQUES

Decision making in China was top-down. Almost all the decisions were made by the Managing Director. James was lucky because he was able to develop an excellent rapport with the Managing Director. When the Director was away for meeting potential customers, only two people got officiating rights – one was James and the other person was the director of Personnel. Unlike in the US, personnel departments in China were more powerful. They were also politically well connected.

325 of the 1819 employees at the joint venture were communists. The party office was next to the Managing Director's office and was akin to the office of a trade union. The interaction that James had with the government bureau regarding his residency papers was tough due to rules that were rigid to the core. Only originals had to be submitted. The government office was overcrowded. When the process was completed, James noticed that his name was spelt wrong. James did not return to correct the mistake.

INTERACTION WITH THE UNION

The Joint venture had a union but it was rather weak. The union requested him for donations for a party that was going to be held for retirees. He referred the issue to the managing director.

GETTING IT TOGETHER

James was someone who loved to walk on the shop floor. He seldom felt like using his authority. The Chinese workers were closely observing him and even if he threw trash in the parking lot, the next day the trash would be cleaned up. Chinese workers paid attention to detail. James was often tested but he always managed to steer clear of controversies. He was also conscious of the fact that his job was also to make the managing director look good. He fired a translator on the spot when the latter remarked that people who chose to stay in China were stupid.

His rapport with Chinese workers at the joint venture was something that James cherished a lot. They were loyal, cooperative and had a great sense of ownership in whatever they did. James felt that the Chinese workers could shine in any part of the world if they were guided properly. The interactions James had with the Chinese people exposed him to a new world altogether.

ACTIVITIES AWAY FROM THE JOB

James and Lily spent hours walking and talking in their location in China. They saw acrobats in Shanghai and attended concerts and ballets. Lily had blended with the social fabric in China. Being born in China and having Chinese looks made it easy for her to become socially acceptable. As she had worked as a nurse earlier, she offered her services to a mission nearby. The couple enjoyed shopping for fresh ingredients in the local market. They were also happy to be away from a society where supermarkets reigned. The couple also managed to learn the Shanghai dialect and this was appreciated by the locals. They realized that the Chinese were fun loving and meal times were used to build relationships. The couple dined at the restaurant in the factory not wanting to miss the opportunity to interact socially.

JAMES'S RECALL AND DEPARTURE

In February 1994, James received a call from Singapore informing him that he had to return to home office. James was replaced by Jimmy Chao who was a Singaporean engineer with limited experience supervising production at one of Controls' factories in Singapore. Jimmy was 18 years younger than James and showed ample attitude. He was opinionated and aggressive. Many of the Chinese workers and suppliers came to see James & Lily off. They also did not flinch to express their appreciation.

Now as the plane was getting ready to land, James felt blessed that he had such an experience.

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15 P&G'S SUCCESS STORY IN JAPAN

LEARNING OUTCOME

- To learn about the factors that led to the success of Proctor & Gamble in US

INTRODUCTION

Proctor & Gamble entered the Japanese market in 1973 adopting the inorganic route. It acquired the Nippon Sun home Company. In the next three years, the laundry powder "Cheer" sold by P&G became a best seller.

The company was affected by the 1995 Hanshin earthquake. P&G's brand Pringles faced regulatory challenges. Yet, P&G managed to retain the consumers' trust in Japan. P&G realized that the Japanese market is highly competitive in nature and consumers were fickle and demanding. Japanese market provided a fecund ground for P&G to hone its marketing skills.

P&G does not believe in product innovation alone. Transforming the consumer's perception about a product's visual imagery and performance is an equally innovative effort. Keeping this in mind, P&G introduced Febreze which is an odor removing fabric spray. Japanese consumers are sensitive to odors and surveys showed that consumers felt that the smell of home fabrics was unavoidable – but no product existed in the market to address this need. So, P&G had to create a new product and also create demand for it. The initial promotion highlighted Febreze as a product to remove odors. Advertisements focused on the moldy smells of laundry hung to dry indoors during Japan's rainy season.

This marketing was highly successful and sales of the product took off, but hit a ceiling about four years later. Such quick growth, leading to a level-off in sales, had also occurred in Febreze's birthplace, the US, and marketing teams were still stumped on how to pick things up.

P&G narrowed in on uses of the product by various family members. Up until that time, Febreze's principal shopper demographic had been housewives. Sales of the product took a leap in the next few months. However, sales reached a saturation level after four years. The company decided to explore new market segments. Until then, their prime target was Japanese housewives. In 2002, P&G test marketed Febreze in Hokkaido positioning the product for sports and campaign equipment and motorcycle helmets. Within a year, sales of Febreze increased from ¥10 billion to ¥15 billion.

P&G Japan started educating expectant mothers with information related to health, beauty and child-rearing through a website but there was a challenge in linking the site to in-store campaigns. The company then launched the "Being Girl" website in Japan with the aim of promoting health and beauty information among teenage girls. The site was used to promote P&G's product Whisper in Japan. 90% school girls in Japan used mobile phones to connect to the Internet. This prompted P&G to collaborate with Sony Digital Entertainment in 2007 to provide an interactive mobile site that gave advice on beauty, fashion and health. Additionally, they used the site to promote Whisper. Soon enough, the site had 32000 registered users.

P&G has financially supported schools in Japan and made significant contributions to victims of the 1995 Great Hanshin Earthquake. It set up a counselling center for working mothers. The company believes in the power of word of mouth rather than public relations. P&G's HR policies in Japan were inclusive and aimed at empowering women and making it easy for them to strike a work-life balance. P&G combined lifetime employment with the practice of rewarding talent with promotions. This strategy endeared the company to Japan's graduates. P&G earned a reputation for hiring the best minds and focusing on functional excellence. The experience that an employee gained in P&G was considered valuable by other employers in Japan.

The company also introduced innovative marketing strategies that resulted in a boost in sales. Their product Herbal Essence needed rejuvenation and so P&G teamed up with actress Anna Tsuchiya. There was news that the actress had disappeared all of a sudden. (It was a hoax of course). A week later Anna returned and claimed that she had gone in search of paradise and had returned with Herbal Essence. The news spread like wild fire on the Internet and it worked in favor of P&G.

Can we therefore say that P&G taught marketing strategies to Japanese businesses that are renowned for their quality management techniques like Lean manufacturing, Just in Time, Total Quality Management, Toyota Production System and 5S?

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16 BRICS BANK

LEARNING OUTCOMES

- To understand the reasons behind setting up of BRICS bank
- To examine the lending activities of BRICS bank

On September 28, 2013 leaders of BRICS – Brazil, India, China, South Africa and Russia decided to launch the BRICS development bank and a $ 100 billion contingency reserve arrangement (CRA), the idea of economic co-operation that accounts for approximately 27% of the global GDP.

The idea to launch the BRICS bank was feasible and viable as per the finance ministers of these countries. The Bank will cater to the infrastructural needs of the members of the group which accounts for 43% of the world population. The Bank & CRA provide a basis for greater co-operation among these countries whose economies are growing faster than the global average and have the potential to influence decision making on key international issues.

The aim was to institute a mechanism to recycle surplus savings into infrastructure investments in developing countries. This idea was given concrete shape during the Durban summit. The specifics of capital, governance and membership remains to be thrashed out. China wanted the bank to start with an initial corpus of $100 billion. India felt that $50 billion is sufficient as the initial authorized capital.

BRICS bank is now called the New Development Bank. In 2018, the bank approved a $ 525 million loan to Madhya Pradesh in India for infrastructure projects. There are two projects – one is building roads and the other pertains to upgrading bridges. The project will offer the following benefits

- Improved road conditions
- Enhanced transport capacity
- Less travel time
- Reduced vehicle operating cost
- Reduced emissions
- Improved road safety

The New Development Bank (NDB) wants loans to the private sector to eventually take up a 30% share of its project portfolio. Zhu Xian, the Brics Bank's chief operating officer, informed media that the bank was targeting an overall 70-30 split between sovereign and non-sovereign loans in its project portfolio, and was seeing strong demand for private sector loans especially in Brazil, South Africa and Russia.

New Development Bank

In May 2018, the Shanghai-based bank approved six new projects which brought its loan portfolio up to over $5.1 billion across 21 projects. Two of these were non-sovereign loans, which are issued to companies without a government guarantee.

The Brics Bank's first non-sovereign project was a $200 million loan to Brazil's Petrobras for an environmental protection scheme and the second a $200 million loan to South Africa's Transnet to reconstruct a port in Durban.

17 A REVIEW OF GLOBAL ECONOMIC CRISES

LEARNING OUTCOME

- To understand the different types of crisis that afflicted the global economy

CURRENCY CRISIS

The crisis in Mexico happened in 1995. The root cause of the crisis was use of foreign capital inflows to generate quick growth with the help of imports. This led to depletion of forex reserves. The inflow of foreign capital slowed down. Current account deficit in balance of payments reached crisis proportions.

Mexico devalued the currency to discourage imports. This led to inflation. Stock market collapsed. Losses to foreign investors caused flight of capital from Mexico that deepened the crisis.

To bail Mexico out of the crisis, the IMF, US Government and Bank for International Settlements stepped in and pledged close to $50 billion to help Mexico stabilize the Peso. Using the fund, Mexico was able to redeem the $ 47 billion debt.

The IMF insisted on tight monetary policies, further cuts in public spending – both of which pushed the Mexican economy into deep recession. But the recession was short lived. In 1997, Mexico was once again on a growth path and had paid back $ 20 million debt ahead of schedule.

THE ASIAN CRISIS

The crisis began in Thailand in July 1997. The value of Thai baht plummeted. Crisis spilled over and engulfed Indonesia, Republic of Korea, Malaysia and Philippines by the end of 1997. Many banks and financial institutions in the region were closed. Real estate sector collapsed. Interest rates soared. Currencies depreciated rapidly. Regional stock markets fell.

Seeds of the crisis were sown during the previous decade when these countries were experiencing an unprecedented economic growth. Exports had been the engine of economic growth in these countries.

Nature of exports had shifted from basic materials and products like textiles to complex and increasingly high tech products like automobiles, semi conductors and consumer electronics. Then there was cyclical downturn in the demand for electronics along with a rising dollar and a falling yen.

This affected exports adversely. Inflow of foreign capital affected the current account deficit. Market was concerned about prevailing exchange rates. This led to the eventual collapse of Thai baht.

As the crisis unfolded, investors realized that there were no implicit guarantees for investment. Asset prices fell. Financial intermediaries became bankrupt. There was a full-fledged financial crisis that spread far and wide. There was a ripple effect in South Korea, Malaysia, Indonesia, Philippines and Russia. The investors became more conscious.

Japan's exports to the Asian tigers were hit. Latin American countries namely Chile, Mexico, Venezuela were adversely affected as their exports to Asian countries decreased. There was lower demand for exports from Latin America. Many European firms were affected due to reduced exports to Asian countries.

People started importing from Asian countries (cheaper) instead of Europe. European banks were affected by Asian crisis because they provided huge loans to Asian companies which defaulted on these loans.

The stock values of US firms like Nike, 3M, Motorola and HP decreased as their business dealings with Asian countries were hit. Recovery happened due to macroeconomic policy responses like stringent fiscal and monetary measures and structural reforms. Even IMF played a role in these developments. Structural reforms are measures that change the fabric of an economy through appropriate interventions in institutional and regulatory frameworks. The idea is to strengthen the economy so that the growth potential is taken advantage of.

The key learning was that stricter fiscal discipline is a must as a result of globalization. Even India was affected during this crisis.

DEBT CRISIS

In 1982, Mexico, Brazil and Argentina couldn't pay interest on loans received from World Bank, International Monetary Fund and major commercial banks. African countries faced a similar problem. In 1988, the inflation rate in Brazil was 933%.

Bank for international settlement provided temporary loans. It serves national central banks around the world. It helps stabilize the international monetary system.

The Brady Plan was unveiled in 1989 to achieve large scale reduction of debt of poorer nations and exchange of old loans for new low interest loans.

SUB PRIME CRISIS

This took place in the US. The ripple effects of crisis spread across the globe. US economy was severely affected. The loss to economy was US $ 500 billion. Consumer spending decreased. There were defaults on housing loans. Financial institutions had to write off loans. The Government announced a bailout and stimulus package.

Mortgage loans on residential properties were lent to those whose credit worthiness was low. The low repayable capacity debtors were subprime borrowers. Loans had low margin money and low initial teaser payments. Due to high risk of default, subprime borrowers were charged with higher interest rates than prime borrowers. These mortgage loans were securitized by the Wall Street firms. International investors realized that hedge funds and pension funds had become toxic assets. Banks investing in such securities faced losses.

Crisis started now. Subprime borrowers defaulted in repaying the stipulated initial monthly investments. Delinquency rates became high. Interest rates increased. The prices of houses flattened and then turned negative. Many borrowers were left with no option but to default as repayment and refinancing options were no longer feasible with little/ no housing equity.

The subprime crisis sent shock waves through other parts of financial system. Foreign portfolio investors could not sell the securities as there were no buyers. Several banks faced losses from risky property loans.

Not just housing loan, crisis also was due to large global imbalances which were the outcome of long periods of excessively loose monetary policies in major advanced economies earlier.

India had lesser impact as banks/ financial sector exposure to complex derivative products was limited. This was due to prudential policies pursued by Reserve Bank of India. Another reason was lower presence of foreign banks in Indian banking sector. India is part of global economy. US is a major player in the world economy. Whatever happens to the US economy has its impact on Indian economy.

18 STRATEGIC ALLIANCES

LEARNING OUTCOMES

- To examine the pros and cons of strategic alliances
- To understand how strategic alliances can be effectively managed
- To identify the reasons for failure of strategic alliances

INTRODUCTION

Strategic Alliances are cooperative agreements between firms that go beyond normal company to company dealings. Alliances and / or cooperative agreements can involve joint research efforts, technology sharing, and joint use of production facilities, marketing one another's products, or joining forces to manufacture components or assemble finished products. Generally strategic alliances are formed with a goal to attain a win-win situation. Governments also encourage strategic alliances because of the benefits of technology transfer. A local company may have marketing muscle while a multinational company may have access to technology. When there is a strategic alliance between the local company and multinational company, the resulting synergy will lead to a winning combination.

Strategic alliances create value by improving current operations, changing the competitive environment and facilitating ease of entry and exit. The partners in a strategic alliance learn from one another. There are benefits due to economies of scale. Sony and Panasonic announced to work together to create a new generation television.

TYPES OF STRATEGIC ALLIANCES

1. **Non-Equity Alliances**
   Cooperative firms agree to work together to carry on activities but they do not take equity positions in each other or form an independent organization to manage their cooperative efforts. Two or more businesses agree to share resources and capabilities so that they can gain competitive advantage in the market. These non-equity alliances are managed through contracts .Supply agreements (where one firm agrees to supply to others) and distribution agreements (where one firm agrees to distribute the products of others) are examples of non-equity alliances. Example: – Partnership between Starbucks and Kroger. Starbucks has kiosks in many Kroger supermarkets.

2. **Equity Alliances**
   Cooperating firms supplement contracts with equity holding in alliances partners. An equity strategic alliance is created when one company purchases a certain equity percentage in the other company. Example: - When GM began importing small cars manufactured by ISUZU, these partners had supply contracts in place. GM also bought 34.3% of ISUZU stock. In 2009, Panasonic entered into an agreement to supply Tesla motors with lithium-ion battery cells to use in its cars. In 2010, Panasonic invested $30 million in Tesla to support the growth of electric car industry.

3. **Joint Venture**
   Cooperating firms create a legally independent firm in which they invest and share profits, if any. A joint venture is created when the partner companies establish a new child company. In July 2017, the AES Corporation, an American energy firm, and Siemens AG, a German engineering conglomerate announced that they were forming a joint venture to serve the energy storage market. They set up a new company called Fluence. Maruti-Suzuki is a successful example of joint venture between an Indian company and a Japanese organization.

FLUENCE
A Siemens and AES Company

Joint Venture involves shared ownership in foreign business.

Advantages of Joint Ventures

1. Local partner understands culture of local market.
2. Host countries may require a local partner as per rules.

Drawbacks of Joint Ventures

1. Clash of thought.
2. Interference of local partner in managerial decisions.
3. Increase in political risk, if wrong pattern is selected.
4. Transfer pricing on products sold to related companies can cause conflict.

In wholly owned subsidiary, company acquires 100% of equity. There are two ways of setting up wholly owned subsidiaries:

1. Set up on a totally new operation
2. Acquire an established firm

Subsidiary established starting from ground up (from green field) is green field investment.

Cross border acquisitions are quicker. Gain quick entry in market, competitive advantages like technology, brand names, logistical and distribution advantages.

Due to economic, political, forex conditions – market imperfections – allow target firms to be undervalued.

Many Asian companies were in dire need of capital for survival.

Risk of cross border acquisitions – Pay too high a price. Measuring different corporate cultures is a tough job. Post the acquisition, there are challenges of downsizing and job losses.

Free Trade

Government of land exerts minimal influence on decisions relating to exports or imports made by individuals and businesses.

Fair Trade

Government intervenes to ensure that exports from own country receive a fair share in the global trade; imports are controlled to avoid drain of foreign exchange and increase in current account deficit.

Embargo

Complete ban on trade (imports and exports) in one or more products with a particular country.

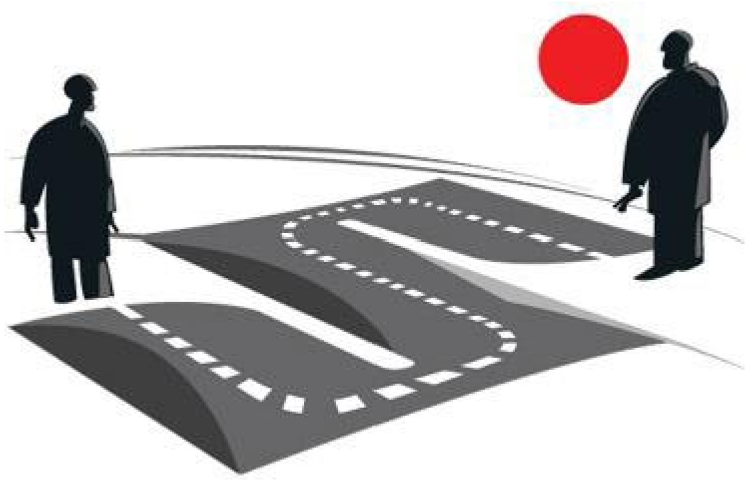
BENEFITS OF STRATEGIC ALLIANCES

- An enterprise may lack resources like technology or knowledge for developing a new product. A strategic alliance presents an opportunity for such an enterprise to share its existing resources with an alliance partner to achieve its goal by creating a win-win situation.
- A strategic alliance can help a business to gain easy access to foreign markets. A company that wishes to enter a foreign market may have little idea about local competition or the government regulations. An improper understanding of the foreign market can lead to losses for business. A strategic alliance can help ward off the uncertainty and reduce cost.

- Alliances can enable two organisations to share their financial risks.
- Penetration of foreign markets where there are stringent regulations or where political factors play a dominant role can be made easy through strategic alliances.
- Alliances can lead to synergy between the partners and enable businesses to achieve competitive advantage.

PITFALLS OF STRATEGIC ALLIANCES

- Partners can renege on contractual obligations and refuse to share resources and capabilities. For example, when there is an engineering strategic alliance, the contractual terms may indicated that only talented and trained engineers may be deputed to work for the alliance. The company may send poorly trained and less talented engineers.
- Adverse selection of partners will lead to misrepresentation of skills and abilities and noncompliance with contractual terms and obligations. This happens because of businesses not investing sufficient time to do due diligence and entering into a strategic alliance only with the sole aim of making a profit.
- Both partners may refuse to share crucial information.
- Disagreements between how the earnings have to be shared can crop up. Some partners may refuse to reinvest a share of profits in the business.
- Some businesses do not risk entering into strategic alliances because they are afraid of losing control. Dhirubhai Ambani, the legendary Indian businessman, who created an empire called Reliance Industries, purchased technology from DuPont for the factory in Patalganga near Mumbai – however he steadfastly refused their equity participation. On the contrary, TVS India entered into an alliance with Suzuki but soon growing friction between the two companies led to a collapse of the alliance.



MANAGING ALLIANCES EFFECTIVELY

Many international alliances are ending up in failure. A study on 49 alliances found that two third run into serious financial management troubles within two years and that although many of these problems are solved, 33% are ultimately rated as failures by the parties. To make alliances work both the parties should concentrate on the following issues mentioned below.

- Assessment of fit with strategy
- Partner selection
- Alliance structure
- Form of ownership
- Negotiating process
- Joint management consideration
- Management of expectations

TOSHIBA

Leading Innovation >>>

Collaborative arrangements involve combination of assets of alliance partners. The alliance becomes necessary because the partners cannot achieve the goals on their own. Selecting the right business partner is crucial. Both the partners should work towards making the alliance work – be it sharing the cost and risk of new product development efforts, gaining access to core competencies or accessing market. Both the partners must share a common vision.

A good negotiating process will help clarify misgivings and doubts. It enables both business partners to understand their strengths and weaknesses. If factors that can cause a misunderstanding later can be resolved in the initial stages, the alliance will prove to be enduring.

The structure of the alliance should be such that both business partners in the alliance share the risks equally. Contractual agreements must be in place to avoid the risk of opportunism by one partner. In the alliance between Motorola and Toshiba, the former has licensed some of its microprocessors technologies to Toshiba and in return Toshiba has licensed some of its memory chip technology to Motorola.

WHY DO STRATEGIC ALLIANCES FAIL?

- Adverse Selection of partners. Partners can misrepresent the skill, abilities and other resources that they propose to contribute to the success of strategic alliance. The partner may make grandiose claims that they cannot fulfil or one partner may become avaricious to go to the market solo. Some partners may attempt to milk their partners by charging huge amounts for patents and intellectual property rights as part of arrangements for technology transfer. Some partners may renege on their contractual obligations.
- Absence of trust can lead to a problematic situation. A business may face a compulsion to enter into a strategic alliance but in the absence of trust, things can get a lot murkier. A history of adverse experience with the same alliance partner may only exacerbate the situation.
- Alliances may lack the strategic push that is needed to make things happen. The problem is not with generation of ideas but in selecting the idea that is feasible and taking actions for implementation.
- Lack of awareness about cultural factors can cause a serious bottleneck. Communication protocols can get complicated and distortion can result if there is a lack of understanding about the culture.
- Both the partners may differ in their value system – in particular policies relating to business ethics, corporate governance, social responsibility and community development.
- Information asymmetry may lead to a moral hazard. For example – the partners may be hesitant to share information with each other which can result from a lack of mutual trust. When goals of the alliance partners start becoming divergent, each partner tries to take advantage of the situation which can eventually lead to chaos.
- The business partners may not be willing to commit time to ensure success of the strategic alliance. Priorities may change as time passes.

19 INTERNATIONAL MARKETING

LEARNING OUTCOMES

1. Characterize the nature of marketing management in international business.
2. Understand the importance of the four Ps of international marketing to all MNCs.

INTRODUCTION

In this chapter, we primarily attempt to answer the question below:

Are the four P's of international marketing of equal importance to all MNCs? What factors might cause some to be more or less important than others?

Tension exists in most international businesses between the need to reduce costs and at the same time, respond to local conditions, which tends to raise costs. Ignoring country differences in consumer tastes and preferences can lead to failure. Therefore international marketing function needs to determine when product standardization is appropriate and when it is not. The marketing strategy has to be adjusted accordingly. Even if the product can be standardized, the way in which a product is positioned in a market, the promotions and messages used to sell that product may still have to be customized to meet the local needs.

Marketing function has to identify gaps in the market, so new products can be developed by R&D to fill those gaps. Only marketing can tell R&D whether to produce globally standardized or locally customized products.

Marketing mix is a set of choices the firm offers to its targeted markets. Firms vary their marketing mix from country to country depending on differences in national culture, economic development, product standards and distribution channels. Kodak sells cheaper Kodak Color Plus film in Russia. It sells premium Kodak Gold brand in US. To succeed in Russia, Kodak had to establish a chain of retail stores – something that is not necessary in advanced economies. Therefore Kodak explicitly tailored the marketing mix in Russia to match the needs of the local market place.

As different segments exhibit varying patterns of purchasing behavior, firms often adjust their marketing mix from segment to segment. Market segmentation refers to distinct group of consumers whose purchasing behavior differs from others.

Design of a product, pricing strategy, distribution channels used and choice of communication strategy- these may all be varied from segment to segment. Car companies use a different marketing mix to sell cars in different marketing mix to sell cars in different socio economic segments. Toyota uses its Lexus division to sell luxury cars to high end consumers; it also sells entry level models like Toyota Corolla to low income consumers.

Countries differ in the structure of their market segments. There is a need to develop unique marketing mix to appeal to the purchasing behavior of certain segments in the country. Research proved that in China, people in the age group 45-55 years were highly sensitive to price and responded negatively to new products. Therefore firms doing business in China have to customize their marketing mix accordingly.

If there are market segments that transcend national borders, then firms can pursue a global strategy and sell a standardized product worldwide, use the same basic marketing mix to help position and sell the product in a variety of national markets. For this to happen, consumers in the segment must have similarities – age, values, lifestyle choices and these dimensions must translate into similar purchasing power/ behavior. E.g. Teens around the world have similar values.

A product is a bundle of attributes.

Are consumer needs same all over the world?

If yes, a firm can sell a product worldwide. In reality, this is not the case. Cultural differences also exist between countries. Local tradition and taste play an important role. Cheetos (Pepsi product) is sold in China without cheese because Chinese do not like the taste of cheese and many Chinese are lactose intolerant. Coffee is becoming popular in Japan and Great Britain. Then there are differences in economic development. In developed countries, cars sold have more advanced features whereas in countries that are less developed, cars are designed with simple features. Different technical standards prescribed by government can also make a difference. DVDs in US will not play on DVD recorder/player in the UK. Besides this, there are differences in the way a product can be distributed.

International product planning is all about planning which product to introduce in which countries, what modifications are needed in products, what new features, what brand names, packaging, guarantees, warranties, after sales service, ad campaigns and when to enter the market.

Product is the most important element of a marketing program. International marketers face the challenge of formulating a coherent international product strategy. Product strategy must involve evaluation of basic needs and conditions of use in company's existing and proposed markets.

International marketing, like domestic marketing, is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. Thus, international marketing and domestic marketing both revolve around the four Ps of marketing--product, price, promotion, and place.

International marketing is not confined to a single market place - rather activities are extended across national boundaries. This makes the marketing process more complex as firms encounter different legal, cultural, political, and economic environments.

The four elements of the international promotion mix are advertising, personal selling, sales promotion, and public relations. The fundamental issues that must be addressed in international advertising are the message the firm wants to send, the media available to convey the message, and the extent to which the firm wants to globalize its advertising campaign.

Five factors are important while designing products

1. Preferences
2. Regulations
3. Compatibility
4. Costs
5. Attitude towards a product's country of origin

The product has to be positioned carefully. Consumer needs must determine how products have to be positioned. Regards positioning, the Japanese have a clear focus on quality, service and innovation. British prefer traditional brand names. Americans have a fetish for technology and so they find it difficult to adapt to local market conditions in foreign countries. Rice Crispies are consumed in large quantities in Mexico. This made Kellogg change its promotional message to reflect the consumer needs. In India, Kellogg corn flakes have been positioned as iron and calcium substitute for Indian consumers. Product adoption refers to the relative advantage of a product over its competitors.

Distribution systems are:

1. Retail concentration – few retailers supply most of the market. The Japanese legal system protects small retailers. Retail concentration is more in developed countries. Retail systems are fragmented in developed countries.
2. Channel length – refers to number of intermediaries between producer and consumer. Producer sells directly to consumer, channel is short. If the producer sells through an import agent, a wholesaler, retailer – a long channel exists. Choice of short or long channel is a part of strategic decision for the producing firm. Some countries have longer distribution channels than others.

   The most important determinant of channel length is the degree to which the retail system is fragmented. The more fragmented the retail system, the more expensive it is for a firm to make contact with each individual retailer. Internet has helped shorten channel length.

Superstores like Walmart, Carrefour, and Tesco offer large discounts, cut out wholesalers and instead deal directly with manufacturers when Walmart entered Mexico, its policy of dealing with manufacturers directly helped it to shorten the channel length.

3. Channel exclusivity – an exclusive distribution channel is one that is difficult for outsiders to access. A new firm finds it difficult to get access to shelf space in supermarkets. This is because retailers prefer to carry the goods of established manufacturers.

   P&G looks into the Japanese market with its Joy brand of dish soap because
   - Japanese market is changing.
   - Retailers are looking for profits and so they do not mind violating exclusivity.
   - P&G was in Japan long enough and it had a broad portfolio of consumer products that gave considerable leverage with distributors, to push new products through the distribution channel.

4. Channel quality – Refers to the expertise, competencies, and skills of established retailers in a nation and their ability to sell and support the products of international businesses. If channel quality is poor, an international business may have to devote considerable attention to upgrade the channel – extensive education and support to existing retailers, in extreme cases, a firm may be forced to establish its own channel. In Russia, Kodak had to set up a chain of franchisees called Kodak Express to sell film products and services. Kodak is following a similar strategy in China and India.

Which distribution strategy to choose depends on the cost and benefits of each alternative? These relative costs vary from country to country depending on retail concentration, channel length, channel exclusivity and channel quality.

There is a critical link between channel length, final selling price and the firm's profit margin. If price is an important competitive weapon, other things being equal, the firm would prefer to use a shorter channel. A longer channel cuts selling costs when the retail sector is fragmented. Therefore firms use longer channels in countries where retail sector is fragmented and shorter channels in countries where retail sector is concentrated. Longer distribution channels lead to higher prices for consumers, but they lead to lower selling costs, thus assist a firm to gain access to market.

5. Communication channels – direct selling, sales promotion, direct marketing, advertising. Choice of channel defines a firm's communication strategy. Cultural barriers impact international communication. P&G Camay Ad in UK was popular but it flopped in Japan.
6. Configuring the marketing mix – a firm might vary aspects of its marketing mix from country to country to accommodate local differences in culture, economic conditions, competitive conditions, product and technical standards, distribution systems and government regulations. These differences may require variation in product attributes, distribution strategy, communication strategy, pricing strategy. The cumulative effect of these factors makes it rare for a firm to adopt the same marketing mix worldwide.

American Express card, due to differences in national regulation, must vary aspects of its communication strategy from country to country. Mc Donald's varies it menu from country to country. In Canada and US, Mc Donald's restaurants are in areas that are easily accessible by car, whereas in densely populated areas like Japan and great Britain, where there is less dependency on car, location decisions are driven by accessibility of a restaurant to pedestrian traffic.

Therefore customization of marketing mix is normal. It makes sense to standardize some aspects of the marketing mix and customize others, depending on market conditions. E.g., standardize their global advertising message, core products attributes but customize the distribution and pricing strategy.

Castrol sells lubricating oil (standardized product) worldwide but it varies other aspects of marketing mix from country to country, depending on economic conditions, competitive conditions, distribution systems.

Therefore product and promotion is standardized while price and place are customized. Some Ps in the marketing mix are more important than others because of the need for local customization.

The four Ps of international marketing are not of equal importance to all firms. Firms that emphasize the unique features of their products, such as Rolex, may tend to pay less attention to price, for example, than firms that focus on producing low cost products. Firms in the latter category, such as Timex, will generally emphasize on price and perhaps choose low cost distribution channels instead. Similarly, firms that manufacture commodity products such as sugar will probably place less emphasis on product and more emphasis on price.

The television ads for US products broadcast in France and Japan stress the US origin of the products. Ads for Japanese products might focus on quality. An ad for a motorcycle in the US emphasizes the fun of riding while the ad for a motorcycle in Saudi Arabia focuses on reliability and functionality of the product.

A firm might vary aspects of its marketing mix from country to country with a view to address the differences in culture, economic conditions, competition, product and technical standards, distribution systems and government regulations. These differences need variation in product attributes and distribution strategy. The cumulative effect of all these factors is such that it is rare for a firm to adopt the same marketing mix worldwide. Firms change their marketing mix as the extent of change depends on a host of factors including the type of product, a firm's cultural environment and degree of market penetration that is considered desirable.

20 STRATEGIES OF MULTINATIONAL CORPORATIONS IN DIGITAL ERA

LEARNING OUTCOME

- To describe the strategies of multinational corporations in digital era
- To understand the changes in business environment due to digital technologies
- To examine the relevance of digital economy

INTRODUCTION

The overall globalization trend has turned into a digital format. Cross border data flows are characterizing international trade. Multinational corporations have contributed in no small measure to the digital phase of globalization.

Digital developments are fuelling the growth of MNCs without the need to rely on foreign assets. Platform based business models are redefining the international business ecosystem. Roles and responsibilities are well-defined. Regulations are clearly understood. Competition is forcing all companies to embrace digital.

Consumer behavior patterns are changing in the digital world forcing MNCs to make innovation an integral aspect of their business strategies.

The digital economy benefits firms in both developed and emerging markets – as long as the country has a strong ICT infrastructure. Firms in the developing world where telecommunication infrastructures are weak and patchy cannot participate in the digital economy.

Better data on digital economy is essential. The digital economy may offer the fastest way for developing countries to engage in the global economy. The governments have to develop infrastructure, institutions and policies designed to encourage participation in global economy. Governments have to support international entrepreneurship.

Digital economy is fuelled by several disruptive technologies that are transforming the market. These disruptive technologies include the mobile internet, automation of knowledge work, the Internet of things, cloud computing, advanced robotics, 3D printing and advanced materials.

Cloud computing can be used to share resources within the multinational enterprises (MNE) network. It can enable new forms of pooling arrangements within the MNE group.

STRATEGIES OF MNEs

Dunning has remarked that, "The MNE is a profit-making organizational form that engages in value adding activities in more than one country". MNEs engage in related diversification to take advantage of synergies and economies of scale and scope.

MNE must choose a business strategy which determines how it will compete in that market by differentiating its products from its competitors (differentiation), being a low cost leader (standardization), focusing on a niche market (customization).

The MNE must choose whether to use the external market (buy or sell in the open market) or the internal market (make or sell in-house) and whether to engage in the activity onshore (in the home country) or offshore (a host country). Outward FDI is generated by the combination of off shoring and in-sourcing.

In this increasingly digital era of globalization, large companies can manage their international operations in a leaner, more efficient ways. Using digital platforms and tools, they can sell in fast-growing markets while keeping virtual teams connected in real time. This is a moment for companies to rethink their organizational structures, products, assets, and competitors.

Companies are now devising strategies to explore ways in which they can manage their international operations in an efficient manner. Digital platforms can enable them to sell their products in fast-growing markets with greater agility than before. Geographical barriers no longer exist. Businesses have to rethink their organizational structures, products, assets, and competitors.

International Production Chains can be optimized by the MNEs. Digitalization enables carrying out innovations, testing new products in new markets. Once success is achieved in a new market, it can be replicated in other markets.

Small firms can use Web-based platforms to deliver online business services and digital products to customers around the globe. In the digital economy, manufacturing is flexible, low volume, customized and Web-based. It involves use of automation and robotics buttressed by artificial intelligence.

E-commerce has become an avenue for exporting and this precludes the need to set up a local permanent establishment in the host country. Digitalization also means increased mobility of services that are now tradable without the need for FDI in a host country.

GLOBALIZATION POST 2008 GLOBAL ECONOMIC CRISIS

Experts felt that globalization had lost its punch after the 2008 global economic crisis. Cross border capital flows have declined sharply since 2008. But globalization is entering a new phase due to the significance of data, information and digital channels.

Digital flows are now impacting GDP growth more than ever. Companies can access international markets with business models that are less capital intensive – however there are risks involved too. Every cross-border transaction has a digital component now.

Trade was earlier confined to developed economies and large MNCs and conglomerates. Today, developing countries are reaping the benefits of globalization. Start-ups and small companies are entering the international market. "OYO rooms" is a startup based in India. The hotel room aggregator has not only attracted foreign investors to fund its expansion plans, but it has also expanded its footprint in foreign markets.

Roughly 12 percent of the global goods trade is conducted via international e-commerce. Even the smallest firms can compete with multinationals.

900 million people are part of social media networks and 360 million are engaged in cross border ecommerce around the globe. Digital platforms for traditional employment and freelance assignments are impacting the global labor market.

Digitalization has enabled domestic firms to become "born globals". It has spurred the growth of micro multinational enterprises. These domestic firms can enter international markets as exporters through digital platforms such as E bay and Amazon.

Emerging market multinationals and the digital economy are shattering the traditional view of MNEs & FDI. Emerging market MNEs emphasize on family and state ownership and this affects their motivations for FDI and location decisions.

The digital economy opens the global economy to born global firms and micro multinational corporations, particularly in those home countries that boast of an excellent ICT infrastructure. There is greater heterogeneity and different needs of MNEs from emerging markets in the digital economy.

Policymakers have to understand the MNEs and their strategies as this can help in proper formulation and implementation of FDI policies at the national and international levels.

Bilateral and regional trade agreements must reflect the greater heterogeneity of firms if they wish to support nations in achieving their goals of sustainable development.

IMPACT OF DIGITAL ECONOMY

The three main building blocks of digital economy are digital data, digital technologies and digital infrastructure. Digital economy has changed business models. For example – healthcare solutions are based more on artificial intelligence than research inputs. Companies are adapting to the digital business environment by building up internal capabilities and accessing knowledge from across the world. MNEs will now base their location decisions based on the digital infrastructure available in host countries. In many countries, foreign investments are being screened so that there is no compromise on the national interest.

In the digital era, barriers to trade and FDI flows generated by government policies become more visible. The emerging trade-investment-services nexus requires that more attention is paid to MNE production networks and intra firm flows in goods, services and intangibles.

The intellectual property rights have assumed greater importance due to the growth in digital economy. More attention has to be paid to the generation and protection of innovation and intellectual property rights. Growth of services across the globe calls for reviewing GATS (General Agreement on Trade in Services).

International production networks of MNEs depend on business services (example – telecommunications, customs clearance, express parcel, finance and insurance). Some of these sectors are partially closed to FDI.

Building a digital infrastructure is an important precondition for participation in the digital economy either at a home or host location. Digitalization reduces governance costs within the MNE network since MNEs now have better ability to collect and share information, monitor off shore production locations and target products and services to customers on a worldwide basis.

Acceleration of globalization is witnessed through increase in flows of international capital, trade and human capital.

The new political and regulatory era is a challenge for MNCs who earlier benefited due to free movement of trade, capital, innovation and people.

Global trade deals have made China one of the world's most powerful economies.

THE IMPACT ON MNC'S BUSINESS OPERATIONS

The business models of MNCs are devised taking into consideration

- Need to innovate globally
- Access diverse pools of human capital
- Lower the production costs
- Have access to sources of finance from around the globe

MNCs were also able to take advantage of different tax rates in different nations. Today MNCs face challenges on various fronts

- Tougher local competition
- Growing political risk
- Focus on corporate governance
- Societal demands
- Environmental compliance
- Community development efforts (Corporate Social Responsibility)
- Global shocks amidst cyclical recessionary trends

All these factors have impacted the profitability of MNCs. Their actions are now subject to greater scrutiny. Environmental disasters, accounting scandals, tax non-compliances, labor abuses and legal processes are adding to the complexity of international business operations. Vodafone had a legal dispute with the Indian government regarding tax compliance – the dispute dragged on for years. Budgetary changes in tax rates can also lead to uncertainty in the business operations.

There is greater focus on compliance and ethics in the digital era. The role of audit firms has come into sharp focus now. In India, some businesses have accumulated huge debts with banks and a diagnostic analysis revealed that at least in a few cases, the foreign audit firms dressed up the accounts.

The focus of a MNC on profit maximization and protecting shareholder value is not enough. MNCs are now socially and environmentally accountable. MNCs have to unfailingly discharge their obligations towards society.

MNCs are defining their strategies with consideration to a broader set of stakeholders including customers, employees, society and environment. Regulatory compliance has now become a hygiene factor.

MNCs have to fundamentally rethink their business models and strategies in the digital era. Digital era needs a MNC to trade-off between protection of shareholder value and protection of interests of other stakeholders. The social accountability requirements of each market have to be properly understood. Strategic choices must balance short term costs with medium term value creation.

Example – A software company hiring people with disabilities or a FMCG halving the environmental impact of its product packaging by 2030, even though its profitability could take a hit in the short term.

TRANSITION FROM GLOBAL TO GLOCAL BUSINESS MODELS

More localized and tailored business models are now needed taking into account regulatory requirements. Subsidiaries need more autonomy and decision making power.

MNCs have to evolve from a model of globally integrated enterprise to a tightly managed federation of quasi-independent subsidiaries that are integrated to deliver economies of scale. MNCs have to balance local sourcing with global sourcing. Products and services have to be tailored to meet the needs of consumers in local markets as well meet the regulatory requirements in the host country.

This may call for MNCs to focus on some markets instead of spreading themselves too thin in all the markets. The headquarters have to be aware of political and macroeconomic developments in their countries of operation. Boards of subsidiaries have to be made more accountable now. MNCs should adopt a polycentric approach instead of an ethnocentric approach. Rather than sending expats to local subsidiaries, talent management practices have to focus on absorbing talent from the local pool.

Firms like Airbnb, Netflix, Skype, Uber and Zappos have disrupted traditional businesses by ensuring that the intellectual property embedded in their technology platforms could be scaled globally, tailored quickly to local market needs and fine-tuned to adapt to emerging consumer needs.

Digital business models will need fine tuning of supply chains and production processes.

Digital data is playing an important role in the strategies of multinational enterprises. There are concerns about data storage and transfer. For example – Chinese smart phone manufacturers came under the regulatory radar in India due to concerns about data privacy issues. Facebook and Google have faced regulatory backlashes due to issues related to breach of security.

Digital technologies are being adapted across different sectors. This can lead to a broader diffusion of technologies and a surge in productivity gains. MNCs can also act as vehicles for transmitting digital technologies across the globe.

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EPILOGUE

Multinational corporations have truly evolved in the era of digital communication technologies under the seemingly heavy influence of social media channels. While there are immense opportunities for multinational corporations to grow their businesses and explore unpenetrated markets in foreign nations, they are also equally exposed to challenges. These challenges result from the need for increased accountability and transparency and the need to comply with stringent regulatory norms across the globe. These norms vary from one nation to another.

An Indian company Marico achieved tremendous success in MENA (Middle East – North Africa) region mainly because the company learnt from its failures and invested in market research to understand the pulse of the local market. In the spirit of "Think Global, Act Local" Marico engineered path breaking innovations to suit the customer's tastes and also adopted the inorganic route to growth. In regions like Egypt that had a large section of customers who were marginalized and socio-economically underprivileged, Marico realized that it had to sell affordable products to poorer sections of the society.

Multinational corporations investing in resources to achieve their social responsibility objectives are leaving no stone unturned to create visibility around the same. Multinational corporations like Proctor & Gamble and Hindustan Unilever have cleverly deployed a strategy to use audio-visual digital communication tools to publicize their efforts in social responsibility – be it the education of the girl child, conservation of water to benefit the marginalized sections of society or socio-economic development in the rural areas in India.

Ironically, a few years ago, Hindustan Unilever was accused of contaminating the groundwater with Mercury in the picturesque hill station of Kodaikanal in Tamil Nadu. Coca cola has faced community backlash for the unabashed use and abuse of groundwater in water-deprived areas in Rajasthan and Kerala. The devastation caused by the leak of methyl isocyanate gas in the Bhopal plant of Union Carbide is still fresh in people's memories even though the accident occurred way back in 1984. Besides causing loss to human lives and extensive damage to property, the gas leak also wreaked havoc with the environment.

Coca Cola was accused of killing competition in the form of Thums Up by buying the brand and killing it. Nestle's Kit Kat was made sourcing palm oil from a firm (Sinar Mas) that cleared an Indonesian rainforest of its plantations which affected the habitat of orangutan monkeys. These stories are re-emerging thanks to the proliferation of digital media.

Multinational corporations should remember that negative stories assume a higher hierarchical level in memories of consumers. So, they have to be circumspect about their actions and the impact of their actions on interests of the community and the environment. This has become even more crucial in the digital era. Subject to compliance with regulations in the host country MNCs can source foreign funds for business expansion. When businesses face regulatory challenge in the host country, they often look up to the governments in the home country to support them. IKEA, the Swedish furniture maker, invested in India through the FDI route but when the regulatory challenges threatened to cripple their efforts, IKEA took it up strongly with both the governments in the host country and home country. At one point, IKEA even threatened to withdraw its investment from India.

Conducive policies of local governments have often favored the business expansion plans of MNCs. Hyundai and Ford set up manufacturing base in Chennai (Tamil Nadu) as against Bangalore (Karnataka) due to policies that were in favor. Though the proximity of Chennai to ports was one of the reasons, these MNCs were happy with the support provided by the state government in Tamil Nadu. The government provided infrastructural support and subsidies and the policies were made flexible to encourage investment by these automakers.

The Indian Government (as on 29th August 2019) relaxed the norms for single brand retail in the country. They have allowed 100% FDI in contract manufacturing and also in coal mining. These moves have been planned keeping in mind the need to boost economic growth. Companies like Apple and IKEA have responded favorably to this Government initiative. The expansion plans of multinational corporations depend a lot on support provided by host country governments.

Tax structures are different across the world. The prevalence of bilateral and multilateral trade organizations has only added to the complexity. Political relations between nations have started impacting international trade. For example – the trade between USA and China has deteriorated (in 2019) due to the adverse political climate between the two countries – one the world's most developed economy and the other the world's No.1 emerging market. Additionally, the trade relations between two warring nations have started impacting other nations. US advised India not to support the Chinese company Huawei. The latter has slashed jobs in its research center in the US as a retaliatory measure. China has somewhat alienated India by joining hands with Pakistan and this has affected the trade relations between India and Pakistan.

Earlier too, the international business operations of multinational corporations was affected adversely due to deteriorating political relations between a host country and a home country. Globalization has rendered such developments inimical. No country can stay immune to trade wars in other nations. Additionally the speed at which such information is getting transmitted across the globe is incredible. Digital communication technologies have eased the dissemination of quality information. Business ethics and compliance has assumed greater prominence in the digital era. Multinationals are expected to socially active and demonstrate environmental responsibility at the highest level. Community development programs must now form an integral part of corporate social responsibility efforts of multinational corporations.

Acquisition of Flipkart, a local E-commerce player in India, by American retail giant Walmart did raise a lot of eyebrows. The acquisition came under the regulatory radar but there were few hurdles to be overcome. However, this development made Amazon, the US e-commerce giant, more vigilant to face the onslaught of competition.

Nestle's Maggi noodles faced regulatory flak in India due to poor product integrity. This led to a drastic drop in the sales of the brand. It took a while for Nestle to reignite the consumer passion in the brand. Cadbury India too faced quality issues that dented its brand equity. McDonalds, Dominos and Pizza Hut have often been criticized for introducing the famed American junk food culture in India. McDonalds studied the local market and took a decision to ban beef-based food products in its Indian operations. They also introduced innovations like Mc-Aloo Tikki based on a popular food item in Indian kitchens. This was an attempt to appease the Indian customers and target his palate and plate.

Today, MNCs in India are facing competition from local players. When an Indian detergent brand called Nirma, manufactured by a small-time entrepreneur Karsanbhai Patel started becoming popular in India, Hindustan Unilever (HUL) launched Wheel detergent powder for low income households. In 2019, Future Group, promoted by Kishore Biyani is all set to launch their private labels – liquid detergents. This has prompted HUL to launch a counter attack. MNCs like HUL & Colgate Palmolive have to deal with competition from local Indian players like Dabur and Patanjali besides MNCs like Proctor & Gamble and Johnson & Johnson.

MNCs like Kelloggs have started using digital marketing strategies to enhance awareness about their products. Kelloggs has also introduced new products after understanding the audience tastes in the Indian market. When Kelloggs launched its corn flakes in India, there were not many takers. Gradually, Kelloggs began making its presence felt through aggressive advertisement campaigns. They began understanding the consumption patterns of Indians – what was consumed by Indians for breakfast and what sort of product proposition would entice Indians to start eating corn flakes for breakfast. The initial losses made by Kelloggs in the Indian market were set-off against the profits that the brand made in Western markets.

Innovations are being carried out by MNCs in emerging economies like India and China to leverage labor arbitrage. A majority of smart phones sold in India are made in China, Taiwan and Korea.

While MNCs like Dell, Cisco and Deutsche Bank have created massive employment opportunities in India, they have also laid off people in droves. Chinese plastic toys have dented the fortunes of wooden toy makers in Channapatna, Karnatka.

Foreign hospital chains have set up health care centers in India access to which is far away for the common man in India. These centers charge a premium for their services. Foreign banks have seldom expressed interest in priority lending to the cottage sector and agriculture. Micro insurance is one more business that foreign insurers have steadfastly stayed away from.

MNCs can't escape blame from the unethical acts performed by its sub contractors. Nike's subcontractors were using child labor and also employing impoverished women in Bangladesh. These women and children had to toil from day to night with meager wages and pathetic work conditions. When Nike tried to wash off the incident with impudence, the digital world reported Nike's nonchalant response. This resulted in an uproar against Nike's tepid reaction. Nike had to hastily retreat its earlier stand and accept responsibility for sub contractor actions.

India's rural markets are opening up to online opportunities. Local players have started developing apps to influence rural consumers to make a purchasing decision. They are now competing with MNC giants thanks to the prevalence of the digital economy.

Strategies of multinational corporations in the digital era must take into account the need for such organizations to sustain in the future by overcoming cross-cultural barriers and regulatory hurdles.

MNCs have to learn from failures of the past and re-tweak their strategies accordingly. More and more MNCs are now using digital marketing strategies like SEO, SEM, Email marketing, Video marketing, and content seeding to market their products and services.

US importers of electronic items and toys are now contacting Indian suppliers of such items. Earlier, these importers were placing orders on Chinese suppliers. Due to the trade war between US and China, Indian trade is getting benefited. It works both ways. Trade wars have their advantages and disadvantages.

Emerging economies like India are earning foreign exchange by promoting services like eco-tourism and medical tourism.

It is interesting to note that many MNCs in India have recognized the need for building positive emotions in advertisements. Indians are emotional by nature and so advertisements that have a high emotional quotient have a greater chance of connecting with customers. Growth in sales is directly related to the effectiveness of an advertisement.

Boris Johnson has taken over as the Prime Minister of the United Kingdom. He is determined to execute Brexit. He is keen to re-establish the national sovereignty of UK. The pro-Brexit lobby believes that the UK will benefit due to free trade agreements with the US, the Old Commonwealth and India.

It is a mystery why the education sector is lagging behind when it comes to strategic alliances between Indian and foreign universities. The Indian Government should allow 100% FDI in higher education so that foreign universities can build great campuses in India. These Universities can also introduce a scheme wherein after completing a degree in India students can opt for further studies abroad. This development will reverse the brain-drain that has been plaguing India since a long time.

In the digital era, a purely transnational approach by MNCs is being questioned. MNCs are expected to demonstrate greater commitment towards social and environmental issues in the host country. Efforts made by MNCs to fulfill their obligations towards corporate social responsibility must be genuine. Governments are maintaining a close watch on the actions of MNCs and so MNCs have to now move away from a purely ethnocentric approach to a polycentric approach. MNCs have to invest in relevant market research to better understand the local markets.