Doing business with multinational organizations

Parts of the World, European Union

INTRODUCTION Owing to the fast evolution of information and technology organization are operating in an environment where the geographical boundaries are none existent and a company with a subsidiary in another continent operates as if they are in the same city. This paper seeks to identify how this has affected way of doing business by multinational organization by looking and four aspects, which are cultural differences, ethical issues, strategy and industrial or business. 1 1. CULTURAL DIFFERENCES Culture plays a very important aspect in various aspects of business especially for multinational corporations (MNC) operation on a global level. Cultural variations affect the way a firm conducts its business in different geographical regions and around different cultural settings so that they widen their market base, increase revenue and reduce conflicts resulting from cultural differences(Deresky, 2008). Managers of MNCs have to understand what implications cultures have on various business transactions. The main areas where cultural factors affect multinational corporations are: 1. 1. Influence on Strategy that will be used A multinational company must research on the cultural aspects of a new market they would like to venture in. They have to understand the likes and dislikes, preferences, what is considered right or wrong, what is valued, what is the common belief in the area they are going to operate in. An example is in Saudi Arabia where religion dictates what happens in normal business transactions and daily activities for instance for Muslims who pray five times a day, departmental stores and other businesses created room to allow the Muslim customers and employees to pray moreover during the month of Ramadan, most businesses are closed during the day as the Muslims are fasting and are less active during the day and opt to open in the evenings when people are more active. 1. 2. Communication Language and non-verbal communication are cultural cues that affect passing of messages from one party to another. Communication between parties that come 2 from different cultures becomes more challenging because of the differences elements of culture and what they value in communication. Different cultures have different communication styles (Gallois and Callan , 1997). These communications styles are: 1. 2. 1. Explicit Vs Implicit Communication Explicit communications is where someone when someone talks it is straight to the point and unambiguous for example Americans. Implicit communication is usually indirect and inexact for example Indonesian communication. For instance a mother telling a man that he is not compatible with her daughter serves him with tea and bananas instead of telling him directly (Gallois and Callan , 1997). 1. 2. 2. Direct Vs Indirect Communication Direct communication states direct action for example ‘ has this report done before you go home’. When someone hears direct speech they know what is to be done. Greek employees prefer this kind of communication as they prefer orders as compared to their contribution in management decisions. Indirect communication is not authoritative and encourages input from the listener. American managers prefer this kind of communication as it goes with their managerial style of participatory management. 1. 2. 3. Silence Vs Verbal exaggeration Silence is also seen as a way of communication but different cultures perceive silence in different contexts. The Japanese use silence during negotiations as a strategy to control the negotiation process however if their counterparts are 3

Americans, they would see this silence as lack of knowledge or an indication to move to the next point. On the other hand some cultures dramatization and over emphasize to express the gravity of the matter. This has been observed in the Arab states where common words are used at the end of sentences and pronouns will be repeated for emphasis also used are graphical similes and metaphors. Managers in multinational corporations should therefore study very carefully which communication style takes prevalence in what area and use what is preferred (Gallois and Callan , 1997). 1. 3. Non-verbal communication Non-verbal is another way of communicating messages and portrays messages with more emphasis than words as they say actions speak louder than words. Non-verbal communication includes body movements, posture and gestures, facial expressions. In intercultural communication, it is possible that people rely on non-verbal communication especially when verbal messages are unclear or ambiguous. This is because non-verbal communication is used to add meaning to our verbal communication. How non-verbal communication is used also varies for example low context cultures like the Americans tend to concentrate less with non-verbal communication. This means that it is not there but it is given little importance compared to the words. Examples of non-verbal communication cues are proxemics (space), tone of voice, body gestures, facial expressions and eye contact (Gallois and Callan , 1997). 1. 4. Negotiations This is a process where business people engage in discussions with the objective of 4 reaching an agreement that will result in the parties involved benefiting. Negotiations for multinational corporations are usually with the suppliers of capital (investors), suppliers, service providers, the

Governments involved (either domestic or foreign), customers and the society. Managers should be aware of the sensitivity and complexities of negotiations especially that are caused by cultural differences as these are usually the key to success (Horst, 1972). The multicultural negotiation process is as outlined below 1. 4. 1. Preparation: Understand the counterpart's culture as compared to ours and identifying the differences. Meant to make us understand the counterparts culture 1. 4. 2. Relationship building: This stage is used to build trust, some cultures find this step irrelevant while others emphasize on relationship building and spend more time here. 1. 4. 3. Exchange task related information: Presentation of details by each the parties and they state their stands. Culture dictates how much information is revealed. 1. 4. 4. Persuasion: Each party tries to convince the counterparts to take their option by explaining the benefits each would get from their stand. 1. 4. 5. Concession and agreements: This is where agreements are reached and using culture, negotiators know how they will get to this point. 1. 5 Motivation This is what gives human beings or groups the desire or willingness to do something 5 in terms of work and personal life and such a context is greatly influenced by cultural variables that affect attitudes and behavior. Using Hofstede's cultural dimensions we can evaluate how different motivation methods by multinational corporations would affect employees from different cultures especially if they use the same methods across several countries. 1. 4. 6. Individualism/Collectiveness People who are members to a culture that promote individualism such as the American culture would be motivated by opportunities for individual advancement and autonomy plus they would prefer individual rewarding systems than people of a collectivist nature who would prefer rewards of the entire group and would be motivated with what will advance the entire group. 1. 4. 7. Uncertainty/Avoidance People who are members of cultures who prefer to avoid opportunity would prefer job security while the opposite would be motivated with risky opportunities for variety and fast track development. 1. 4. 8. Power distance A low power distance culture will be motivated by team work, contribution coming from all members while in a high power distance, motivations comes from the relation ship of the managers and the subordinates. 1. 4. 9. Masculinity/Femininity A masculine culture would prefer the traditional division of work and roles by gender and each gender to stay in their positions for example the traditional African culture 6 while in a feminine culture is open and will motivate people through flexible roles and equal opportunity .(Harris and Moran , 2000) 2. ETHICAL AND LEGAL ISSUES Globalization has led to the development of worldwide and regional governing bodies such as the World Trade Organization (WTO), European Union (EU) and the Common Market for Eastern and Southern Africa (COMESA). They are tasked with regulating interactions between economies and preventing conflicts as well as ensuring business ethics and legal measures are taken care of (Farrell et al, 2008) 2. 1Examples of Regional and world governing bodies 2. 1. 1. World Trade Organization The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments. The goals of the WTO include among others the administration of trade agreements, facilitation of trade negotiations, settlement of trade disputes, provision of legally binding ground rules for international commerce and trade policy. Basically WTO attempts to reduce barriers to trade between and within nations and settle trade disputes (Ferrell, Fraedrich & Ferrell, 2008). The WTO can be said to favour the powerful multi-national corporations, which daily strengthen their grip on the world economy. This has led to smaller nations being forced to open up their trade areas e. g China being forced by US to open up its trade 7 to allow U. S imports. Globalization of multinationals has many adverse effects on millions of people throughout the world. The overriding aim of the WTO, in short, is to create a world eminently fit for the multi-national corporations to live in. 2. 1. 2. European Union The European Union is the economic association of over two dozen European countries, which seek to create a unified, barrier-free market for products and services throughout the continent, as well as a common currency with a unified authority over that currency. The EU relies on member states to protect collective labor rights. The EU expects member states to have thriving trade unions and employees associations to participate in the legislative process at EU level that can help to implement directives at the national level. The EU also places considerable importance on upholding human rights standards in its dealings with 3rd world countries (Alston, 2005). 2. 1. 3. COMESA The Common Market for Eastern and Southern Africa, is a preferential trading area with nineteen member states stretching from Libya to Zimbabwe. COMESA formed in December 1994, replacing a Preferential Trade Area which had existed since 1981. The main objective of COMESA is to facilitate the removal of all structural and institutional weaknesses of member States, and the promotion of peace;

security and stability so as to enable them attain sustained development individually and collectively as a regional bloc. Among other things, COMESA member States have agreed on the need to create and maintain: 8 ï‚· a full free trade area guaranteeing the free movement of goods and services produced within COMESA and the removal of all tariffs and non-tariff barriers; ï‚· a Customs Union under which goods and services imported from nonCOMESA countries will attract an agreed single tariff in all COMESA states; ï‚· free movement of capita and investment supported by the adoption of common investment practices and policies so as to create a more favorable investment climate for the COMESA region; ï‚· a gradual establishment of a payments union based on the COMESA Clearing House and the eventual establishment of a common monetary union with a common currency; and ï‚· The adoption of common visa arrangements, including the right of establishment leading eventually to the free movement of bona fide persons. 2. 2. Effects of World Governing Bodies on globalization and business World governing bodies have opened up trade between member countries and as a result increased globalization namely through: 1. Reducing barriers to international trade through international agreements such as WTO agreements 2. Elimination of tariffs; creation of free trade zones with small or no tariffs 3. Reduced transportation costs, especially resulting from development of containerization for ocean shipping. 4. Reduction or elimination of capital controls 5. Reduction, elimination, or harmonization of subsidies for local businesses 9 6. Creation of subsidies for global corporations 7. Harmonization of intellectual property laws across the majority of states, with more restrictions 8. Supranational recognition of intellectual property restrictions (e. g. patents granted by China would be recognized in the United States) 9. Globalization has brought about the formation of alliances between countries such as the G8, NAFTA, EU, such alliances want to improve trade and business amongst themselves and companies operating outside these alliances have quite some disadvantage e. g. flower companies in Kenya selling flowers to the EU 10. World governing bodies and trade alliances such as EU, WTO stipulates the basic ethical rules that should be used in their member states. If companies do not comply they would have campaigns against them creating boycotts for their products. 10 3. 0 STRATEGIES During the last half of the twentieth century, many barriers to international trade fell and a wave of firms began pursuing international strategies to gain a competitive advantage. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint venture. Strategic management enables organizations to recognize and adopt to change more readily; successfully adapting to change is the key to survival and prosperity. 2. 3. Two types of international strategy 2. 3. 1. Global strategy Treat the world as a single market. It is applied where forces for global integration are strong and force for national responsiveness is weak. For example this is true of consumer electronics market. Global Strategy is suitable for: ï,· ï,· ï,· Product is the same in all countries. Centralized control - little decision-making authority on the local level Effective when differences between countries are small 2. 3. 2. Multinational Strategy It treats the world as a portfolio of national opportunities. It is applied where forces for global integration are weak and force for national responsiveness is strong. For example this is true of branded packaged goods business for 11 example strategy pursued by Unilever. Multi domestic strategy is suitable for ï‚· ï‚· ï‚· Products customized for each market Decentralized control — local decision making Effective when there are wide differences between the countries 2. 4. Strategies of investing abroad 2. 4. 1. Joint venture Marula (2006) defines joint venture as a venture that is jointly owned and operated by two or more firms. He further explains that many firms penetrate foreign market by engaging in a joint venture with firms that reside in those markets. Advantages of a Joint venture First these organizations are able to apply their respective comparative advantages in a given project and Marula (2006) gives an example of General Mills Inc which joined in a venture with Nestle SA so as that cereals produced by General Mill could be sold through the overseas sales distribution network by Nestle also Xerox Corp and Fuji Co. of Japan engaged in a joint venture that allowed Xerox Corp to penetrate the Japanese market and allowed Fuji to enter the photocopying business. Secondly a joint ventures enables organization especially in the automobile to offer its technological advantages for example General Motors has ongoing joint ventures with automobile manufactures in several different countries. 12 Disadvantages of Joint Ventures Association of Certified Charted Accountants (2004) asserts that disagreements may arise over profit shares, amount invested, the management of the joint venture , making the strategy and finally one partner may wish to withdraw from the arrangement. 2. 4. 2. Contract Manufacturing or Licensing Pearce and Robison (2004) define licensing as the transfer of some industrial property right from the licensor to a motivated licensee. They further explain that most tend to be patterns, trademarks, or technical know how that are granted to the licensee for a specified time in return for a royalty and for avoiding tariffs or import quotas. Advantages of Licensing Pearce and Robison (2003) argue that firms that use licensing will benefit from lowering the risk of entry into the foreign markets and used best in companies large enough to have a combination of international strategic activities and for firms with standardized products in narrow margin industries. Disadvantages of Licensing According to Pearce and Robison (2004) is the possibility that the foreign partner will gain the experience and evolve into a major competitor after the contract expires as this was a case between U. S electronics firms with Japanese companies. Secondly they argue that another potential problem stems from the control that the licensor forfeits on production, marketing and 13 general distribution of its products. And this loss of control minimizes a company’s degrees of freedom as it reevaluates its future options. 2. 4. 3. Franchising Pearce and Robison (2004) define Franchising as form of licensing which allows the franchise to sell a highly publicized product or service, using the parent’s brand name or trademark, carefully developed procedures, and marketing strategies. In exchange the franchisee pays a fee to the parent company, typically based on the volume of sales of the franchisor in its defined market area. The local investor who must adhere to the strict policies of the parent operates the franchise. Examples are Avis, Burger King, CocaCola, Hilton, Kentucky fried chicken, Manpower and Pepsi. ACCA (2004) asserts that the franchiser provides the name, any good will associated with it, systems, business methods, support services such as advertising, training and site decoration while the franchisee provides the capital, personal involvement, local market knowledge, payment to the franchiser for the rights, support services and responsibility for day to day running and the ultimate profitability of the franchise. Disadvantages of franchising According to ACCA (2004) search for competent candidates is both costly and time consuming where the franchiser requires many outlets for example McDonalds in UK. Also the control over franchisees is demanding as they are spread over many locations. 14 2. 4. 4. Transnational Alliances Levi (1996) defines transnational alliances as associations of firms in different countries working together to overcome the limitation of working alone. One of the motivations to form a transnational alliance is cooperation over research where cost and risks may be too high for any one firm or where different firms may possess different abilities. He gives an example IBM and Siemens of Germany in Memory chip development or marketing of Geo produced in Korea by GM. He further asserts that transnational alliances are compromise between a firm doing everything itself and dealing with a stranger. Advantages Of transnational alliances As Levi (1996) argues organizations form transnational alliances to gain access to foreign markets, to exploit complementary technologies and to reduce time taken for innovation. 2. 4. 5. Wholly owned foreign subsidiaries Based on a study done by Richard Vernon of Harvard Business School where 187 United States manufacturing with six or more foreign subsidiaries outside of Canada the researcher concluded that these multinational corporations tend to be larger, more profitable more advertising and research oriented and more diversified than firms which have not invested abroad. (Horst, 1972) 4. 0 INDUSTRIAL AND

BUSINESS Economic reforms/environment affects the business and industry directly. Business plans and programmers are directly influenced by economic factors, 15 such as, interest rates, money supply, price level, consumers' credit etc. Economic conditions leading to inflation or deflation affect the business activities. Inflation leads to rise in general price-level, whereas deflation leads to fall in price level. Higher petrol prices in the country resulted to a trend in favor of small like Maruti and starlet cars. State of industrial trade and business booms and slumps constitute the economics of market environment, (Lewis, 2006). Recently government initiated various economic policies. As such the impact of these reforms changes on business and industry in the following manner: 2. 5. Buyers' market In the liberalized policy regime shortages of goods are no more, but there are surplus of goods. These arise due to competition, reduction in cost, up-gradation of technology, improvement in quality and customer convenience. Removal of government restrictions on capacity creation and capacity utilization has also helped increase in the supply of goods. Industry has been given total freedom to expand and diversify. Price control has been removed. Investment now takes place in the areas of demand. All these changes have made the buyer, the sovereign of the market. 2. 6. Export is required for survival Implementation of new trade policy has linked imports to exports. The enterprises should earn foreign exchange by exports and use the same foreign exchange for importing raw material spares and equipments. For example: Reliance Group, Essar World Trade, Ceat, Videocon, Eicher, MRF etc, are being benefited by the 16 new policy. 2. 7. Threat from multinational companies Due to the present policy of liberalization of our government, massive entry of multinationals in the country has started. The vast resources and the modern technology of the present multi-national companies have enabled their subsidiary companies to boost sales and enjoy strategic advantage over their competitors. The presence of multinational companies has been rendering valuable services to our economy. It is supplying superior quality of goods, generating more employment opportunities, promoting modern technology and awakening our business community. Presence of multinational companies has also boosted growth of small industries in the country. 2. 8. Overall competition The new competitive environment has thrown the economy open. There is tough competition between multinationals and there is also competition between local enterprises and foreign enterprises. Competition has now become global. It is not confined to national boundaries. For instance, Weston Electronics Company, which held about 18% of the television market, has been virtually thrown out of the market due to cutthroat competition and technological backwardness. 2. 9. World class technology Changes in government policy regarding business and industry have provided us with world-class technology. Most companies have also started making investment in research and development. Pharmaceutical industries in countries such as India made 2% investment in R & D. In developed countries investment in 17 research and development is approximately 12%. Multinationals are also bringing world-class technology in the country. This has enabled faster growth of industries. 2. 10. Future not guided by past failures It is rightly said that future starts afresh for companies. Future now needs new strategies, high technologies, determined efforts, enthusiasm, organization and leadership. New approaches, systems structures and new leadership must emerge to compete with the multinationals. We must forget the past, bury its failures and start working with new endeavor, approaches and leadership. 2. 11. Wider and diverse markets Due to globalization markets have been opened up and can now be widely accessed by companies from various countries. Countries have lift barriers improving flow of goods between them. This has boosted import and export trade among various countries. Regional trading blocks have been formed to improve trade and allow free flow of goods and services among member countries. In the agricultural sector, crop imports are traded at cheaper prices and exchanged for another commodity because of the free trade as entailed among the provisions of bodies such as COMESA or WTO. A country such as Philippines could purchase or import crops from another country at cheaper tariff rates, in case of a shortage. However, on the downside, countries that are more progressive agriculturally could just dump their third-rate or low-class products to their third-world trading counterparts. 18 2. 12. Foreign direct investment inflows Local industries which have invested abroad such as Bidco oil refinery is reaping huge profits from its foreign direct investments such as from its investment in Uganda palm plantation. Creation of common markets has given countries incentives to invest in those countries thus leading to investment inflows. Lowering of tariffs: countries such as India have been reaping from enormous opportunities emerging from globalization such as consequent lowering of tariff barriers. Information Technology has given Indian industries formidable brand equity in the global markets. Indian companies have a unique distinction of providing efficient business solutions with cost and quality as an advantage by using state of art technology. Outsourcing is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service. Due to globalization, most companies and businesses have sought to contract most of its services or processes to outsiders. Most industries now use outsourcing such as call centers and can outsource its functions such as marketing, financial, training, transport and distribution and so forth. Capitalize on global trade: most domestic industries now capitalize on global trade by concentrating on the domestic market and then leverage their economies of scale overseas. 2. 13. Devaluation Some countries have had to cope up with the trend of globalization by devaluing their currency such as India. The first step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 percent against 19 major currencies in the international foreign exchange market. This was a measure taken in order to resolve the balance of payment crisis. 5. 0 ANALYSIS AND CONCLUSION In conclusion my own critique on globalization is that the whole process has increased power that multinational corporations seems to enjoy . This is seen as a particularly worrying phenomenon because it affects the issues that are raised and witnessed everywhere we have a multinational company. An overriding concern is that globalization increases the gap between the haves and the have-not of the world. Unfair labor practices such as child labour, poor working conditions and low remuneration packages are some of issues that have been witnessed in the recent past. Although it’s not clear whether the forces of globalization may produce a general deterioration of working conditions around the world or increase the inequality of working conditions among countries . despite the above , in rich countries the picture is totally different thus self-interested opposition to globalization with fears that cheap imports or immigrants from other countries will lower the relative wages of low-skilled workers, more rapid economic change and shifting patterns of comparative advantage will increase economic insecurity and international competition. Despite all this countering the claims of globalization skeptics is a century-old economy theory that predicts free trade will reduce a convergence of labour conditions around the world. 20 6. 0 References: ACCA (2004) Strategic business planning and development (paper 3. 5). London: BPP Professional Education Alston, P. (2005). Labour rights as human rights. New York: Oxford University Press Inc. Deresky, H. 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