

Managing Foreign Subsidiary Competitiveness

Yezdi H. Godiwalla
University of Wisconsin-Whitewater

Managing foreign subsidiary competitiveness is vital for overall, long term, global organizational growth. Strategic global leadership, vision and culture among the top managers of headquarters (HQ) and foreign subsidiaries are vital for enabling the subsidiaries to pursue their vision of improved competitiveness. Sustained growth and improved competitiveness in the global organization's multiple country environments then becomes the means for overall MNC strategic enhancement.

INTRODUCTION

The long term objectives, shorter term goals and corporate strategy, business strategy, and foreign subsidiaries' strategy of an organization are derived from the organization's global vision and mission. The strategic management process begins with leadership of a multinational corporation's (MNC) top managers at HQ and foreign subsidiaries. The process begins with a strategic vision and mission, strategic analyses, choice of long term objectives, shorter term goals, and the formation-formulation and implementation of corporate and foreign subsidiary strategy. It involves the leaderships at the MNC headquarters and the foreign subsidiary units.

International management and strategic management are two important processes that need to be equally emphasized and their processes are to be skillfully combined. Strategic and visionary international leadership is a key to MNC global effectiveness. Its local, regional and global competitiveness depends on it. It leads to sustained growth and profitability. Past organizational performance and current culture create an environment for change only if the strategic leadership can have a well-integrated global strategic plan (Wang and Emma, 2012). Strategic international leadership focuses on the global plan for improving the overall organizational competitiveness, effectiveness and growth. An important focus of such leadership is the management of the differences of culture and operating conditions across different countries.

STRATEGIC VISION

It would be worthwhile that the MNC headquarters leadership initiate a tentative or proposed (generally or broadly described) strategic vision, long term goals, and a basic strategy, and then seek active involvement from the foreign subsidiaries' executives for re-shaping and refinement. It is important that the MNC headquarters have a clear strategic vision for the MNC's future global position. It is more important that the vision be first developed in close collaboration with the leadership in the subsidiaries, thus, enabling it to become a widely shared vision. What is desirable is a high level of commitment among the HQ and subsidiaries managers to a shared vision and strategy.

There are some aspects of strategic vision that are more worthwhile. Strategic vision is the desired or preferred form and posture of an organization in the future. The strategic vision of the key executives of the MNC headquarters and foreign subsidiary units can be used to collectively transform the organization. It is a foresight of what should be the “ideal” for the organization. It assumes that the current constraint would not limit the future full realization of organizational potential in that it assumes that all the needed resources are possible (Want, 1993).

Strategic vision may appear to be out of a realistic reach or grasp of the organization, given its current capabilities, but that is all right. Hindle (1994) defines strategic vision “as an irrational barrier-leaping ambition for a company.” It becomes the flash point for future change. Somewhat higher vision can be urging the people to strive harder. An intense strategic vision can be the driving force towards change.

ORGANIZATIONAL CULTURE AND CHANGE

The effective strategic leadership at foreign subsidiaries’ level should focus on exploiting profitable opportunities in their host countries. Strategic vision and organizational culture are inter-related and vital in this context. Strategic vision must be matched by an appropriate organizational culture that would correctly channel the activities and resources of the organization (Karabell, 2010). It is important to see that changing an organization’s strategy and culture should focus on a comprehensive approach that addresses all aspects of the organization (Kono, 1997; Brief, 1996). Further, organizational culture itself can drive changes in corporate strategy (Morgan, 1993; Trice, 1993). This would be in addition to the sequence of strategy that could lead changes in organizational culture.

The industry environment is another external environmental segment that can cause organizational culture changes, including changes emanating from competition, customers, channel distribution, technological innovation and applications from the same or other industry (Selmer and Lauring, 2010). It is found that an organization usually tends to conform to the patterns of the industry to which it belongs (Chatman and Jehn, 1994).

While the relationship between strategy and culture is such that they influence each other, organizational leaders may first conceive of a new strategy and change by design the structure and culture so that they can realize the strategy (Deal and Kennedy, 1983). They pursue organizational change by a planned design. In this way strategy is viewed as the driving force that transforms the organization, its technologies, structure and culture. And, collectively they change the posture of the organization (Finkelstein and Hambrick, 1996).

Organizational leaders often use the organization as a means or an instrument to accomplish the goals that they impute upon the organization. This is referred to as the “instrumentality” of the organization. In as much, they view strategy, technologies, structure and culture as more specific and detailed tools to carry out the goals that the leaders wish for the organization to accomplish. These are some of the issues of control and are vital to managers (Chang and Taylor, 1999).

NATIONAL CULTURE AND THE UNIT’S ORGANIZATIONAL CULTURE

Host country national culture of a foreign subsidiary unit has a major impact upon the unit’s organizational culture and cross-cultural communications and negotiations (Herbrig and Gulbro, 1997). For example, the ethical content of a foreign subsidiary unit can be significantly influenced by the national culture of the host country, in addition to the MNC’s headquarters organizational culture (Robertson and Fadil, 1999). These ideas can have an important impact on the discussions of the managers of the MNC’s HQ with the managers of the subsidiaries. The cultural differences can make the global strategic management process slower and complicated.

The foreign subsidiary unit has to address the often differing cultures of the MNC headquarters, the MNC as a whole (including all the other units), and the national culture of the host country (Harvey and Napier, 2010; Shin et al, 2007). The growth of a foreign subsidiary unit would in part depend upon its organizational strategy and culture (Vachani, 1995). Since the unit exists in the context of the overall

MNC as an organization, the local marketing environments, and the local national cultures, the unit has to strive to balance the often differing needs and expectations of these diverse groups. In this way, the unit is managing its stakeholders.

HOST COUNTRY'S INFLUENCES UPON A FOREIGN UNIT'S MANAGERIAL LEADERSHIP

Table 1 portrays some of the major factors that can influence a foreign unit's managerial leadership. The foreign unit's host country has a strong influence upon the unit. Most of the people of the unit are likely to be comprised of host country nationals. The national culture, economic, general and particular industry factors of the host country provide an environment within which the foreign unit operates.

The cultural environment of the host country can alter the preferred managerial leadership approach of a MNC headquarters for its foreign subsidiary unit. The local customs and social approaches may make inviable the managerial leadership approaches of the MNC's headquarters. The economy of the host country provides general conditions within which the unit has to operate. Many of these are issues of infrastructure. The industry-specific factors include the competition, customer groupings, industry associations and standards, suppliers and labor. These affect the unit more immediately and directly.

These three sets of host country factors (culture, economy, specific industry) have a significant influence upon the unit's managerial leadership. These include: the choice of decision-making styles, rationale for strategic decision-making, and approaches to further design and develop its organization.

MATCHING FOREIGN UNIT'S LEADERSHIP CULTURE TO ITS HOST COUNTRY'S NATIONAL CULTURE

In a sense, MNCs are conglomerates even if they were to be in one line of business. This is because of their very diverse operating settings and cultural variations. They have to have a mind-set of a conglomerate. That is to say, they should decentralize not only operating decision-making, but also strategic decision-making (Muralidharan and Phatak, 1999). They have to go another important step: decentralize managerial and decision-making styles. MNC headquarters must allow each of its foreign subsidiary units to formulate its own top management leadership style. Management is very culture bound. It is equally strongly felt at the top echelons as elsewhere (Pornitakpan, 1999). An MNC headquarters should not impose its own managerial culture to the units.

Table 2 provides an example of some different host country cultural, economic, and infrastructural conditions that may suggest appropriate unit's managerial styles. This is a suggestive list, and, each foreign unit must analyze its host country's cultural, economic and infrastructural environments so that it may evolve its own effective managerial culture and decision-making process.

Each of the five different host country environments is reviewed here. The effective management style depends upon the social conditions, pace of change, complexity of business decision-making environments and structure of economy.

Host Environment 1: Stable society and simple, stable economy can have very centralized strategic decision-making. The decision parameters, scope and rationale remain essentially the same even over a relatively longer period of time, and so the unit could centralize all major decisions at the top management. The unit can be run as a typical bureaucracy with specific job descriptions, and the detailed roles and tasks remain the same for a long time.

Host Environment 2: Supportive and stable culture and technically advanced environment enables the unit's top management to pursue a highly professional approach. Because of the stability, the organization can institutionalize the decision-making process. Top management approach is sophisticated and maintains a sense of permanence.

Host Environment 3: This environment is different from the previous environments in that it is faster changing. Its change is somewhat linear, and not as erratic and turbulent as in the next two environments. The top management culture and decision-making style may be characterized by its specialized peer groups so that they can concentrate on technically intense activity. The changing nature requires shifts in

focus, and so groups of peers focusing on important issues would characterize the top managerial mind set.

TABLE 1
HOST COUNTRY'S INFLUENCES UPON A FOREIGN UNIT'S MANAGERIAL LEADERSHIP

<u>Societal and Cultural Influences</u>	<u>HOST COUNTRY'S:</u>	
	<u>Economy and Allied Influences</u>	<u>Industry-Specific Details</u>
<ul style="list-style-type: none"> History of society, e.g. migrations, dominations of and by other countries, life style changes, material or livelihood developments that change ways and quality of life Recent and projected migration patterns and their impact on labor and financial markets, political processes Evolving values of society because of migrations and other dynamics, impact on society 	<ul style="list-style-type: none"> Natural resources, particularly as they affect life styles and methods of coping with life's challenges and other issues Plans for the development of natural resources Infrastructure of support facilities and utilities, their quality and efficiencies Financial institutions and govt'al regulatory supervision Regional economics and impact on the factories and markets 	<ul style="list-style-type: none"> Specific industry's make-up: Industry structure, processes Competition, competitors' comparative strengths and weaknesses Markets Suppliers Labor, professional, skilled, semi-skilled for various specialties Customer groupings Industry associations Technological developments
<ul style="list-style-type: none"> Religions and beliefs, their influences on social and workplace values, attitudes and behavior 	<ul style="list-style-type: none"> Component suppliers Vendor suppliers IT services Utility and maintenance services 	Industry life cycle stage Market leaders, runner ups, laggards Relatedness with other industries Industry growth rate
<ul style="list-style-type: none"> Life styles, standard of living, quality of life, attitudes towards one's job, company, profession 	<ul style="list-style-type: none"> Distribution system, wholesalers, retailers, physical distribution, logistics 	Diversification strategies of the multi business groups, host country and foreign companies
<ul style="list-style-type: none"> Social structures & values, basis for stratifying society: system of caste, class, success, power/influence, money, land ownership, religious standing 	<ul style="list-style-type: none"> Communication and IT systems Educational (general and professional) and training standards and patterns, plans for improvements 	Entrepreneurial strategies and prospecting activities, impacts on markets, industries, and economy, govt'al industrial policies, public policy, e.g. market regulation
<ul style="list-style-type: none"> Political, govt'al influences 	<ul style="list-style-type: none"> Regional int. and ext. disparities 	Mkt share spreads, dominance
<ul style="list-style-type: none"> Sub cultures in (int. and ext.) regions and societal strata 	<ul style="list-style-type: none"> Governmental influences on business, regulatory impact 	Competitive advantages, innovations
Political, legal and governmental regulatory methods, law enforcement intensity and effectiveness	<ul style="list-style-type: none"> Capital formation, investor attitudes and motives, investor and customer confidence Financial regulation 	Organizational life cycle stages and stage-specific s strategies, and, mgmt succession plans of direct competitors
Cultural impact on life style, valance and details Social resp. expectations from orgns.	<ul style="list-style-type: none"> Labor markets, availability of skilled technical and managerial people in different specialties 	
Dominant professional values among local and foreign personnel	<ul style="list-style-type: none"> Trade patterns and dependencies with regional countries 	

(Determines)

FOREIGN UNIT'S LEADERSHIP
<ul style="list-style-type: none"> Decision making styles and approaches Rationale for strategic and operating decision-making Approaches to develop organizational structure, culture, technologies, information and control systems, policies, norms and practices in the workplace

Host Environment 4: The erratic and turbulent nature of this environment requires the top management to act boldly, quickly (without too much research and analyses) and in unison. This means that the unit's top management must be close knit, loyal team players. They must know what and how each player thinks, decides and acts in a diverse array of business, political and people situations. The high risk nature demands that they should be great risk takers and decisive players. An important trait of such a team should be that they should be willing and capable of taking some loss should their risk-taking not work out.

Host Environment 5: This environment is characterized by unfathomable cause-effect relationships in the environment. When the unit's top management cannot decipher a consistent, effective decision-making rationale, then they have to adopt an experimenting approach. In this managerial decision-making style, the approaches are tentative. The managerial styles can be changing and evolving.

TABLE 2
MATCHING FOREIGN UNIT'S LEADERSHIP STYLE AND CULTURE TO ITS HOST COUNTRY'S NATIONAL CULTURE

Foreign Unit's Host Country's Culture and Environment	Foreign Unit's Appropriate Leadership Culture
1. Stable society and simple, stable economic structure, relative stability, factors of dynamics	1. Unit's centralized strategic decision-making perpetuating bureaucracy with fixed job descriptions
2. Supportive and stable culture and technically advanced environment	2. Highly specialized and intensely trained institutionalized managerial culture
3. Technically advanced and changing environment	3. Technically specialized peer groups with focus on changing specific projects
4. Turbulent, risky, erratic and uncertain economic, political and competitive environment	4. Close team of top executives making bold, risky moves
5. Complex cultural environment subject to changes (where no one comprehensive approach or pattern of managerial approach appears to be effective).	Flexible, fluid and temporary structure, and, informal and experimenting culture; risk-taking and intensely focused managerial decision-making and strategy execution styles.

REFERENCES

- Arredondo, Patricia. (1996). "Successful Diversity Management Initiatives: A Blueprint for Planning and Implementation". Thousand Oaks, CA: Sage Publications.
- Brief, Arthur P., Richard A. Guzzo, and Benjamin Schneider. (1996). "Creating a Climate and Culture for Sustainable Organizational Change." *Organizational Dynamics*, Spring, 7-19.
- Chang, Eunmi, and Susan Taylor. (1999). "Control in Multinational Corporations (MNCs): The Case of Korean Manufacturing Subsidiaries." *Journal of Management*, Vol. 25, No. 4, 541-559.
- Chatman, J.A., and K.A. Jehn. (1994). "Assessing the Relationship Between Industry Characteristics and Organizational Culture: How Different Can You Be." *Academy of Management Journal*, June, 552-553.
- Deal, T.E., and A.A. Kennedy. (1983). "Culture: A New Look Through Old Lenses." *Journal of Applied Behavioral Science*, November, 501-509.
- Finkelstein, Sydney, and Donald Hambrick. (1996). "Strategic Leadership: Top Executives and Their Effects on Organizations". Minneapolis, MN: West Publishing.

- Harvey, Michael, and Nancy K. Napier. (2010) "Mentoring global dual-careers: A social learning perspective", *Journal of Applied Social Psychology*, Vol. 40, No 1, 212-240.
- Herbig, Paul, and Robert Gulbro. (1997). "External Influences in the Cross-Cultural Negotiation Process." *International Management & Data Systems*, Vol. 97, 158.
- Hindle, Tim. (1994). "Field Guide to Strategy". Cambridge, MA: Harvard University Press.
- Karabell, Zachary. (2010) "With Stocks, It's Not the Economy", *Time*, August 2, 20.
- Kono, Toyohiro. (1994). "Changing a Company's Strategy and Culture", *Long Range Planning*, Vol. 28, 85-97.
- Morgan, Malcolm. (1993). "How Corporate Culture Drives Strategy". *Long Range Planning*, Vol. 26, 110-118.
- Muralidharan, Raman, and Arvind Phatak. (1999). "International R&D Activity of U.S. MNCs: An Empirical Study with Implications for Host Government Policy." *Multinational Business Review*, Vol. 7, No. 2, 97-115.
- Pornpitakpan, Chanthika. (1999). "The Effects of Cultural Adaptation on Business Relationships: Americans Selling to Japanese and Thais." *Journal of International Business Studies*, Vol. 30, No. 2, 317-335.
- Robertson, Chris, and Paul Fadil. (1999). "Ethical Decision-Making in Multinational Organizations: A Culture Based Model." *Journal of Business Ethics*, Vol. 19, 385.
- Selmer, Jan, and Jakob Lauring. (2011) "Expatriate Academics: Job Factors and Work Outcomes," *International Journal of Manpower*, Vol. 32, Issue 2, 194-210.
- Shin, Shung J., Frederick P. Morgeson, and Michael A. Campion. (2007). "What you do depends on where you are: Understanding how domestic and expatriate work requirements depend upon cultural context". *Journal of International Business Studies*, January Vol. 38, No 1, 64-83.
- Suutari, Vesa, and David Burch (2001). "The role of on-site training and support expatriation: Existing and necessary host-company practices", *Career Development International* (Bradford), Vol. 6 No 6, 298-312.
- Trice, Harrison, and Janice Beyer. (1993). "Changing Organizational Cultures." *The Cultures of Work Organizations*, 393-428.
- Vachani, Sushil. (1995). "Enhancing the Obsolescing Bargain Theory: A Longitudinal Study of Foreign Ownership of U.S. and European Multinationals." *Journal of International Business Studies*, Vol. 26, No. 1, 159-173.
- Wang, Yu-Lin, and Tran, Emma. (2012). "Effects of Cross-Cultural and Language Training on Expatriates' Adjustment and Job Performance in Vietnam," *Asia Pacific Journal of Human Resource*, Vol. 50 No 3, July, 327-350.
- Want, J. (1993). "Managing Radical Change." *Journal of Business Strategy*, Vol. 15, 21-28.