Multinational Corporations (MNC):

- Receives >25% total sales revenues from operations outside parent company's home country
  - Managed as integrated worldwide business system
  - Controlled by single management authority
  - Top managers exercise global perspective
- Managers must be sensitive to cultural subtleties
  - Personal challenges – culture shock
  - Managing Cross-culturally
  - Managers must be culturally flexible and easily adapt to new situations

The Steps to Developing International Commitment:

1- Become aware of international business opportunities.
2- Determine the degree of the firm's internationalization.
3- Decide the timing of when to start the internationalization process and how quickly it should progress.

Motivations for Going International:

a. Proactive Motivations, including; Unique products, Technological advantage, Profit advantage, Exclusive information, Tax benefit, and Economies of scale
b. Reactive Motivations including; Competitive pressures, Overproduction, Declining domestic sales, Excess capacity, Saturated domestic markets, and Proximity to customers and ports

Psychological Distance: Sometimes cultural variables, legal factors, and other societal norms make a foreign market that is geographically close seem psychologically distant.

- The two major issues of psychological distance are:
  - Based on perception rather than reality.
  - Closer psychological proximity makes it easier for firms to enter markets.
- **In the short term, firms may experience increased risk and decreasing profits when going international.**
- Managing in a Global Environment:
  - Managers must be sensitive to cultural refinements.
- Personal challenges – culture shock.
  - Managing Cross-culturally.
  - Managers must be culturally flexible and easily adapt to new situations.

- Its purpose is to help managers create an international vision, allocate resources, participate in major international markets, be competitive, and perhaps reconfigure its value chain activities given the new international opportunities.

Strategy Should Pinpoint to Actions

- Formulate a strong international vision
- Allocate scarce resources on a worldwide basis
- Participate in major markets
- Implement global partnerships
- Engage in global competitive moves
- Configure value-adding activities on a global scale

The Purpose of Global Strategy

- Efficiency –lower the cost of operations and activities
- Flexibility –tap local resources and opportunities to help keep the firm and its products unique
- Learning -- add to its proprietary technology, brand name and management capabilities by internalizing knowledge gained from international ventures.
- But it is often difficult to excel in all three areas simultaneously. Rather, one firm may excel at efficiency, while another may excel at flexibility, and a third at learning.

Industry Structure:

- Its main elements are Suppliers of inputs, Buyers of outputs, Substitute products, Potential new entrants, and Rivalry among competing firms
- Industries in which competition takes place on a country-by-country basis are known as **multi-domestic industries**. In such industries, each country tends to have a unique set of competitors.
- Industries such as aerospace, automobiles, telecommunications, metals, computers, chemicals, and industrial equipment are examples of **global industries**, in which competition is on a regional or worldwide scale.
- Formulating and implementing strategy is more critical for global industries than multi-domestic industries. Most global industries are characterized by the existence of a handful of major players that compete head on in multiple markets.

The International Division

- A separate division within the firm dedicated to managing its international operations.
- Typically, a vice president of international operations is appointed who reports directly to the corporate CEO.
- The decision to create a separate international unit is usually accompanied by a significant shift in resource allocation and increased focus on the international marketplace.
- Managers in the division typically oversee the development and maintenance of relationships with foreign suppliers and distributors. Licensing and small-scale foreign investment activities may also be performed.

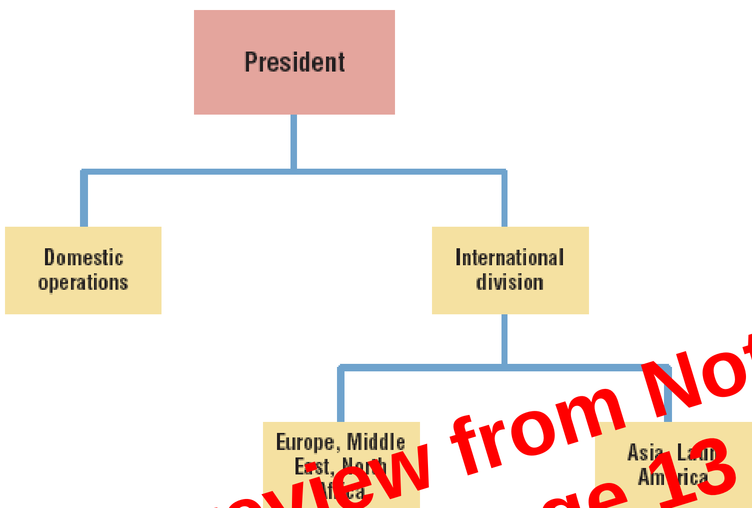

Exhibit 11.5

The International Division Structure

Advantages and Disadvantages of the International Division

Advantages

- It centralizes management and coordination of international operations.
- It is staffed with international experts who focus on developing new business opportunities abroad and offering assistance and training for foreign

Disadvantages

- A domestic vs. international power struggle often occurs over the control of financial and human resources.
- There is likely to be little sharing of knowledge among the foreign units or between the foreign units and headquarters.
- R&D and future-oriented planning activities tend to remain domestically focused. Products continue to be developed for the domestic marketplace, with international needs considered only after domestic needs have been addressed.

business partner(s), and put into the business. You and your partner(s) would then share in the profits of the business according to any legal agreement you have drawn up.

- **<u>Corporation</u>**
  - Another type of business structure is a corporation. Incorporation can be done at the federal or provincial/territorial level. When you incorporate your business, it is considered to be a legal entity that is separate from its shareholders. As a shareholder of a corporation, you will not be personally liable for the debts, obligations or acts of the corporation. It is always wise to seek legal advice before incorporating.

<u>Separation of Ownership and Control</u>

- With the structure of the modern corporation, the ownership of the company and the control distribute among the shareholders. The structure of business can provide some advantages to the company overall, but it can also create some extra burdens along the way. Before choosing to incorporate, it helps to understand both sides of the issue.
- Advantages
  - Democratic Decision Making
  - Unbiased structure
- Problems
  - Complications
  - disconnect

Principal-agent problem or the agency problem

- The principal-agent problem develops when a principal creates an environment in which an agent's incentives don't align with its own. Generally, the onus is on the principal to create incentives for the agent to ensure they act as the principal wants. This includes everything from financial incentives to avoidance of information asymmetry.
- Occurs when one person or entity (the "agent") is able to make decisions on behalf of, or that impact, another person or entity: the "principal". This dilemma exists in circumstances where agents are motivated to act in their own best interests, which are contrary to those of their principals, and is an example of moral hazard.

Corporate Governance Goals:

- Intended to provide more oversight and constraints on corporate managers.
- Designed to ensure good management practices at corporate level.
- Created to balance power and flow of information between owners/investors, boards, and top management.

Major issues of corporate governance:

- The duties of directors
- Methods of financing the corporation
- Managerial compensation.
- Acquisitions and divestments.
- Monitoring of decision making at the strategic and operating level

Corporate Governance and Capital Markets

- **Good governance** is an indeterminate term used in the international development literature to describe how public institutions conduct public affairs and manage public resources.
- **Bad governance** is associated with corruption, distortion of government budgets, inequitable growth, social exclusion, lack of trust in authorities.
- **Poor governance** (on the other hand) is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life, and widespread corruption."

Benefits of Corporate Governance

- Good corporate governance ensures corporate success and economic growth.
- Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
- It lowers the capital cost.
- There is a positive impact on the share price.
- Strengthening the overall international investment
- Reinforces property rights

Theories of Corporate Governance

- Agency Theory
    - Agency theories arise from the distinction between the owners (shareholders) of a company or an organization designated as "the principals" and the executives hired to manage the organization called "the agent."
    - Agency theory argues that the goal of the agent is different from that of the principals, and they are conflicting.
    - The assumption is that the principals suffer an agency loss, which is a lesser return on investment because they do not directly manage the company.
    - Part of the return that they could have had if they were managing the company directly goes to the agent.
    - Consequently, agency theories suggest financial rewards that can help incentivize executives to maximize the profit of owners
- Stewardship theory
    - Stewardship theories argue that the managers or executives of a company are stewards of the owners, and both groups share common goals
    - Therefore, the board should not be too controlling, as agency theories would suggest.
    - The board should play a supportive role by empowering executives and, in turn, increase the potential for higher performance
    - Stewardship theories argue for relationships between board and executives that involve training, mentoring, and shared decision making
- Resource–dependency Theory
    - Resource-dependence theories argue that a board exists as a provider of resources to executives in order to help them achieve organizational goals
    - Recommend interventions by the board while advocating for strong financial, human, and intangible supports to the executives.

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- *Voids*. Positions without a qualified backup. Determine whether it will transfer someone from the surplus pool, develop alternative candidates, or recruit externally.
- *Blockages*. Non-promotable incumbents standing in the path of one or more high-potential or promotable employees.
- *Problem employees*. Those not meeting job expectations (measured achievement or competency proficiency). Give opportunity to improve, receive remedial action, or be terminated. The time frame should be no longer than six months.

♦ Monitoring processes
- Evaluate the results of talent management system on a regular basis for quality, timeliness and credibility

What is competency?

♦ Competencies are the core elements of talent management practices
♦ They are the demonstrable and measurable knowledge, skills, behaviors, personal characteristics that are associated with or predictive of excellent job performance.

Competencies and Definitions

♦ **Action Orientation** Targets and achieve results,overcomes obstacles, accepts responsibility, creates a results-oriented environment.....
♦ **Interpersonal Skill** Effectively and productively engages with others and establishes trust, credibility, and confidence with them
♦ **Creativity/Innovation** Generates novel ideas and develops or improves existing and new systems that challenge the status quo, takes risks, and encourage innovation
♦ **Teamwork** Knows when and how to attract, develop, reward, be part of, and utilize teams to optimize results. Acts to build trust, inspire enthusiasm, encourage others, and help resolve conflicts and develop consensus in supporting higperformance teams

Why Competencies?

♦ *The challenge is to identify which competencies the organization expects to see in their people*
♦ *The starting point of the model is the creed (values, principles, expectations) and the business strategies*

➢ Through a competency model the organization sends a consistent message to the workforce about "what it takes" to be successful in the job

➢ Helps employees understand what helps drive successful performance

➢ The Competency Model approach focuses on the "How" of the job.

➢ Competency model is behavioral rather than functional, focuses on the people rather than jobs

➢ Competency models are outcome driven rather than activities (Job descriptions focus on activities, competencies focus on outcomes)

➢ Integrates HR strategy with business strategy –both focus on outcomes

- The competency model serves as the foundation upon which all workforce processes are built.
- Competencies promote alignment of talent management systems by creating a common language that enables these systems to talk with each other! That is, results of one TM system is used as the input data for the following TM system.

The Competency Model

- The Competency Model identifies usually three groups of competencies:
  - Core competencies for the entire organization to shape the organizational capabilities and culture required to achieve the strategic goals(5 or 6)
  - Leadership competencies for the management teams of various levels for selection, career planning and development
  - Functional (technical)competencies (specific for each job family)

Developing a Competency Model

- Use commonly available “ready to use” models with small adjustments for your organization
- Develop own competency model with help of consultants
  - Behavioral Benchmarking compare superior performers with other best people in the organization and in other benchmark companies
- Stages
  - Overview of current tasks and responsibilities
  - Come to agreement about what successful “outcome driven” performance looks like
  - Review of competency library and selection of “must haves” for the position
  - Rank top competencies as demonstrated by exemplary (superior) performers
  - Identify of those competencies that align with the vision, mission and strategic plan of the organization
  - Verify the competencies with a larger sample of the organization

Before choosing competencies in an organization following requirements must have been completed:

- Establishment of vision, mission, values
- Strategic business goals
- Identification of the tasks, responsibilities and outcomes expected from each position
- Identification of the superior (exemplary) performers

- Younger managers were more likely to have democratic values when it came to capacity for leadership and initiative and to sharing information and objectives
- Most European managers tend to reflect more participative and democratic attitudes – but not in every country
- Organizational level, company size, and age seem to greatly influence attitudes toward leadership
- Many of the young people in this study now are middle-aged – European managers in general are highly likely to be more participative than their older counterparts of the 1960s and 1970s

<u>Japanese Leadership Approaches</u>

- Japan is well known for its paternalistic approach to leadership
- Japanese culture promotes a high safety or security need, which is present among home country–based employees as well as MNC expatriates
- Japanese managers have much greater belief in the capacity of subordinates for leadership and initiative than do managers in most other countries – only managers in Anglo-American countries had stronger feelings in this area
- Except for internal control, large U.S. firms tend to be more democratic than small ones – the profile is quite different in Japan
- Younger U.S. managers appear to express more democratic attitudes than their older counterparts on all four leadership dimensions
- Japanese and U.S. managers have a basically different philosophy of managing people – Ouchi's *Theory Z* combines Japanese and U.S. assumptions and approaches providing a comparison of seven key characteristics
- Another difference between Japanese and U.S. leadership styles is how senior-level managers process information and learn
- Variety Amplification: Japanese executives are taught and tend to use variety amplification – the creation of uncertainty and the analysis of many alternatives regarding future action
- Variety Reduction: U.S. executives are taught and tend to use variety reduction – the limiting of uncertainty and the focusing of action on a limited number of alternatives

<u>Leadership in China</u>

- Importance that the respondents in one study assigned to three areas:
    - Individualism: Measured by importance of self sufficiency and personal accomplishments
    - Collectivism: Measured by willingness to subordinate personal goals to those of the work group with an emphasis on sharing and group harmony
    - Confucianism: Measured by the importance of societal harmony, virtuous interpersonal behavior, and personal and interpersonal harmony

Selection Methods:

- Interviews (executives and psychologists)
- Assessment Centers (exercises)
- Tests (language and special tests)
- Role of Family

Common Elements of Compensation Packages

- Compensating expatriates can be difficult because there are many variables to consider
- Most compensation packages are designed around four common elements: **Allowances, Taxes, Base Salary, Benefits**
- Base salary
  - Amount of money that an expatriate normally receives in the home country
- Benefits
  - Should host-country legislation regarding termination of employment affect employee benefits entitlements?
  - Is the home or host country responsible for the expatriates' social security benefits?
  - Should benefits be subject to the requirements of the home or host country?
  - Which country should pay for the benefits?
  - Should other benefits be used to offset any shortfall in coverage?
  - Should home-country benefits programs be available to local nationals?
- Allowances
  - Cost-of-Living Allowance
    - Payment for differences between the home country and the overseas assignment.
    - Designed to provide the expatriate the same standard of living enjoyed in the home country
  - May cover a variety of expenses, including relocation, housing, education, and hardship
  - Incentives
    - A growing number of firms have replaced the ongoing premium for overseas assignments with a one-time, lump-sum premium