Chapter 11

MANAGEMENT DECISION AND CONTROL

OBJECTIVES OF THE CHAPTER

Although they are not directly related to internationalization, decision making and controlling are two management functions that play critical roles in international operations. In *decision making*, a manager chooses a course of action among alternatives. In *controlling*, the manager evaluates results in relation to plans or objectives and decides what action, if any, to take. How these functions are carried out is influenced by the international context. An organization can employ a centralized or decentralized management system depending on such factors as company philosophy or competition. The company also has an array of measures and tools it can use to evaluate firm performance and restructuring options. As with most international operations, culture plays a significant role in what is important in both decision-making processes and control features, and can affect MNC decisions when forming relationships with subsidiaries.

This chapter examines the different decision-making and controlling management functions used by MNCs, notes some of the major factors that account for differences between these functions, and identifies the major challenges of the years ahead. The specific objectives of this chapter are:

1. **PROVIDE** comparative examples of decision making in different countries.
2. **PRESENT** some of the major factors affecting the degree of decision-making authority given to overseas units.
3. **COMPARE** and **CONTRAST** direct controls with indirect controls.
4. **DESCRIBE** some of the major differences in the ways that MNCs control operations.
5. **DISCUSS** some of the specific performance measures that are used to control international operations.

The World of *International Management*

Global Online Retail: Amazon and Beyond

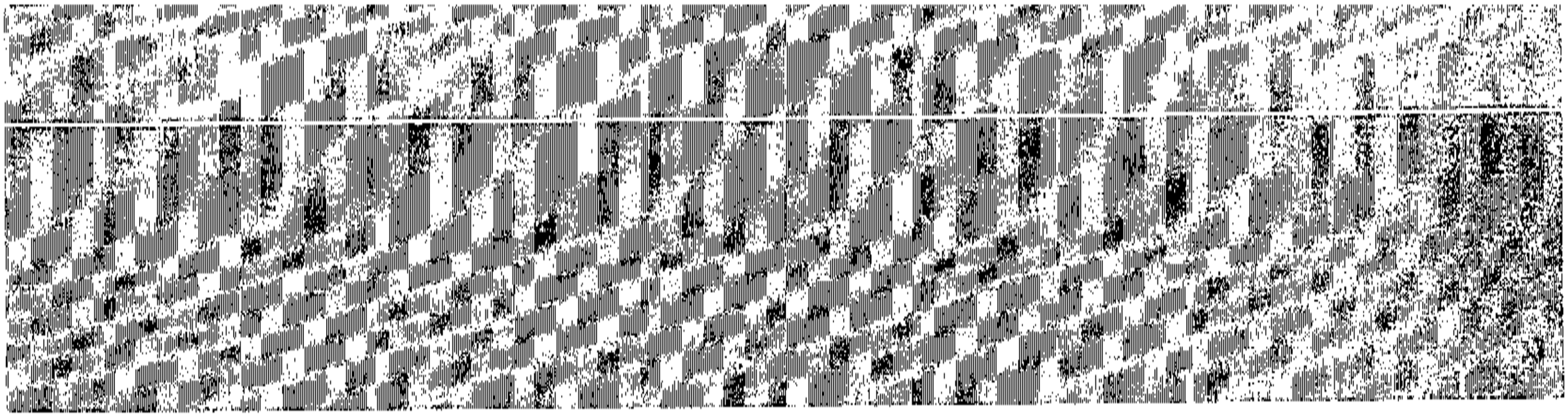
The Internet is revolutionizing the way customers around the world shop. According to Forrester Research, 154 million people in the U.S. made an online purchase in 2009 and online retail sales grew by 11 percent over 2008, whereas total retail sales grew by just 2.5 percent. Computers, apparel, and consumer electronics were the largest categories for online purchase. Forrester forecasts U.S. online retail sales will reach $248.7 billion by 2014. (See the nearby chart.) Forrester also predicts that in Western Europe online retail sales will hit $156 billion in 2014.

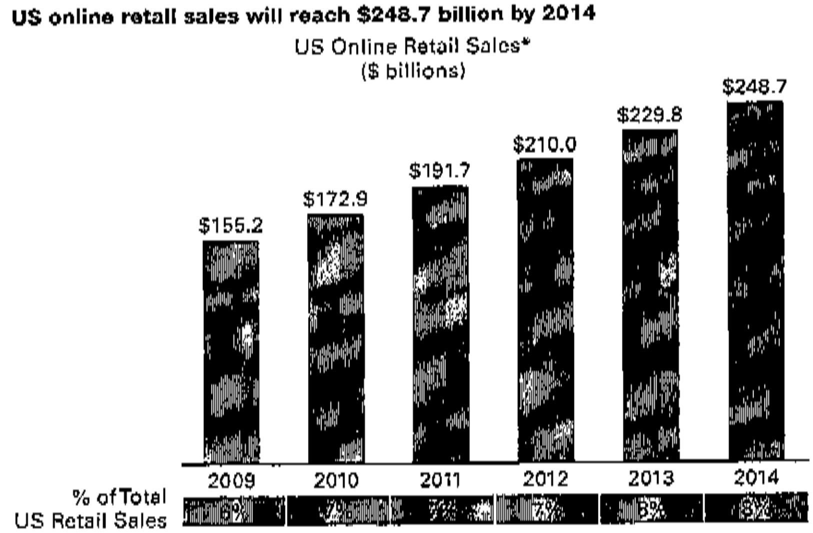
Recently, many MNCs have chosen to sell their products online in order to reach new customers across the globe. Colleen Francis of the *E-Commerce Times* has pointed out that almost any business can sell products online internationally. Managers, however, must take into account several important factors when doing online business around the world. In addition, a number of businesses have chosen to use Amazon.com to sell their products. Amazon.com is undoubtedly the world's biggest player in the online retail market today.

Key Considerations

In the *E-Commerce Times*, Colleen Francis asserts that "going international requires careful consideration of several factors, including security, language differences, currency differences, shipping costs, fulfillment time, and customer support."

1. **Security**
   It is essential that online transactions be protected against Internet fraud. VASCO is one company that works to protect online buyers and sellers from Internet fraud. VASCO is "a leading supplier of strong authentication and e-signature solutions and services specializing in Internet





Security applications and transactions." It serves more than 8,000 firms in over 100 countries.

In March 2009, HSBC Bank Paraguay began securing its online customers with VASCO's DIGIPASS 2-factor authentication software. Jan Valcke, VASCO's President and COO, stated: "Combating Internet fraud is an ongoing battle and HSBC Paraguay has proved that it can secure its end-users in a convenient and cost-effective way without having to compromise on security." HSBC provides financial services through an international network which includes a growing e-commerce capability.

2. **Language/Currency Differences**
When making online purchases, customers need to see product prices in their local currency and product descriptions in their local language. Colleen Francis explained, "Companies can easily set up a U.S.-based Web site to convert correspondences into the language of the merchant's choice, either with a drop-down menu or automatically from the customer's IP address." Making adjustments to accommodate the international customers is critical for an online retailer.

3. **Shipping Costs**
When shipping internationally, businesses face the risks of abandoned shipments and costly international returns. One way to avoid these risks is to work with a Web solutions company that screens international orders and assumes the burden of processing transactions. In addition, managers should be aware that international shipping often has hidden fees such as duties and taxes. Even with high shipping costs, however, customers may still find a certain product bought online to be cheaper than it would if purchased in their own country. Thus, they may be more willing to buy online and pay the extra shipping costs.

4. **Fulfillment Time**
It is important that sellers fulfill orders efficiently so that customers receive their online purchases as quickly as possible. One way to avoid delays at customs is to be familiar with an item's product categorization and documentation process. Also, to reassure the buyer that the item is indeed arriving soon, sellers are encouraged to provide the buyer with the product's tracking number.

5. **Customer Support**
Colleen Francis stated: "Speaking your customer's language also helps to speed up communication for easy conversion and repeat business. Using an international solutions provider that

has multi-lingual customer service agents is a key aspect of tackling international e-commerce."

Moreover, Colleen Francis notes that managers need to focus on marketing internationally. Marketing strategies should include Search Engine Optimization (SEO), social media, and regional press in other countries. Marketing campaigns should be tailored to the customers' cultures.

Amazon in the Lead

Since its incorporation in 1994, Amazon.com has sought to become the world's "most customer-centric company where people can find and discover virtually anything they want to buy online." Amazon.com allows online customers to buy books, movies, music, games, electronics, computers, toys, apparel, shoes, jewelry, tools, etc. Amazon itself and third party vendors are able to sell on Amazon websites, which include specific websites for the U.K., France, Germany, Canada, Japan, and China.

According to *BusinessWeek*, Amazon's "Fulfillment by Amazon" service enables small businesses to send their inventory to Amazon warehouses, so that when a customer places an order, Amazon receives an automated signal to ship it out. Amazon makes processes much simpler for small businesses doing online retailing. Amazon also works for larger players. It has handled distribution for Target and Borders and packing and customer service for Bebe.

BusinessWeek reports that Amazon's online store business is "among the biggest and most reliable in the world." How did Amazon become so successful in online retail? During a 2004 conference call, Amazon CEO Jeff Bezos noted, "The better you can make your customer experience . . . the more customers you'll attract, the larger share of that household's purchases you will attract. You can become a bigger part of a customer's life by just simply doing a better job for them. It's a very, very simple-minded approach."

In an interview with *Harvard Business Review*, Bezos offered insights into Amazon's strategy. First, he declared that Amazon bases its strategy on things that won't change. Jeff Bezos considers the question "What's *not* going to change in the next five to ten years?" to be important. Amazon has found that this won't change: Customers will always want selection, low prices, and fast delivery. Bezos said this about Amazon's customers:

> I can't imagine that ten years from now they are going to say, "I love Amazon, but if only they could deliver my products a little more slowly." And they're not going to, ten years from now, say, "I really love Amazon, but I wish their prices were a little higher." So we know that when we put energy into defect reduction, which reduces our cost structure and thereby allows lower prices, that will be paying us dividends ten years from now.

Amazon's strategy is "customer-centric." Bezos revealed that he personally talks to people on all levels of the supply chain to make sure that prices are as low as possible for Amazon's customers. In addition, every employee, regardless of status, has to work for a time in an Amazon fulfillment center and must learn to work in a call center. Jeff Bezos himself participates in this ongoing training too. Bezos credits this customer-centric approach for Amazon's success. He notes that Amazon's decisions which have sided with the customer have been questioned by Wall Street analysts, yet these decisions have ended up generating more revenue.

As the world becomes increasingly interconnected with the Internet, online retail will play an even greater role in global commerce. To succeed in this marketplace, managers must understand how to accommodate the needs of the international customer. Jeff Bezos' explanation of Amazon's success underscores how important having a customer-focused mindset is in online retail.

The growth of online retail is changing the nature of producer-customer relationships in the global marketplace and forcing managers to consider a wider range of options and strategies for how they organize their global business and relate to their customers and suppliers. Jeff Bezos has revolutionized the very nature of shopping and has extended that revolution to other companies that use Amazon to market and distribute their products worldwide. Bezos believes that customers value selection, low prices, and fast delivery, wherever they are located, and his decision-making approach is focused squarely on these goals.

More broadly, the advent of online retail has challenged some aspects of managerial decision making and control in that the "focal" company may not operate and maintain principal channels of distribution but rely on a third party to do so. On the one hand, this suggests a looser, more flexible approach to managerial decision making and control. On the other hand, it also means that issues like security, fulfillment, and other elements of the online procurement and distribution system need to be air-tight. Companies need to evaluate the decisions and control systems that support informed business decision making and global profitability but that maintain sufficient control over production and execution in each target market.

Decision-Making Process and Challenges

The managerial **decision-making** process, choosing a course of action among alternatives, is a common business practice becoming more and more relevant for the international manager as globalization becomes more pervasive. The decision-making process is often linear, though looping back is common, and consists of the general phases outlined in Figure 11–1. The degree to which managers are involved in this procedure depends on the structure of the subsidiaries and the locus of decision making. If decision making is centralized, most important decisions are made at the top; if decision making is decentralized, decisions are delegated to operating personnel. Decision making is used to solve a myriad of issues, including helping the subsidiary respond to economic and political demands of the host country. Decisions which are heavily economic in orientation concentrate on such aspects as return on investment (ROI) for overseas operations. In other instances, cultural differences can both inspire and motivate the process and outcome of decision making.

decision making
The process of choosing a course of action among alternatives.

For example, Ford Motor designed and built an inexpensive vehicle, the Ikon, for the Indian market. Engineers took apart the Ford Fiesta and totally rebuilt the car to address buyer needs. Some of the changes that were made included raising the amount of rear headroom to accommodate men in turbans, adjusting doors so that they opened wider in order to avoid catching the flowing saris of women, fitting intake valves to avoid

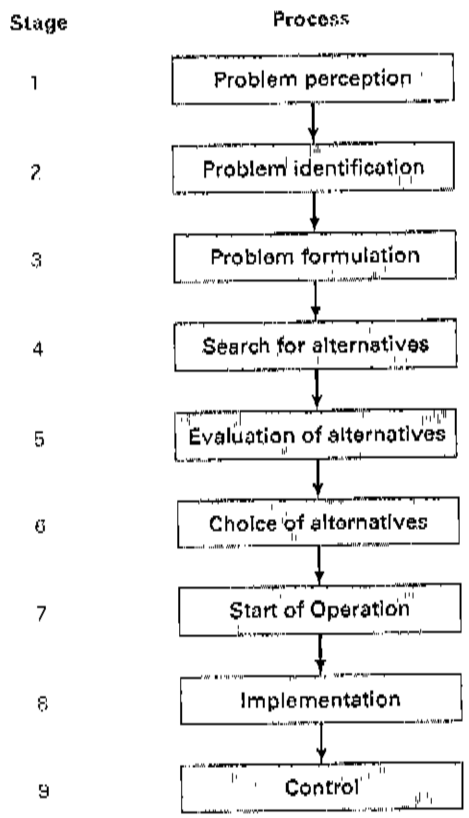


Figure 11-1
Decision-Making Process

Source: From Jette Schramm-Nielsen, "Cultural Dimensions of Decision Making: Denmark and France Compared," *Journal of Managerial Psychology* 16, no. 6 (2001), p. 408. Reprinted with permission of Emerald Insight.

auto flooding during the monsoon season, toughening shock absorbers to handle the pockmarked city streets, and adjusting the air-conditioning system to deal with the intense summer heat.[1] As a result of these decisions, the car is selling very well in India. Santander, the second largest bank in Europe by market capitalization, is vesting more autonomy in its subsidiaries by listing subsidiaries in its principal foreign markets and thereby strengthening their independence and autonomy from the Spanish headquarters. A number of European banks, including Santander and HSBC Holdings PLC (see case at end of Part Four) establish foreign subsidiaries as opposed to direct branches. Santander Chief Executive Officer Alfredo Saenz said, "We also believe it's good for the local management teams, because having local minority shareholders breathing down their neck keeps them on their toes, and it's a good way of identifying the franchise as local, instead of foreign." In addition, the IPO boosted the visibility of the bank in Brazil, resulted in greater access to local capital, and put a higher value on the franchise than what analysts were giving it before the float. When Santander sold 15 percent of its Brazilian unit, the unit alone was valued at €34 billion, more than European rivals Deutsche Bank or Société Générale.[2]

The way in which decision making is carried out will be influenced by a number of factors. We will first look at some of the factors, then provide some comparative examples in order to illustrate some of the differences.

Factors Affecting Decision-Making Authority

A number of factors influence international managers' conclusions about retaining authority or delegating decision making to a subsidiary. Table 11–1 lists some of the most important situational factors, and the following discussion evaluates the influential aspects.

One of the major concerns for organizations is how efficient the processes are which are put in place. The size of a company can have great importance in this realm. Larger organizations may choose to centralize authority for critical decisions in order to ensure efficiency through greater coordination and integration of operations. An

Table 11–1
Factors That Influence Centralization or Decentralization of Decision Making in Subsidiary Operations

Encourage Centralization	Encourage Decentralization
Large size	Small size
Large capital investment	Small capital investment
Relatively high importance to MNC	Relatively low importance to MNC
Highly competitive environment	Stable environment
Strong volume-to-unit-cost relationship	Weak volume-to-unit-cost relationship
High degree of technology	Moderate to low degree of technology
Strong importance attached to brand name, patent rights, etc.	Little importance attached to brand name, patent rights, etc.
Low level of product diversification	High level of product diversification
Homogeneous product lines	Heterogeneous product lines
Small geographic distance between home office and subsidiary	Large geographic distance between home office and subsidiary
High interdependence between the units	Low interdependence between the units
Fewer highly competent managers in host country	More highly competent managers in host country
Much experience in international business	Little experience in international business

example of this occurred after PetroChina's initial public offering (IPO) in 2001. The company consisted of 53 subsidiaries which then had sub-subsidiaries. Overall, there were more than 100 bank accounts which ultimately belonged to PetroChina, and the company was losing money by thinly spread resources. Through consolidation, the company realized over $241 million in savings and achieved greater efficiency.[3] The same holds true for companies that have a high degree of interdependence, since there is a greater need for coordination. This is especially relevant when organizations provide a large investment since they prefer to keep track of progress. It is quite common for the investing company to send home-office personnel to the subsidiary and report on the situation, and for subsidiary managers to submit periodic reports. Both of the above scenarios imply that the subsidiary is of great importance to the MNC, and it is customary in these situations for subsidiary managers to clear any decisions with the home office before implementation. In fact, MNCs often will hire someone who they know will respond to their directives and will regard this individual as an extension of the central management staff.

Another efficiency checkpoint arises when competition is high. In domestic situations, when competition increases, management will decentralize authority and give the local manager greater decision-making authority. This reduces the time that is needed for responding to competitive threats. In the international arena, however, sometimes the opposite approach is used. As competition increases and profit margins are driven down, home-office management often seeks to standardize product and marketing decisions to reduce cost and maintain profitability. Many upper-level operating decisions are made by central management and merely implemented by the subsidiary, although in some instances, companies still opt to decentralize operations if product diversification is necessary. An example of a newly centralized company was Cadbury, as it sought to improve efficiency and competitiveness in part to ward off a take-over. Cadbury recently decided to shed 15 percent of its workforce by closing 12 of its 81 factories, dropping the beverage sector of its subsidiaries and centralizing the management of its larger brands such as Trident, Dentyne, and Halls in order to better compete against candy rivals Hershey and Wrigley's.[4] Cadbury products also have a strong volume-to-unit cost relationship, as the low-cost edibles are purchased often.[5] In the end, Cadbury succumbed to a buyout by Kraft, but these moves helped strengthen the acquired company and make the combined firm leaner and better positioned globally. Firms that are able to produce large quantities will have lower cost per unit than those that produce at smaller amounts, and home-office management will often take the initiative to oversee sourcing, marketing, and overall strategy to keep subsidiary costs down.

Efficient processes become increasingly important as diversification or differences between the parent and subsidiary increase. This refers not only to specific products and services that may need to be tailored to geographic areas, but also to the socioeconomic, political, legal, and cultural environments in which the subsidiary exists. In this case, the subsidiary would have superior staff and resources which would only become increasingly skilled in manufacturing and marketing products at the local level over time. Decentralization is emphasized here, and there exists a direct relationship between the physical distance and different environments between the parent and subsidiary and the level of decentralization. In other words, the farther apart the two units are in either geographical area or cultural beliefs, the higher the level of decentralization.

Experience proves to be a simple indicator of efficiency. For example, if the subsidiary has highly competent local managers, the chances for decentralization are increased, because the home-office has more confidence in delegating to the local level and less to gain by making all the important decisions. Conversely, if the local managers are inexperienced or not highly effective, the MNC likely will centralize decision making and make many of the major decisions at headquarters. Furthermore, if the firm itself has a great deal of international experience, its operations will likely be more centralized as it has already exhibited a high efficiency level and increasing management decision making at the local level may slow processes.

Protection of goods and services is also important to an MNC. It would not be a very lucrative experience to spend valuable time and money on R&D processes only to have competitors successfully mimic products and essentially take away market share. For this reason and many others, it is common for MNCs to centralize operations when dealing with sophisticated levels of technology. This is particularly true for high-tech, research-intensive firms such as computer and pharmaceutical companies, which do not want their technology controlled at the local level. Furthermore, a company is likely to centralize decision-making processes when there are important brand names or patent rights involved as it wants to create as much protection as possible. For example, Ranbaxy Laboratories Ltd., one of the largest generic drug makers in the world, transferred its new drug discovery research capabilities to Japanese parent Daiichi Sankyo Co., while focusing its own efforts on generic discovery. The higher value-added and high-risk, high-return new drug research operations will be transferred to parent Daiichi Sankyo, while Ranbaxy will retain the research and development functions related to making generic drugs (Daiichi Sankyo bought a controlling stake in Ranbaxy, India's largest drug maker by revenue, in 2008).[6]

In some areas of operation, MNCs tend to retain decision making at the top (centralization); other areas fall within the domain of subsidiary management (decentralization). It is most common to find finance, R&D, and strategic planning decisions being made at MNC headquarters with the subsidiaries working within the parameters established by the home office. In addition, when the subsidiary is selling new products in growing markets, centralized decision making is more likely. As the product line matures and the subsidiary managers gain experience, however, the company will start to rely more on decentralized decision making. These decisions involve planning and budgeting systems, performance evaluations, assignment of managers to the subsidiary, and use of coordinating committees to mesh the operations of the subsidiary with the worldwide operations of the MNC. The right degree of centralized or decentralized decision making can be critical to the success of the MNC.

Deloitte, the accounting and management consulting firm, describes some of the challenges associated with postmerger integration in the area of centralization and decentralization:

> The union of two European engineering companies is a prime example of a merger that brought together companies with very different structures—a business unit of a much larger corporation and a stand-alone company. The business unit had a more decentralized management approach with responsibilities delegated within functional areas such as procurement and IT. In contrast, the stand-alone company had a more centralized approach with a strong corporate headquarters retaining control over IT, finance, procurement and HR. Bringing these two disparate structures together without reconciling these differences almost destroyed the new company. Sales plummeted and key people left, unable to adjust to the new corporate structure. Within three years the company collapsed, to be swiftly scooped up by a competitor.[7]

Cultural Differences and Comparative Examples of Decision-Making

Culture, whether outside or within the organization (see Chapters 4 and 6, respectively), has an effect on how individuals and businesses perceive situations and subsequently react. This knowledge raises the question: Do decision-making philosophies and practices differ from country to country? Research shows that to some extent they do, although there also is evidence that many international operations, regardless of foreign or domestic ownership, use similar decision-making norms.

One study showed that French and Danish managers do not approach the decision-making process in the same manner.[8] The French managers tend to spend ample time on searching for and evaluating alternatives (see Figure 11–1), exhibiting rationality and intelligence in each option. While the French approach each opportunity with a sense of creativity and logic, they tend to become quite emotionally charged rather quickly if challenged. Middle managers report to higher-level managers who ultimately make the final decision. Therefore, the individualistic nature of the French creates an environment in which middle managers vie for the recognition and praise of the upper management. Furthermore, middle-management implementation of ideas tends to be lacking since that stage is often seen as boring, practical work which lacks the prestige managers strive to achieve. Control, discussed later in the chapter, is quite high in the French firms at every level, so where implementation fails, control will compensate.

Danish managers tend to emphasize different stages in the decision-making process (see Figure 11–1). They do not spend as much time searching or analyzing alternatives to optimize production but instead choose the option that can be started and implemented quickly and still bring about the relative desired results. They are less emotionally responsive and tend to take a straightforward approach. Danes do not emphasize control in operations, since it tends to be a sign that management lacks confidence in the areas that "require" high control. The cooperative as opposed to individualistic emphasis in Danish corporations, coupled with a results-oriented environment breeds, a situation in which decisions are made quickly and middle managers are given autonomy.

Overall, the pragmatic nature of the Danes and the French need for intellectual prowess mark why each is more adept at different stages of the decision-making process. The French tend to be better at stages 4, 5, and 9, while the Danes are more adept at stages 6, 7, and 8 (see Figure 11–1). As one Danish manager in France says:

> They [Danes and Frenchmen] do not analyze and synthesize the same way. The French tend to think that the Danes are not thorough enough, and the Danes tend to think that the French are too complicated. At his desk, the Frenchman tends to keep on working on the case. He seems to agree neither with his surroundings nor with himself. This means that when he has analyzed a case and has come to a conclusion, then he would like to go over it once more. I think that Frenchmen think in a more synthetic way . . . and he has a tendency to say: "well, yes, but what if it can still be done in another maybe smarter way." This means that in fact he is wasting time instead of making improvements.[9]

In Germany, managers focus more on productivity and quality of goods and services than on managing subordinates, which often translates into companies pursuing long-term approaches. In addition, management education is highly technical, and a legal system called **codetermination** requires workers and their managers to discuss major decisions. As a result, German MNCs tend to be fairly centralized, autocratic, and hierarchical. Scandinavian countries also have codetermination, but the Swedes focus much more on quality of work life and the importance of the individual in the organization. As a result, decision making in Sweden is decentralized and participative.

codetermination
A legal system that requires workers and their managers to discuss major decisions.

The Japanese are somewhat different from the Europeans, though they still employ a long-term focus. They make heavy use of a decision-making process called **ringisei,** or decision making by consensus. Under this system any changes in procedures and routines, tactics, and even strategies of a firm are organized by those directly concerned with those changes. The final decision is made at the top level after an elaborate examination of the proposal through successively higher levels in the management hierarchy, and results in acceptance or rejection of a decision only through consensus at every echelon of the management structure.[10]

ringisei
A Japanese term that means "decision making by consensus."

Sometimes Japanese consensus decision making can be very time-consuming. However, in practice most Japanese managers know how to respond to "suggestions" from the top and to act accordingly—thus saving a great deal of time. Many outsiders misunderstand how Japanese managers make such decisions. In Japan, what should be done is called **tatemae,** whereas what one really feels, which may be quite different, is **honne.** Because it is vital to do what others expect in a given context, situations arise that often strike Westerners as a game of charades. Nevertheless, it is very important in Japan to play out the situation according to what each person believes others expect to happen.

tatemae
A Japanese term that means "doing the right thing" according to the norm.

honne
A Japanese term that means "what one really wants to do."

Another cultural difference is how managers view time in the decision-making process. As we saw from the French-Danish example earlier, the French do not value time as much as their counterparts. The French want to ensure that the best alternative was put into action, whereas the Danes want to act first and take advantage of opportunities. This is key in many international decision-making processes, as globalization has opened the door to extreme competition, and all players need to be able to both identify and make the most of profitable prospects.

In another study of decision making in teams composed of Swedes, Germans, and combinations of the two, researchers found Swedish teams featured higher team orientation, flatter organizational hierarchies, and more open-minded and informal work attitudes. In this study, German team members were perceived to be faster in decision making, to have clearer responsibilities for the individual, and to be more willing to accept a changed or unpopular decision. In Swedish teams, decision making appeared more transparent and less formal. On German teams, the process is largely dominated by the decision authority of an expert in the field. This is in contrast to the group decision-making style used in Swedish teams.[11]

Total Quality Management Decisions

total quality management (TQM)
An organizational strategy and the accompanying techniques that result in the delivery of high-quality products or services to customers.

To achieve world-class competitiveness, MNCs are finding that a commitment to total quality management is critical. **Total quality management (TQM)** is an organizational strategy and accompanying techniques that result in delivery of high-quality products or services to customers.[12] The concept and techniques of TQM, which were introduced in Chapter 8 in relation to strategic planning, also are relevant to decision making and controlling.

One of the primary areas where TQM is having a big impact is in manufacturing. A number of TQM techniques have been successfully applied to improve the quality of manufactured goods. One is the use of concurrent engineering/interfunctional teams in which designers, engineers, production specialists, and customers work together to develop new products. This approach involves all the necessary parties and overcomes what used to be an all-too-common procedure: The design people would tell the manufacturing group what to produce, and the latter would send the finished product to retail stores for sale to the customer. Today, MNCs taking a TQM approach are customer-driven. They use TQM techniques to tailor their output to customer needs, and they require the same approach from their own suppliers.[13] IBM followed a similar approach in developing its AS/400 computer systems. Customer advisory councils were created to provide input, test the product, and suggest refinements. The result was one of the most successful product launches in the company's history.

empowerment
The process of giving individuals and teams the resources, information, and authority they need to develop ideas and effectively implement them.

A particularly critical issue is how much decision making to delegate to subordinates. TQM uses employee **empowerment.** Individuals and teams are encouraged to generate and implement ideas for improving quality, and are given the decision-making authority and necessary resources and information to implement them. Many MNCs have had outstanding success with empowerment. For example, General Electric credits employee empowerment for cutting in half the time needed to change product-mix production of its dishwashers in response to market demand.

Another TQM technique that is successfully employed by MNCs is rewards and recognition. These range from increases in pay and benefits to the use of merit pay, discretionary bonuses, pay-for-skills and knowledge plans, plaques, and public recognition. The important thing to realize is that the rewards and recognition approaches that work well in one country may be ineffective in another. For example, individual recognition in the U.S. may be appropriate and valued by workers, but in Japan, group rewards are more appropriate as Japanese do not like to be singled out for personal praise. Similarly, although putting a picture or plaque on the wall to honor an individual is common practice in the United States, these rewards are frowned on in Finland, for they remind the workers that their neighbors, the Russians, used this system to encourage people to increase output (but not necessarily quality), and while the Russian economy is beginning to make headway, it was once in shambles in part due to poor decision making.

Table 11–2
The Emergence of New Beliefs Regarding Quality

Old Myth	New Truth
Quality is the responsibility of the people in the Quality Control Department.	Quality is everyone's job.
Training is costly.	Training does not cost; it saves.
New quality programs have high initial costs.	The best quality programs do not have up-front costs.
Better quality will cost the company a lot of money.	As quality goes up, costs come down.
The measurement of data should be kept to a minimum.	An organization cannot have too much relevant data on hand.
It is human to make mistakes.	Perfection—total customer satisfaction—is a standard that should be vigorously pursued.
Some defects are major and should be addressed, but many are minor and can be ignored.	No defects are acceptable, regardless of whether they are major or minor.
Quality improvements are made in small, continuous steps.	In improving quality, both small and large improvements are necessary.
Quality improvement takes time.	Quality does not take time; it saves time.
Haste makes waste.	Thoughtful speed improves quality.
Quality programs are best oriented toward areas such as products and manufacturing.	Quality is important in all areas, including administration and service.
After a number of quality improvements, customers are no longer able to see additional improvements.	Customers are able to see all improvements, including those in price, delivery, and performance.
Good ideas can be found throughout the organization.	Good ideas can be found everywhere, including in the operations of competitors and organizations providing similar goods and services.
Suppliers need to be price competitive.	Suppliers need to be quality competitive.

Source: Reported in Richard M. Hodgetts, *Measures of Quality and High Performance* (New York: American Management Association, 1998), p. 14.

Still another technique associated with TQM is the use of ongoing training to achieve continual improvement. This training takes a wide variety of forms, ranging from statistical quality control techniques to team meetings designed to generate ideas for streamlining operations and eliminating waste. In all cases, the objective is to apply what the Japanese call **kaizen,** or continuous improvement. By adopting a TQM perspective and applying the techniques discussed earlier, MNCs find that they can both develop and maintain a worldwide competitive edge. A good example is Zytec, the world-class, Minnesota-based manufacturer of power supplies. The customer base for Zytec ranges from the United States to Japan to Europe. One way in which the firm ensures that it maintains a total quality perspective is to continually identify client demands and then work to exceed these expectations. Another is to totally revise the company's philosophy and beliefs regarding what quality is all about and how it needs to be implemented. Table 11–2 provides some examples of the new thinking that is now emerging regarding quality.

kaizen
A Japanese term that means "continuous improvement."

Toyota's recent challenges with safety recalls have prompted the firm to integrate the term "kaizen" in its North American marketing initiatives designed to reassure the public about Toyota's commitment to safety. In one commercial, a worker says, "Kaizen is a real core principle at Toyota, and it means continuous improvement." The concept is so integral to Toyota's culture and ethos, the firm felt it necessary to share it with the general public as a means to restore trust and confidence in the company.[14]

Indirectly related to TQM is ISO 9000, International Standards Organization (ISO) certification, to ensure quality products and services. Areas that are examined by the ISO certification team include design (product or service specifications), process control (instruction for manufacturing or service functions), purchasing, service (e.g., instructions for conducting after-sales service), inspection and testing, and training. ISO 9000

International Management in Action

Kodak's Corner

For many years, Kodak used various strategies to gain market share. Several years ago, in a short-term attempt to expand growth in Japan, Kodak filed a complaint with the U.S. government, accusing its main competitor, Fuji, of blocking Kodak products from the Japanese market. Since that time, Kodak has focused on long-term efforts that, in this technological age, will require fine tuning at every turn.

First, Kodak attempted to corner the camera market by creating inexpensive cameras that utilized digital imagery. Creating cameras that produced high-quality photos without the need to purchase film or go through the process of getting the pictures developed would seemingly have allowed Kodak to surpass its competitors and create a niche. Big changes were necessary in order to implement these ideas. First, Kodak had to accept that its traditional film sales would diminish greatly, and management needed to reorganize and redirect the business. A digital imaging unit was created, pooling the firm's digital talent into one division. Disposable camera offerings were expanded to include underwater, panoramic, and telephoto options. The company acquired Ofoto Inc., an online photography service, to expand operations. Kodak hoped these investments would prove to be lucrative, but the future was uncertain.

Unfortunately, the company did not excel in digital camera sales and other poor choices simply made expansion more difficult for the firm. Generating research and development breakthroughs proved to be challenging, as illustrated by Kodak's unsuccessful effort to market a photo CD. This product required that users purchase a unit that could plug into a TV for $500, and the unit itself cost $20 per CD. The sole function was to be able to view photos from the CD on your television, which consumers did not find beneficial, though some companies did purchase the package.

Despite failed attempts in certain digital technologies and a series of losses that led to numerous job cuts, Kodak refused to yield. The company sold its health care business in order to increase revenue, and its film group has benefited from movie-film growth. Currently, Kodak is taking advantage of the growing market of digital photo printing and installing kiosks in Walmart, the world's largest photo processor. The plan only focuses on the U.S. market for now, where Kodak is already the leader in digital-photo kiosks, with 80,000 units already in place. Kodak has also manufactured a new home ink-jet printer that uses less expensive ink than competitors. If this project is successful, then Kodak will certainly have the market on home-office printing technology.

Kodak's online EasyShare Gallery (formerly Ofoto) has been rated number one in print quality by such reviewers as *PC World*. The service offers superior storing and sharing of photos and allows consumers to order customized prints with ease, ranging in specs from delivery options to photo size. The company also created a new digital camera that can wirelessly communicate with printers and the Internet, which means that pictures can be sent to friends, family, online photo galleries, or a home printer at the touch of a button. While Kodak may have had issues transitioning from film to digital cameras, management hopes that the superior photo quality and online technological advances will secure its own new corner in the market.

certification is becoming a necessary prerequisite to doing business in the EU, but it also is increasingly used as a screening criterion for bidding on contracts or getting business in the United States' and other parts of the world.

Decisions for Attacking the Competition

Another series of key decisions relates to MNC actions that are designed to attack the competition and gain a foothold in world markets. The nearby International Management in Action, "Kodak's Corner," gives an example. Another is General Motors' decision to establish production operations on a worldwide basis and to be a major player throughout Asia, Australia, Europe, and South America, as well as in select areas of Africa. As a result of this decision, the company is now closing U.S. factories and building new assembly plants abroad. Between 1995 and 1999 GM opened a host of new international facilities, including a plant in Brazil that has an annual capacity of 120,000 units, as well as factories in Poland, India, Mexico, Thailand, and Shanghai, each of which has annual capacity of 100,000 units. By locating closer to the final customer and offering a well-designed and efficiently built car, the company has been able to increase its worldwide market share, thus more than offsetting the downturn it has encountered in the U.S. market, where overall share has dropped below 30 percent.

Another example of decision making for attacking the competition is provided by BMW. While GM is trying to tap the upper market, BMW has made the decision to move down the line and gain small-car market share. The company is building small cars with a sales price in the range of $20,000. By sharing engines, gearboxes, and electrical systems from its other offerings, the firm intends to reduce its development and production costs and offer a reliable and competitively priced auto.[15] Other firms, including Mercedes and Audi, have done this and have not been particularly profitable, but BMW believes that it can succeed where they have not. BMW's introduction of the MINI Cooper is an interesting example of the integration of efficiency, sportiness, and nostalgia.

NEC offers a further example of how decision making is being used for attacking the competition. In 2001 the company held 8 percent of the world market for mobile transmitting infrastructure and was vying with major competitors such as Ericsson, Lucent, Nokia, and Nortel. Most of NEC's revenues come from its contracts with NTT, Japan's phone monopoly. However, the company is moving aggressively into the worldwide arena. Its prowess in fiber optics resulted in its winning a big AT&T network installation contract, and as the demand for fiber optics increases, NEC intends to exploit this strength.[16] The firm recently announced that it had developed a fiber-optic cable that is four times more powerful than that currently on the market. The company is also a world leader in manufacturing mobile handsets and the semiconductors used in mobiles and other devices. Its folding phones, for example, account for 40 percent of the Internet-capable handset market in Japan, and NEC is looking to expand its international sales of these products.

Intel has made a number of interesting decisions designed to stymie the competition. One is to bring out a new version of its Pentium chip at a much lower-than-expected price and cut the prices of its other chips, thus creating a strong demand for its products and forcing competitors to cut their prices. In a market where overall demand has been slowing, this strategy wreaks havoc on the competition. At the same time, lower prices mean that Intel must sell more products in order to increase revenues. One of the ways in which the firm is trying to do this is with an extension of its Xeon microprocessor family, which is aimed at more powerful desktop workstations and server systems than the firm has targeted in the past. Intel's server offerings generally were used in relatively lightweight machines such as those that serve up Web pages. This new push is designed to provide chips that are used in midsize servers, such as those that run databases, as well as in some larger systems used in mission-critical tasks. These machines typically cost millions of dollars and run on dozens of microprocessors operating in parallel.[17] The company also teamed up with Hewlett-Packard to develop the Itanium chip, which offers greater speed because it can process 64 bits of data at a time rather than 32 bits. Working with HP, Intel is building servers for telecommunications and making three-in-one chips that have the ability to radically reduce the size of cell phones and handheld computers.

Decision and Control Linkages

Decision making and **controlling** are two vital and often interlinked functions of international management. As an example of a company struggling with control issues, Siemens has long been praised for its engineering abilities, but its slow market response has left the company struggling to reach internal earnings targets, which it has fallen short of for years. Klaus Kleinfeld took over as CEO in 2005 in a move to change management and improve profits. Almost immediately, Kleinfeld was able to encourage faster decision-making processes and stressed a customer spotlight as passionate as Siemens's technology focus. This proved successful, as 2006 sales increased by 16 percent and profits by 35 percent. There have been ongoing discussions about expansion, including building cement plants in Yemen and improving plants in Russia. Most would believe that the German company would have been pleased by the turn of events, but the U.S. management style that Kleinfeld employed did not sit well with the parent company, especially

controlling
The process of evaluating results in relation to plans or objectives and deciding what action, if any, to take.

as questions arose over specific growth strategies. The culture clash led to Kleinfeld stepping down, but not before a foundation of change was implemented. Whether the company returns to slow responses and lack of control is something only time can tell, but Siemens's taste of success may be enough to sustain its new aggressive posture.[18]

Another example of how the control function plays out is Universal Studios Japan. To attract visitors to the Osaka location, this new theme park was specially built based on feedback from Japanese tourists at Universal parks in Orlando and Los Angeles. The company wanted to learn what these visitors liked and disliked and then use this information in its Osaka park. One theme clearly emerged: The Japanese wanted an authentic American experience but also expected the park to cater to their own cultural preferences. In the process of controlling the creation of the new park, thousands of decisions were made regarding what to include and what to leave out. For example, seafood pizza and gumbo-style soup were put on the menu, but a fried-shrimp concoction with colored rice crackers was rejected. It was decided that in a musical number based on the movie *Beetlejuice*, the main character should talk in Japanese and his sidekicks would speak and sing in English. The decision to put in a restaurant called Shakin's, based on the 1906 San Francisco earthquake, turned out to be not a good idea because Osaka has had terrible earthquakes that killed thousands of people.

Other decisions were made to give the "American" park a uniquely Japanese flavor. The nation's penchant for buying edible souvenirs inspired a 6,000-square-foot confection shop packed with Japanese sweets such as dinosaur-shaped bean cakes. Restrooms include Japanese-style squat toilets. Even the park layout caters to the tendency of Japanese crowds to flow clockwise in an orderly manner, contrary to more chaotic U.S. crowds that steer right. And millions of dollars were spent on the Jurassic Park water slide to widen the landing pond, redesign boat hulls, and install underwater wave-damping panels to reduce spray. Why? Many fastidious Japanese don't like to get wet, even on what's billed as one of the world's biggest water slide.[19]

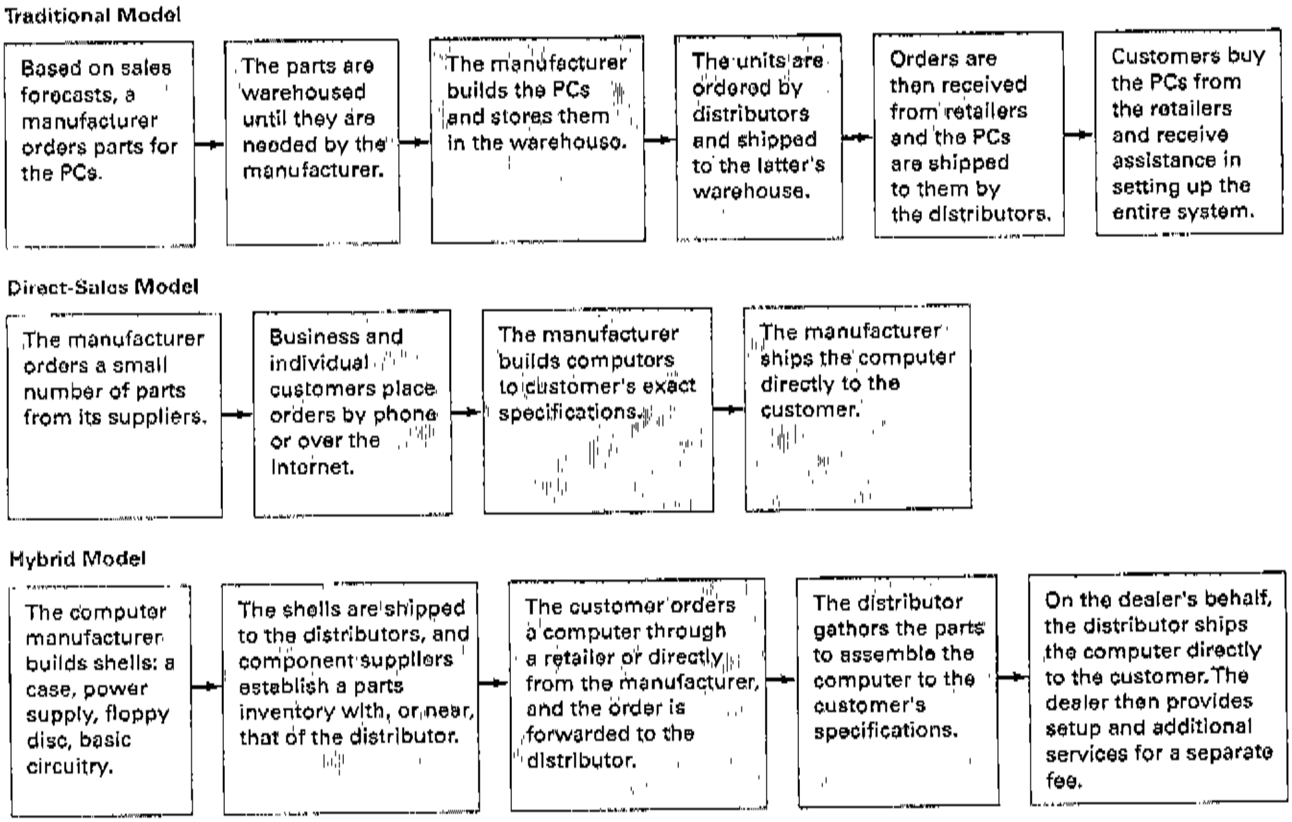
Over the next few years, as Universal Studios Japan evaluates park revenues and feedback from visitors, it will be able to judge how well it is doing in giving customers an American experience in an environment that also addresses local cultural considerations. After a period of reduced attendance, the company has discovered that creating an emotional connection between the consumer and the park, instead of focusing on the power of Hollywood, encourages people to frequent the park. The quick and adept response to profit losses shows that management has a concrete idea of how to deal with other cultures. In fact, plans are already in place to open Universal Studios in Dubai, Singapore, and South Korea.[20] (See related discussion in the case at end of Part Two on Disney in Asia.)

The Controlling Process

As we've stated, controlling involves evaluating results in relation to plans or objectives and deciding what action to take next. An excellent illustration of this process was Mitsubishi's purchase of 80 percent of Rockefeller Center in the late 1980s. The Japanese firm paid $1.4 billion for this choice piece of Manhattan real estate, and it looked like a very wise decision. Over the next six years, however, depressed rental prices and rising maintenance costs resulted in Mitsubishi sinking an additional $500 million into the project. Finally, in late 1995, the company decided it had had enough and announced that it was walking away from the investment. Mitsubishi passed ownership to Rockefeller Center Properties Inc., the publicly traded real-estate investment trust that held the mortgage on the center. The cost of keeping the properties was too great for the Japanese firm, which decided to cut its losses and focus efforts on more lucrative opportunities elsewhere.

The control process is of course crucial for MNCs in the fast-moving personal computer (PC) business. Until the mid-1990s, PCs were built using the traditional model

Figure 11–2 **Models of PC Manufacturing**



shown in Figure 11–2. Today the direct-sales model and the hybrid model are the most common (see Figure 11–2). PC firms are finding that they must keep on the cutting edge more than any other industry because of the relentless pace of technological change. This is where the control function becomes especially critical for success. For example, stringent controls keep the inventory in the system as small as possible. PCs are manufactured using a just-in-time approach (a customer orders the unit and has it made to specifications) or an almost just-in-time approach (a retailer orders 30 units and sells them all within a few weeks). Because technology in the PC industry changes so quickly, any units that are not sold in retail outlets within 60 days may be outdated and must be severely discounted and sold for whatever the market will bear. In turn, these costs are often assumed by the manufacturer. As a result, PC manufacturers are very much inclined to build to order or to ship in quantities that can be sold quickly. In this way the firm's control system helps ensure that inventory moves through the system profitably.[21]

Of particular interest is how companies attempt to control their overseas operations to become integrated, coordinated units. A number of control problems may arise: (1) The objectives of the overseas operation and the corporation conflict. (2) The objectives of joint-venture partners and corporate management are not in accord. (3) Degrees of experience and competence in planning vary widely among managers running the various overseas units. (4) Finally, there may be basic philosophic disagreements about the objectives and policies of international operations, largely because of cultural differences between home- and host-country managers. The following discussion examines the various types of control that are used in international operations and the approaches that are often employed in dealing with typical problems.

Types of Control

There are two common, complementary ways of looking at how MNCs control operations. One way is by determining whether the enterprise chooses to use *internal* or *external* control in devising its overall strategy. The other is by looking at the ways in which the organization uses *direct* and *indirect* controls.

Internal and External Control From an internal control standpoint, an MNC will focus on the things that it does best. At the same time, of course, management wants to ensure that there is a market for the goods and services that it is offering. So the company first needs to find out what the customers want and be prepared to respond appropriately. This requires an external control focus. Naturally, every MNC will give consideration to both internal and external perspectives on control. However, one is often given more attention than the other. In explaining this idea, Trompenaars and Hampden-Turner set forth four management views regarding how a control strategy should be devised and implemented:

1. No one dealing with customers is without a strategy of sorts. Our task is to find out which of these strategies work, which don't, and why. Devising our own strategy in the abstract and imposing it downwards only spreads confusion.
2. No one dealing with customers is without a strategy of sorts. Our task is to find out which of these strategies work and then create a master strategy from proven successful initiatives by encouraging and combining the best.
3. To be a leader is to be the chief deviser of strategy. Using all the experience, information, and intelligence we can mobilize, we need to devise an innovative strategy and then cascade it down the hierarchy.
4. To be a leader is to be the chief deviser of strategy. Using all the experience, information, and intelligence we can mobilize, we must create a broad thrust, while leaving it to subordinates to fit these to customer needs.

Trompenaars and Hampden-Turner ask managers to rank each of these four statements by placing a "1" next to the one they feel would most likely be used in their company, a "2" next to the second most likely, on down to a "4" next to the one that would be the last choice. This ranking helps managers better see whether they use an external or an internal control approach. Answer 1 focuses most strongly on an external-directed approach and rejects the internal control option. Answer 3 represents the opposite. Answer 2 affirms a connection between an external-directed strategy and an inner-directed one, whereas answer 4 does the opposite.[22]

Cultures differ in the control approach they use. For example, among U.S. MNCs it is common to find managers using an internal control approach. Among Asian firms an external control approach is more typical. Table 11–3 provides some contrasts between the two.

direct controls
The use of face-to-face or personal meetings for the purpose of monitoring operations.

Direct Controls **Direct controls** involve the use of face-to-face or personal meetings to monitor operations. A good example is how International Telephone and Telegraph (ITT) holds monthly management meetings at its New York headquarters. These meetings are run by the CEO of the company, and reports are submitted by each ITT unit manager throughout the world. Problems are discussed, goals set, evaluations made, and actions taken that will help the unit improve its effectiveness.

Another common form of direct control is visits by top executives to overseas affiliates or subsidiaries. During these visits, top managers can learn firsthand the problems and challenges facing the unit and offer assistance.

A third form is the staffing practices of MNCs. By determining whom to send overseas to run the unit, the corporation can directly control how the operation will be run. The company will want the manager to make operating decisions and handle day-to-day matters, but the individual also will know which decisions should be cleared with

Table 11–3
The Impact of Internal- and External-Oriented Cultures on the Control Process

Internal Control	External Control
Key Differences Between . . .	
Often dominating attitude bordering on aggressiveness toward the environment.	Often flexible attitude, willing to compromise and keep the peace.
Conflict and resistance mean that a person has convictions.	Harmony, responsiveness, and sensibility are encouraged.
The focus is on self, function, one's own group, and one's own organization.	The focus is on others such as customers, partners, and colleagues.
There is discomfort when the environment seems "out of control" or changeable.	There is comfort with waves, shifts, and cycles, which are regarded as "natural."
Tips for Doing Business with . . .	
Internally Controlled (for externals)	**Externally Controlled (for internals)**
Playing "hardball" is legitimate to test the resilience of an opponent.	Softness, persistence, politeness, and long patience will get rewards.
It is most important to "win your objective."	It is most important to maintain one's relationships with others.
Win some, lose some.	Win together, lose apart.

Source: Adapted from Fons Trompenaars and Charles Hampden-Turner, *Riding the Waves of Culture: Understanding Diversity in Global Business*, 2nd ed. (New York: McGraw-Hill, 1998), pp. 160–161.

the home office. In fact, this approach to direct control sometimes results in a manager who is more responsive to central management than to the needs of the local unit.

And finally, a fourth form is the organizational structure itself. By designing a structure that makes the unit highly responsive to home-office requests and communications, the MNC ensures that all overseas operations are run in accord with central management's desires. This structure can be established through formal reporting relationships and chain of command (who reports to whom).

Indirect Controls **Indirect controls** involve the use of reports and other written forms of communication to control operations. One of the most common examples is the use of monthly operating reports that are sent to the home office. Other examples, which typically are used to supplement the operating report, include financial statements, such as balance sheets, income statements, cash budgets, and financial ratios that provide insights into the unit's financial health. The home office will use these operating and financial data to evaluate how well things are going and make decisions regarding necessary changes. Three sets of financial statements usually are required from subsidiaries: (1) statements prepared to meet the national accounting standards and procedures prescribed by law and other professional organizations in the host country; (2) statements prepared to comply with the accounting principles and standards required by the home country; and (3) statements prepared to meet the financial consolidation requirements of the home country.

indirect controls
The use of reports and other written forms of communication to control operations.

Indirect controls are particularly important in international management because of the great expense associated with direct methods of control. Typically, MNCs will use indirect controls to monitor performance on a monthly basis, whereas direct controls are used semi-annually or annually. This dual approach often provides the company with effective control of its operations at a price that also is cost-effective.

Approaches to Control

International managers can employ many different approaches to control. These approaches typically are dictated by the MNC's philosophy of control, the economic environment in which the overseas unit is operating, and the needs and desires of the managerial personnel who staff the unit. Working within control parameters, MNCs will structure their processes so that they are as efficient and effective as possible. Typically, the tools used will give the unit manager the autonomy needed to adapt to changes in the market as well as to attract competent local personnel. These tools will also provide for coordination of operations with the home office, so that the overseas unit operates in harmony with the MNC's overall strategic plan.

Some control tools are universal. For example, all MNCs use financial tools in monitoring overseas units. This was true as long as three decades ago, when the following was reported:

> The cross-cultural homogeneity in financial control is in marked contrast to the heterogeneity exercised over the areas of international operations. American subsidiaries of Italian and Scandinavian firms are virtually independent operationally from their parents in functions pertaining to marketing, production, and research and development; whereas, the subsidiaries of German and British firms have limited freedom in these areas. Almost no autonomy on financial matters is given by any nationality to the subsidiaries.[23]

Some Major Differences MNCs control operations in many different ways, and these often vary considerably from country to country. For example, how British firms monitor their overseas operations often is different from how German or French firms do. Similarly, U.S. MNCs tend to have their own approach to controlling, and it differs from both European and Japanese approaches. When Horovitz examined the key characteristics of top management control in Great Britain, Germany, and France, he found that British controls had four common characteristics: (1) Financial records were sophisticated and heavily emphasized. (2) Top management tended to focus its attention on major problem areas and did not get involved in specific, detailed matters of control. (3) Control was used more for general guidance than for surveillance. (4) Operating units had a large amount of marketing autonomy.[24]

This model was in marked contrast to that of German managers, who employed very detailed control and focused attention on all variances large and small. These managers also placed heavy control on the production area and stressed operational efficiency. In achieving this centralized control, managers used a large central staff for measuring performance, analyzing variances, and compiling quantitative reports for senior executives. Overall, the control process in the German firms was used as a policing and surveillance instrument. French managers employed a control system that was closer to that of the Germans than to the British. Control was used more for surveillance than for guiding operations, and the process was centrally administered. Even so, the French system was less systematic and sophisticated.[25]

How do U.S. MNCs differ from their European counterparts? One comparative study found that a major difference is that U.S. firms tend to rely much more heavily on reports and other performance-related data. Americans make greater use of output control, and Europeans rely more heavily on behavioral control. Commenting on the differences between these two groups, the researcher noted: "This pattern appears to be quite robust and continues to exist even when a number of common factors that seem to influence control are taken into account."[26] Some specific findings from this study include:

1. Control in U.S. MNCs focuses more on the quantifiable, objective aspects of a foreign subsidiary, whereas control in European MNCs tends to be used to measure more qualitative aspects. The U.S. approach allows comparative analyses between other foreign operations as well as domestic units; the European measures are more flexible and allow control to be exercised on a unit-by-unit basis.
2. Control in U.S. MNCs requires more precise plans and budgets in generating suitable standards for comparison. Control in European MNCs requires a

high level of companywide understanding and agreement regarding what constitutes appropriate behavior and how such behavior supports the goals of both the subsidiary and the parent firm.

3. Control in U.S. MNCs requires large central staffs and centralized information-processing capability. Control in European MNCs requires a larger cadre of capable expatriate managers who are willing to spend long periods of time abroad. This control characteristic is reflected in the career approaches used in the various MNCs. Although U.S. multinationals do not encourage lengthy stays in foreign management positions, European MNCs often regard these positions as stepping-stones to higher offices.
4. Control in European MNCs requires more decentralization of operating decision making than does control in U.S. MNCs.
5. Control in European MNCs favors short vertical spans or reporting channels from the foreign subsidiary to responsible positions in the parent.[27]

As noted in the discussion of decision making, these differences help explain why many researchers have found European subsidiaries to be more decentralized than U.S. subsidiaries. Europeans rely on the managerial personnel they assign from headquarters to run the unit properly. Americans tend to hire a greater percentage of local management people and control operations through reports and other objective, performance-related data. The difference results in Europeans' relying more on socio-emotional control systems and Americans' opting for task-oriented, objective control systems.

Evaluating Approaches to Control Is one control approach any better than the other? The answer is that each seems to work best for its respective group. Some studies predict that as MNCs increase in size, they likely will move toward the objective orientation of the U.S. MNCs. Commenting on the data gathered from large German and U.S. MNCs, two researchers concluded:

> Control mechanisms have to be harmonized with the main characteristics of management corporate structure to become an integrated part of the global organization concept and to meet situational needs. Trying to explain the differences in concepts of control, we have to consider that the companies of the U.S. sample were much larger and more diversified. Accordingly, they use different corporate structures, combining operational units into larger units and integrating these through primarily centralized, indirect, and task-oriented control. The German companies have not (yet) reached this size and complexity, so a behavioral model of control seems to be fitting.[28]

So in deciding which form of control to use, MNCs must determine whether they want a more bureaucratic or a more cultural control approach; and from the cultural perspective, it must be remembered that this control will vary across subsidiaries.

Performance Evaluation as a Mechanism of Control

A number of performance measures are used for control purposes. Three of the most common evaluate financial performance, quality performance, and personnel performance.

Financial Performance

Financial performance evaluation of a foreign subsidiary or affiliate is usually based on profit and loss, and return on investment. **Profit** and loss (P&L) is the amount remaining after all expenses are deducted from total revenues. **Return on investment (ROI)** is measured by dividing profit by assets; some firms use profit divided by owners' equity (return on owners' investment, or ROOI) in referring to the return-on-investment performance measure. In any case, the most important part of the ROI calculation is profits, which often can be manipulated by management. Thus, the amount of profit directly

profit
The amount remaining after all expenses are deducted from total revenues.

return on investment (ROI)
Return measured by dividing profit by assets.

relates to how well or how poorly a unit is judged to perform. For example, if an MNC has an operation in both country A and country B and taxes are lower in country A, the MNC may be able to benefit if the two units have occasion to do business with each other. This benefit can be accomplished by having the unit in country A charge higher prices than usual to the unit in country B, thus providing greater net profits to the MNC. Simply put, sometimes differences in tax rates can be used to maximize overall MNC profits. This same basic form of manipulation can be used in transferring money from one country to another, which can be explained as follows:

> Transfer prices are manipulated upward or downward depending on whether the parent company wishes to inject or remove cash into or from a subsidiary. Prices on imports by a subsidiary from a related subsidiary are raised if the multinational company wishes to move funds from the receiver to the seller, but they are lowered if the objective is to keep the funds in the importing subsidiary. . . . Multinational companies have been known to use transfer pricing for moving excess cash from subsidiaries located in countries with weak currencies to countries with strong currencies in order to protect the value of their current assets.[29]

The so-called bottom-line (i.e., profit or loss) performance of subsidiaries also can be affected by a devaluation or revaluation of local currency. For example, if a country devalues its currency, then subsidiary export sales will increase, because the price of these goods will be lower for foreign buyers, whose currencies now have greater purchasing power. If the country revalues its currency, then export sales will decline because the price of goods for foreign buyers will rise, since their currencies now have less purchasing power in the subsidiary's country. Likewise, a devaluation of the currency will increase the cost of imported materials and supplies for the subsidiary, and a revaluation will decrease these costs because of the relative changes in the purchasing power of local currency. Because devaluation and revaluation of local currency are outside the control of the overseas unit, bottom-line performance sometimes will be a result of external conditions that do not accurately reflect how well the operation actually is being run, which should be considered when evaluating a subsidiary's performance.

Of course, not all bottom-line financial performance is a result of manipulation or external economic conditions. Frequently, other forces account for the problem. For example, one of Volkswagen's goals for a recent year was to earn a pre-tax 6.5 percent on revenues. The firm fell far short of this goal, earning only 3.5 percent before taxes. One reason for this poor performance was that labor costs in Lower Saxony, where approximately half its workforce is located, are very high. Workers here produce only 40 vehicles per employee annually in contrast to the VW plant in Navarra, Spain, which turns out 79 vehicles per employee per year. Why doesn't VW move work to lower-cost production sites? The major reason is that the state of Lower Saxony owns 19 percent of the company's voting stock, so the workers' jobs are protected.[30] Simply put, relying solely on financial results to evaluate performance can result in misleading conclusions.

Quality Performance

Just as quality has become a major focus in decision making, it also is a major dimension of the modern control process of MNCs. The term *quality control (QC)* has been around for a long time, and it is a major function of production and operations management. Besides the TQM techniques of concurrent engineering/interfunctional teams, employee empowerment, reward/recognition systems, and training, discussed earlier in this chapter in the context of decision making, another technique more directly associated with the control function is the use of quality circles, which have been popularized by the Japanese. A **quality control circle (QCC)** is a group of workers who meet on a regular basis to discuss ways of improving the quality of work. This approach has helped many MNCs improve the quality of their goods and services dramatically.

quality control circle (QCC)
A group of workers who meet on a regular basis to discuss ways of improving the quality of work.

Why are Japanese-made goods of higher quality than the goods of many other countries? The answer cannot rest solely on technology, because many MNCs have the same or superior technology, or the financial ability to purchase it. There must be other causal

International Management in Action

How the Japanese Do Things Differently

Japanese firms do a number of things extremely well. One is to train their people carefully, a strategy that many successful U.S. firms also employ. Another is to try to remain on the technological cutting edge. A third, increasingly important because of its uniqueness to the Japanese, is to keep a keen focus on developing and bringing to market goods that are competitively priced.

In contrast to Western firms, many Japanese companies use a "target cost" approach. Like other multinational firms, Japanese companies begin the new product development process by conducting marketing research and examining the characteristics of the product to be produced. At this point, however, the Japanese take a different approach. The traditional approach used by MNCs around the world is next to go into designing, engineering, and supplier pricing and then to determine if the cost is sufficiently competitive to move ahead with manufacturing. Japanese manufacturers, in contrast, first determine the price that the consumer most likely will accept, and then they work with design, engineering, and supply people to ensure that the product can be produced at this price. The other major difference is that after most firms manufacture a product, they will engage in periodic cost reductions. The Japanese, however, use a kaizen approach, which fosters continuous cost-reduction efforts.

The critical difference between the two systems is that the Japanese get costs out of the product during the planning and design stage. Additionally, they look at profit in terms of product lines rather than just individual goods, so a consumer product that would be rejected for production by a U.S. or European firm because its projected profitability is too low may be accepted by a Japanese firm because the product will attract additional customers to other offerings in the line. A good example is Sony, which decided to build a smaller version of its compact personal stereo system and market it to older consumers. Sony knew that the profitability of the unit would not be as high as usual, but it went ahead because the product would provide another market niche for the firm and strengthen its reputation. Also, a side benefit is that once a product is out there, it may appeal to an unanticipated market. This was the case with Sony's compact personal stereo system. The unit caught on with young people, and Sony's sales were 50 percent greater than anticipated. Had Sony based its manufacturing decision solely on "stand-alone" profitability, the unit never would have been produced.

These approaches are not unique to Japanese firms. Foreign companies operating in Japan are catching on and using them as well. Coca-Cola Japan is the leading company in the Japanese soft drink market, which sees the introduction of more than 1,000 new products each year. Most offerings do not last very long, and a cost accountant might well argue that it is not worth the effort to produce them. However, Coca-Cola introduces one new product a month. Most of these sodas, soft drinks, and cold coffees survive less than 90 days, but Coke does not let the short-term bottom line dictate the decision. The firm goes beyond quick profitability and looks at the overall picture. Result: Coca-Cola continues to be the leading soft drink firm in Japan despite competition that often is more vigorous than that in the United States.

factors. International Management in Action, "How the Japanese Do Things Differently," gives some details about these factors. One study attempted to answer the question by examining the differences between Japanese and U.S. manufacturers of air conditioners.[31] In this analysis, many of the commonly cited reasons for superior Japanese quality were discovered to be inaccurate. So what were the reasons for the quality differences?

One reason was the focus on keeping the workplace clean and ensuring that all machinery and equipment were properly maintained. The Japanese firms were more careful in handling incoming parts and materials, work-in-process, and finished products than their U.S. counterparts. Japanese companies also employed equipment fixtures to a greater extent than did U.S. manufacturers in ensuring proper alignment of parts during final assembly.

The Japanese minimized worker error by assigning new employees to existing work teams or pairing them with supervisors. In this way, the new workers gained important experience under the watchful eye of someone who could correct their mistakes.

Another interesting finding was that the Japanese made effective use of QCCs. Quality targets were set, and responsibility for their attainment then fell on the circle while management provided support assistance. This was stated by the researcher as follows:

> In supporting the activities of their QCCs, the Japanese firms in this industry routinely collected extensive quality data. Information on defects was compiled daily, and analyzed for trends. Perhaps most important, the data were made easily accessible to line workers, often in the form of publicly posted charts. More detailed data were available to QCCs on request.[32]

This finding pointed out an important difference between Americans and Japanese. The Japanese pushed data on quality down to the operating employees in the quality circles, whereas Americans tended to aggregate the quality data into summary reports aimed at middle and upper management.

Another important difference is that the Japanese tend to build in early warning systems so that they know when something is going wrong. Incoming field data, for example, are reviewed immediately by the quality department, and problems are assigned to one of two categories: routine or emergency. Special efforts then are made to resolve the emergency problems as quickly as possible. High failure rates attributable to a single persistent problem are identified and handled much faster than they would be in U.S. firms. Still another reason is that the Japanese work closely with their suppliers so that the latter's quality increases. In fact, research shows that among suppliers that have contracts with both American and Japanese auto plants in the United States, the Japanese plants get higher performance from their suppliers than do the Americans.[33] The Japanese are able to accomplish this because they work closely with their suppliers and help them develop lean manufacturing capabilities. Some of the steps that Japanese manufacturers take in doing this include (1) leveling their own production schedules in order to avoid big spikes in demand, thus allowing their suppliers to hold less inventory; (2) encouraging their suppliers to ship only what is needed by the assembly plant at a particular time, even if this means sending partially filled trucks; and (3) creating a disciplined system of delivery time windows during which all parts have to be received at the delivery plant. A close look at Table 11–4 shows that the 91 suppliers who were working for both Japanese and American auto firms performed more efficiently for their Japanese customers than for their American customers.

Management attitudes toward quality also were quite different. The Japanese philosophy is: "Anything worth doing in the area of quality is worth overdoing." Workers are trained for all jobs on the line, even though they eventually are assigned

Table 11–4
Performance of Suppliers When Serving U.S.- and Japanese-Owned Auto Plants

Performance Indicators	Chrysler Suppliers (n = 26)	Ford Suppliers (n = 42)	GM Suppliers (n = 23)	Honda Suppliers (n = 22)	Nissan Suppliers (n = 16)	Toyota Suppliers (n = 37)
Inventory turnover	28.3	24.4	25.5	38.4	49.2	52.4
Work-in-process	3.0	3.9	7.2	4.0	3.8	3.0
Finished-goods storage time	4.8	5.4	6.6	5.3	4.9	3.2
Inventory on the truck	2.1	4.5	2.6	2.8	2.08	1.61
Inventory maintained at the customer's site	3.5	4.8	3.1	4.0	2.8	2.3
Percentage change in manufacturing costs compared to the previous year	0.69%	0.58%	0.74%	−0.9%	−0.7%	−1.3%
Percentage of late deliveries	4.4%	7.70%	3.04%	2.11%	1.08%	0.44%
Emergency shipping cost (per million sales dollars) in previous year	$1,235	$446	$616	$423	$379	$204

Source: Adapted from Jeffrey K. Liker and Yen-Chun Wu, "Japanese Automakers, U.S. Suppliers and Supply-Chain Superiority," *Sloan Management Review*, Fall 2000, p. 84.

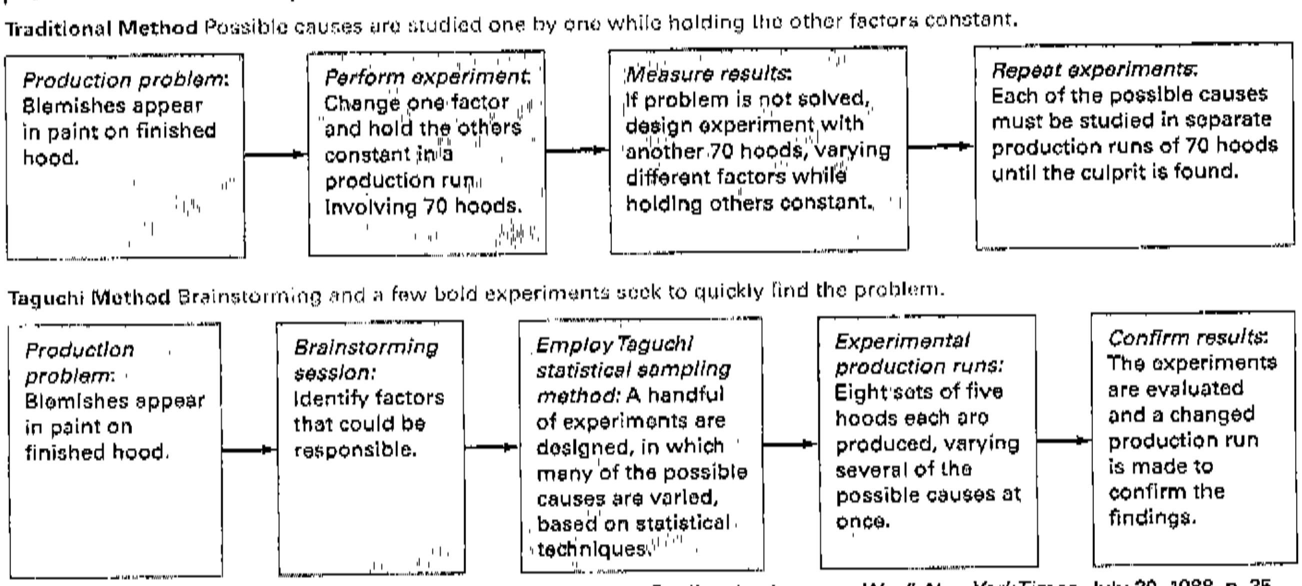
to a single workstation. This method of "training overkill" ensures that everyone can perform every job perfectly and results in two important outcomes: (1) If someone is moved to another job, he or she can handle the work without any additional assistance. (2) The workers realize that management puts an extremely high value on the need for quality. When questioned regarding whether their approach to quality resulted in spending more money than was necessary, the Japanese managers disagreed. They believed that quality improvement was technically possible and economically feasible. They did not accept the common U.S. strategy of building a product with quality that was "good enough."

These managers were speaking only for their own firms, however. Some evidence shows that, at least in the short run, an overfocus on quality may become economically unwise. Even so, firms must remember that quality goods and services lead in the long run to repeat business, which translates into profits and growth. From a control standpoint, the major issue is how to identify quality problems and resolve them as efficiently as possible. One approach that has gained acceptance in the United States is outlined by Genichi Taguchi, one of the foremost authorities on quality control. Taguchi's method is to dispense with highly sophisticated statistical methods unless more fundamental ways do not work. Figure 11–3 compares the use of the Taguchi method and the traditional method to identify the cause of defects in the paint on a minivan hood. The Taguchi approach to solving quality control problems is proving to be so effective that many MNCs are adopting it. They also are realizing that the belief that Japanese firms will correct quality control problems regardless of the cost is not true. As Taguchi puts it, "the more efficient approach is to identify the things that can be controlled at a reasonable cost in an organized manner, and simply ignore those too expensive to control."[34] To the extent that U.S. MNCs can do this, they will be able to compete on the basis of quality.

Personnel Performance

Besides financial techniques and the emphasis on quality, another key area of control is personnel performance evaluation. This type of evaluation can take a number of different forms, although there is a great deal of agreement from firm to firm about the general

Figure 11–3 | **Solving a Quality Problem: Taguchi Method vs. Traditional Method**



Source: From information reported in John Holusha, "Improving Quality, the Japanese Way," *New York Times*, July 20, 1988, p. 35.

Table 11–5
World's Most Reputable Companies, 2010

Global Reputation Pulse 2010—The Most Reputable Companies in the World Pulse Scores and Rank

Company	Home Country	Rank	Reputation Pulse
Google	U.S.	1	78.62
Sony	Japan	2	78.47
The Walt Disney Company	U.S.	3	77.97
BMW	Germany	4	77.77
Daimler (Mercedes-Benz)	Germany	5	76.83
Apple	U.S.	6	76.29
Nokia	Finland	7	76.00
IKEA	Sweden	8	75.60
Volkswagen	Germany	9	75.55
Intel	U.S.	10	75.39
Microsoft	U.S.	11	74.47
Johnson & Johnson	U.S.	12	74.12
Panasonic	Japan	13	73.67
Singapore Airlines	Singapore	14	73.54
Philips Electronics	The Netherlands	15	73.31
L'Oreal	France	16	73.17
IBM	U.S.	17	73.03
Hewlett-Packard	U.S.	18	72.67
Barilla	Italy	19	72.45
Nestle	Switzerland	20	72.37
Ferrero	Italy	21	72.36
Samsung Electronics	South Korea	22	71.62
FedEx	U.S.	23	70.84
Honda Motor	Japan	24	70.82
The Coca-Cola Company	U.S.	25	70.40
Carlsberg	Denmark	26	70.31
Procter & Gamble	U.S.	27	70.21
UPS	U.S.	28	70.07

Source: Forbes and the Reputation Institute: http://www.forbes.com/2010/05/23/apple-google-sony-cmo-network-global-reputable-companies_2.html; http://www.reputationinstitute.com.

criteria to be measured. Table 11–5 provides a list of the most reputable companies as calculated by the Reputation Institute in conjunction with *Forbes* magazine. The "reputation pulse" measure incorporates a range of criteria, including the trust, admiration, and esteem that stakeholders have for a company.

In describing what makes another group of companies successful—the "World's Most Admired" firms—consultants at the Hay Group made an analysis of the best global firms, focusing especially on their personnel and talent management systems, identifying seven common themes:

1. Top managers at the most-admired companies take their mission statements seriously and expect everyone else to do the same.
2. Success attracts the best people—and the best people sustain success.
3. The top companies know precisely what they are looking for.
4. These firms see career development as an investment, not a chore.

5. Whenever possible, these companies promote from within.
6. Performance is rewarded.
7. The firms are genuinely interested in what their employees think, and they measure work satisfaction often and thoroughly.[35]

One of the most common approaches to personnel performance evaluation is the periodic appraisal of work performance. Although the objective is similar from country to country, how performance appraisals are done differs. For example, effective employee performance in one country is not always judged to be effective in another. Awareness of international differences is particularly important when expatriate managers evaluate local managers on the basis of home-country standards. A good example comes out of a survey that found Japanese managers in U.S.-based manufacturing firms gave higher evaluations to Japanese personnel than to Americans. The results led the researcher to conclude: "It seems that cultural differences and diversified approaches to management in MNCs of different nationalities will always create a situation where some bias in performance appraisal may exist."[36] Dealing with these biases is a big challenge facing MNCs.

Another important difference is how personnel performance control actually is conducted. A study that compared personnel control approaches used by Japanese managers in Japan with those employed by U.S. managers in the United States found marked differences.[37] For example, when Japanese work groups were successful because of the actions of a particular individual, the Japanese manager tended to give credit to the whole group. When the group was unsuccessful because of the actions of a particular individual, however, the Japanese manager tended to perceive this one employee as responsible. In addition, the more unexpected the poor performance, the greater was the likelihood that the individual would be responsible. In contrast, individuals in the United States typically were given the credit when things went well and the blame when performance was poor.

Other differences relate to how rewards and monitoring of personnel performance are handled. Both U.S. and Japanese managers offered greater rewards and more freedom from close monitoring to individuals when they were associated with successful performance, no matter what the influence of the group on the performance. The Americans carried this tendency further than the Japanese in the case of rewards, including giving high rewards to a person who was a "lone wolf."[38]

A comparison of these two approaches to personnel evaluation shows that the Japanese tend to use a more social or group orientation, while the Americans are more individualistic (for more, see Chapter 4). The researchers found that overall, however, the approaches were quite similar and that the control of personnel performance by Japanese and U.S. managers is far more similar than different.

Such similarity also can be found in assessment centers used to evaluate employees. An **assessment center** is an evaluation tool that is used to identify individuals with the potential to be selected for or promoted to higher-level positions. Used by large U.S. MNCs for many years, these centers also are employed around the world. A typical assessment center would involve simulation exercises such as these: (1) in-basket exercises that require managerial attention; (2) a committee exercise in which the candidates must work as a team in making decisions; (3) business decision exercises in which participants compete in the same market; (4) preparation of a business plan; and (5) a letter-writing exercise. These forms of evaluation are beginning to gain support, because they are more comprehensive than simple checklists or the use of a test or an interview and thus better able to identify those managers who are most likely to succeed when hired or promoted.

assessment center
An evaluation tool used to identify individuals with the potential to be selected for or promoted to higher-level positions.

The World of International Management—Revisited

This chapter focuses on two areas that are essential to any company joining the race to compete in online retail or to develop productive contracting relationships for outsourcing in this area: management decision and control systems. The rapid growth in online retail poses substantial challenges in the areas of management decision and control. For example, many companies rely on extensive and sophisticated Web infrastructure to market and fulfil orders; any breakdown in these systems can have substantial ramifications for smooth operations and overall reputation. The implications for these firms' control process are obvious. Further, many companies, even large ones, outsource these functions to one of the large online retailers such as Amazon.com, further exacerbating the possible misconnection between management and customers.

Review the opening World of International Management discussion of online retailers and think about the principal considerations in international management decision making and control processes you have read about in this chapter. Then, answer the following questions: (1) How might differences in national and corporate culture impede timely decisions and control processes among existing and potential competitors in online retail? (2) To what extent should total quality management and quality control be considered when establishing an online retail presence or contracting with another firm to provide it? (3) What specific decision and control systems or tools would be helpful in overseeing an online presence (either internal or outsourced)?

SUMMARY OF KEY POINTS

1. Decision-making involves choosing from among alternatives. Some countries tend to use more centralized decision making than do others, so that more decisions are made at the top of the MNC than are delegated to the subsidiaries and operating levels.
2. A number of factors help influence whether decision making will be centralized or decentralized, including company size, amount of capital investment, relative importance of the overseas unit to the MNC, volume-to-unit-cost relationship, level of product diversification, distance between the home office and the subsidiary, and the competence of managers in the host country.
3. There are a number of decision-making challenges with which MNCs currently are confronted. These include total quality management (TQM) decisions and strategies for attacking the competition, among others.
4. Controlling involves evaluating results in relation to plans or objectives and then taking action to correct deviations. MNCs control their overseas operations in a number of ways. Most combine direct and indirect controls. Some prefer heavily quantifiable methods, and others opt for more qualitative approaches. Some prefer decentralized approaches; others opt for greater centralization.
5. Three of the most common performance measures used to control subsidiaries are in the financial, quality, and personnel areas. Financial performance typically is measured by profit and return on investment. Quality performance often is controlled through quality circles. Personnel performance typically is judged through performance evaluation techniques.

KEY TERMS

assessment center, *383*
codetermination, *367*
controlling, *371*
decision making, *363*
direct controls, *374*
empowerment, *368*
honne, *367*
indirect controls, *375*
kaizen, *369*
profit, *377*
quality control circle (QCC), *378*
return on investment (ROI), *377*
ringisei, *367*
tatemae, *367*
total quality management (TQM), *368*

REVIEW AND DISCUSSION QUESTIONS

1. A British computer firm is acquiring a smaller competitor located in Frankfurt. What are two likely differences in the way these two firms carry out the decision-making process? How could these differences create a problem for the acquiring firm? Give an example in each case.