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ABSTRACT

A key characteristic of multinational companies is a worldwide perspective and orientation in managerial decision making. In its quest for international opportunities, a multinational company confronts many problems and uncertainties in evaluating and dealing with political, legal, economic, social, cultural, and governmental policy variables and constraints in various countries. The environment in these countries changes at different rates, and complex interactions exist between the multinational company and its various subsidiaries. Two factors can affect establishing and maintaining communication links between the parent company and its multinational subsidiaries. The first is the need for adequate training for the international manager who has to face many issues of varying complexity. The second factor is increasing the trust between the parent company manager and the subsidiary manager by more decentralized management. (HOD)

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ESTABLISHING A COMMUNICATION LINK BETWEEN MULTINATIONAL COMPANIES AND THEIR SUBSIDIARIES

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ABSTRACT

A multinational company uses a worldwide perspective and orientation in its decision making. Two factors can affect establishing and maintaining communication links between the parent company and its multinational subsidiaries. The first is the need for adequate training for the international manager who has to face many issues of various complexities. The second factor is increasing the trust between the parent company manager and the subsidiary manager by greater decentralized management.

INTRODUCTION

A key characteristic of multinational companies is a worldwide perspective and orientation in managerial decision making. Such a company makes all kinds of managerial decisions for using its resources, such as management, personnel, technology, on a global basis. Many of the executives employed by these companies are unable to relate to foreign cultures and environments. Lack of experience in dealing with these cross-culture differences and the lack of trust between the parent company and subsidiaries add to these communication difficulties.

CHARACTERISTICS OF A MULTINATIONAL CORPORATION

A multinational corporation weighs alternative opportunities in marketing, production, finance, research and development, and other aspects in overseas countries as well as in its home country. The company develops its organizational structure and formulates its policies for both its international and its domestic business.

The multinational company transmits its basic resources--such as management skills, entrepreneurship, technological skills, and funds--across national frontiers in the process of undertaking various types of businesses including exporting, importing, licensing, contract manufacturing, sales of technology and services, management contracts, and international production. It combines these resources with available

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domestic and international resources in producing, distributing, and marketing goods and services.

COMPLEXITY OF RELATIONSHIPS

The multinational company faces complex relationships among its various national subsidiaries and affiliates. A complex set of flows crosses national boundaries, involving managerial and administrative processes, including planning and control; interchange of materials, components, and end products; interchange of management know-how and manpower; movement of capital and other financial assets; transfer of ownership; and flow of information (Root, 1968).

In transmitting resources across national frontiers and combining them with local and international resources, the multinational firm faces a number of internal constraints. These constraints are based on the firm's historical evolution, its philosophy of business, its conception of purpose, and its past and current objectives and policies. The firm's approach to international opportunities depends in part on the degree of multinationalization that it has achieved, that the company has or perceives in the development of its organizational structure, and other internal factors.

Other home-country constraints are political, legal, economic, and social factors. Government policies of the home country are of special significance. They may facilitate or restrict the various types of international activities such as exporting, importing, licensing, and overseas investment. Some examples are import restrictions, border equalization taxes, exchange controls, etc.

GLOBAL INFLUENCES

The global environment faced by the multinational corporation is influenced by various specialized international bodies like the International Monetary Fund and International Bank for Reconstruction and Development and its affiliate organizations, and the General Agreement of Tariffs and Trade, which usually establishes some international codes and rules. These are not legally binding in the same way that the laws of national states are within their countries' jurisdictions, because they depend upon the consent and cooperation of member countries. However, they still establish principles and an atmosphere that facilitates international business. The impact of cross-culture and national interactions on the multinational company's business is hard to ascertain in any precise manner.

Multinational companies also face competition from other international companies based in the same home country. They compete with these companies for markets, scarce resources, personnel, technology, know-how, and funds. The firm has to determine the appropriate marketing mix, develop products for specific markets, and establish distribution, pricing, promotion and other policies.

International executives often have to contend with problems resulting from innumerable unknowns and very little information. They are confronted with a wide range of alternatives, and many of them lack the accumulated experience to resolve their difficulties. Many of the executives are unable to relate to (or communicate with) the overseas culture and environment--that is, to the customs, culture, people, etc.

GAP BETWEEN COMPANIES AND THEIR SUBSIDIARIES

One primary reason for the wide gap between executives at headquarters and those in the subsidiaries is explained by Dr. Robert G. Wertheimer, Professor of Economics, Babson Institute:

> Years of work in the various domestic sectors remain the indispensible basis for any international assignment. This form of apprenticeship provides exposure to various domestic activities and relies on typical on-the-job experience.
>
> A few companies hire directly for the international division, but even here the candidate will be trained by the domestic organization. (Wertheimer, 1965)

Although a number of executives are experienced in establishing performance standards at home, their domestic experience may not be relevant to foreign operations. International standards and measurement criteria for measuring managerial performance are far more complex. Each foreign subsidiary is relatively self-contained; its transactions are usually confined to the local environment and headquarters. Its operations are often thought to be atypical or special. Any meaningful criteria established to evaluate their performance must be compatible, so that results can be gauged against a common denominator. Sometimes lack of homogeneity among international subsidiaries makes meaningful comparisons almost impossible. It is obvious that experience is the most reliable means of being a successful professional at the international level. A two-way communication channel between the headquarters and subsidiaries builds experience.

ATTITUDES OF MISTRUST

Mistrust strains the communication network of a multinational company. It proves to be very irksome and irrational. The home office sometimes looks upon general managers of foreign subsidiaries--whether they are country-of-origin nationals, local nationals, or third-country persons--exactly as a bank clerk would regard a customer carrying a revolver (Chorafas, p. 69, p. 15).

Cameron McKenzie referred to this condition as follows:

> Foreign operations that complain of incompetent general managers usually have at least three things in common.
>
> First, they have over-extensive control systems, that is, headquarters demands that are useless for evaluating performance and for communicating objectives to the local management or motivating it to reach them.
>
> Second, the manager really has no grasp of what is going on, even though his reports may be current and correct.
>
> A third common symptom is the irrational fashion in which the manager reacts to either verbal or written instructions. If such symptoms exist, management will be well advised to take a careful look at its control system before passing judgment on its manager. (McKenzie, 1966, p. 84)

Under these conditions of over-extensive controls, executives on overseas assignments cannot develop their decision-making skills. Their morale and human potential become dangerously eroded. They ultimately lose their sense of responsibility and propriety-interest essential for chief operating executives to have. They become mere puppets satisfying or attempting to satisfy needs of their advisors rather than the business. Thus, one ingredient that is essential for sound communication in multinational organization is managerial confidence leading to a certain degree of decentralization in decision-making.

CONCLUSION

A multinational company in its quest of international opportunities confronts many problems and uncertainties in evaluating and dealing with political, legal, economic, social, cultural, and governmental policy variables and constraints in various countries. The environment in these countries changes at different rates, and complex interactions exist between the multinational company and the various subsidiaries. Better training of executives in communication skills and increasing trust by decentralization of management may contribute to stronger links between the multinational corporation and its subsidiaries.

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