Chapter five

Management Decision and Control

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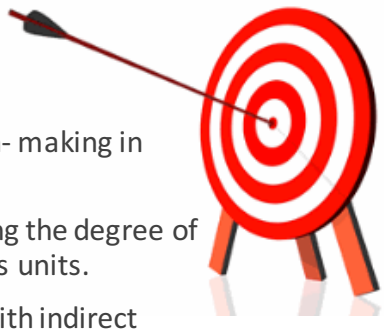
CHAPTER OBJECTIVES:



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.

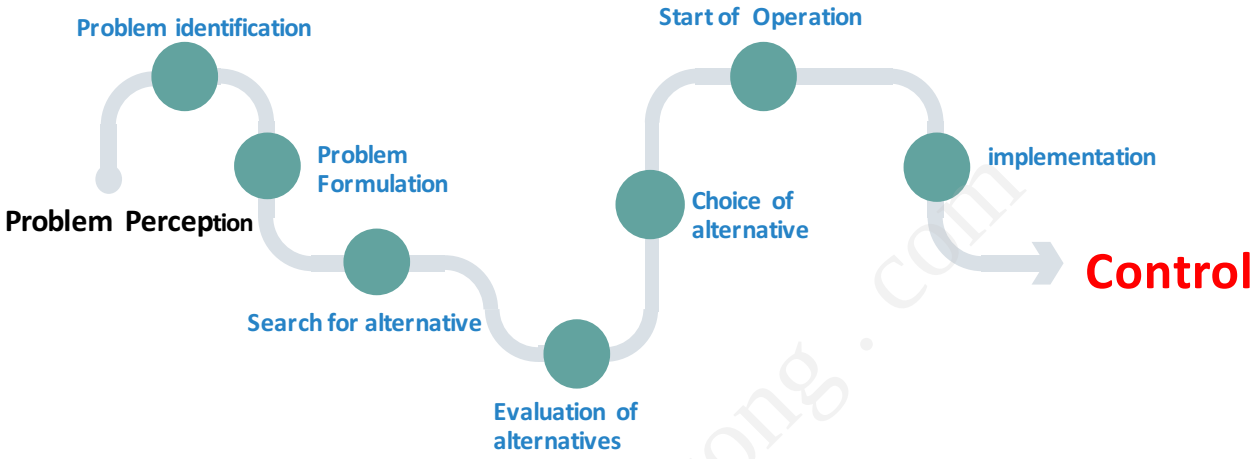
Opening case: Global Online Retail: Amazon and Beyond

1. Why do MNCs choose to sell their products online? What should managers take into account when doing online?
2. Why has VASCO become a leading supplier in Internet Security applications and transactions?
3. How do language/currency differences affecting online sales?
4. How do MNCs avoid risks of international shipping when selling products online?
5. Why it is important for the sellers to fulfill orders efficiently?
6. How do MNCs support customers when selling online?
7. Why has Amazon become the world's most customer-centric company?

DECISION-MAKING PROCESSES AND CHALLENGES

- Managerial decision-making processes: method of choosing a course of action among alternatives
- Process is often linear
- Looping back is common
- Managerial involvement in procedure depends on structure of subsidiaries and locus of decision-making

DECISION-MAKING PROCESS



Factors Affecting Decision Making Authority

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

COMPARATIVE EXAMPLES OF DECISION MAKING

Decision-making philosophies and practices from country to country:

Do international operations use similar decision-making norms?

- French and Danish managers used different approaches to decision-making; each more adept at different stages of the process.
- French do not value time as much as counterparts
- German **co-determination**: managers focus more on productivity and quality of goods/services than on managing subordinates.

Comparative Examples of Decision Making

Most evidence indicates overall decision-making approaches used around the world favor *centralization*

MNCs based in U.S.

- Use fairly centralized decision making in managing overseas units
- Ensure that all units are operating according to overall strategic plan
- Provide necessary control for developing a worldwide strategy

Total Quality Management (TQM)

Organizational strategy and accompanying techniques resulting in delivery of high quality products or services to customers

Critical to achieve world-class competitiveness

- Manufacturing is primary area
- U.S. automakers have greatly improved quality of their cars in recent years
- Japanese have continuously improved quality and still have the industry lead

Topic

1. **Decision and Control Linkages**

The Controlling Process

Performance Evaluation as a Mechanism of Control

pp. 371-381

2. Case: Tata " Nano" – People's car. Pp. 399-407

Total Quality Management

Concurrent engineering/inter-functional teams
- Designers, engineers, production specialists, and customers work together to develop new products

Empowerment
- Give individuals and teams resources, information, authority needed to develop ideas and effectively implement them

Many successful TQM techniques applied to manufacturing
- MNCs use TQM techniques
  - Tailor output to customer needs
  - Require suppliers use same approach

Total Quality Management

ISO 9000 Certification
- Indirectly related to TQM
- International Standards Organization (ISO) to ensure quality products and services
- Areas examined include design, process control, purchasing, service, inspection and testing, and training.

International Organization for Standardization

Ongoing Training
- Wide variety of forms such as statistical quality control and team meetings --designed to generate ideas
- Objective is to apply **kaizen** (Japanese term for continuous improvement)

Quality Concerns

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.

Comparative Examples (continued)

Japanese make heavy use of **ringisei** (decision making by consensus)

Other Japanese decision-making terms:

- **Tatemae**: "doing the right thing" according to the norm
- **Honne**: "what one really wants to do"

The Control Process

MNC methods to control overseas operations

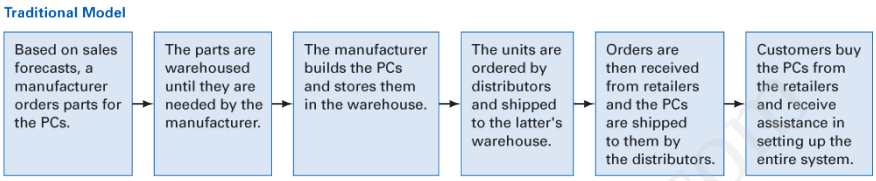
- Most combine direct and indirect controls
- Some prefer heavily quantifiable methods; some prefer qualitative approaches
- Some prefer decentralized approaches; others greater centralization

Control Process

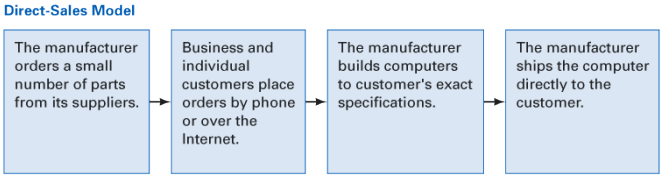
Three common performance measures:

- Financial performance: typically measured by profit and return on investment
- Quality performance: often controlled through quality circles
- Personnel performance: typically judged through performance evaluation techniques.

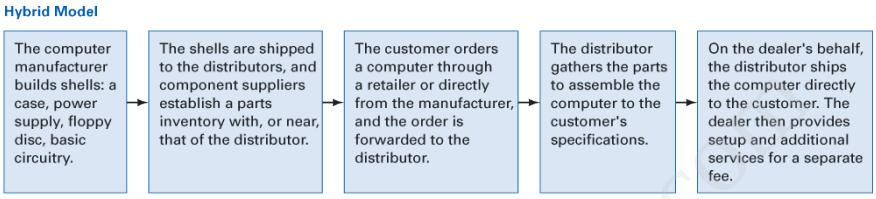
Three Models of PC Manufacturing:



Models of PC Manufacturing



Models of PC Manufacturing



The Controlling Process

MNCs may experience control problems

- Objectives of overseas operation and MNC may conflict
- Objectives of joint venture partners and corporate management may not agree
- Degree of experience and competence in planning vary widely among managers running overseas units
- Basic philosophic disagreements about objectives and polices of international operations may exist

Types of Control

Two common complementary types:

1. *Internal or external* control in devising overall strategy
2. Looking at ways organization uses *direct and indirect* controls

Types of Control: External/Internal:

Internal and external perspectives of control – one is often given more attention than the other.

External control focus needed to find out what customers want and be prepared to respond appropriately

Management wants to ensure market for goods and services exist

Types of Control: External/Internal

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

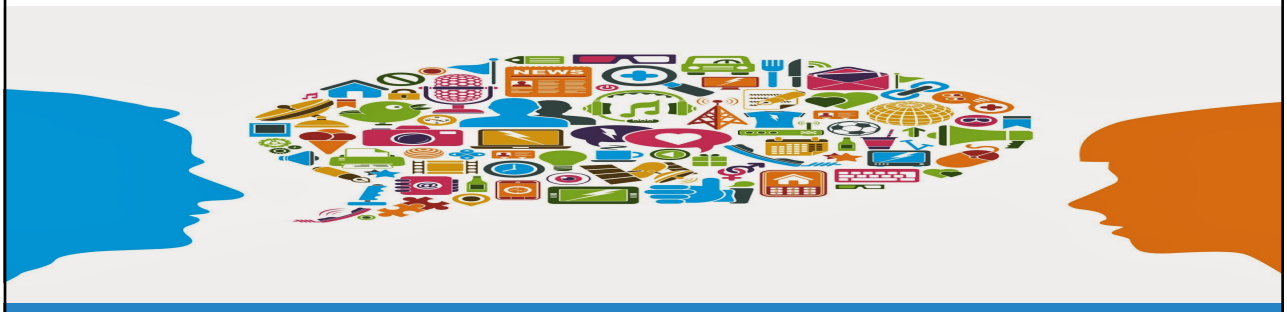
Key Differences Between . . .	
Internal Control	**External Control**
Often dominating attitude bordering on aggressiveness toward the environment.	Often flexible attitude, willing to compromise and keep the peace.
Conflict and resistance mean that a person has convictions.	Harmony, responsiveness, and 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, 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.

Types of Control: Direct Controls

Use of face-to-face personal meetings for purpose of monitoring operations

Examples: top executives visit overseas affiliates to learn of problems and challenges; design structure that makes unit highly responsive to home-office requests and communications



Types of Control: Indirect

Use of reports and other written forms of communication to control operations at subsidiaries

Financial statements

- Financial statement prepared to meet national accounting standards prescribed by host country
- Statement prepared to comply with accounting principles and standards required by home country
- Statement prepared to meet financial consolidation requirements of home country

The Controlling Process

Differences across countries:

Great Britain

- Financial records are sophisticated and heavily emphasized
- Top management tends to focus on major problem areas; not involved in specific matters of control
- Control used for general guidance more than surveillance
- Operating units have large amount of marketing autonomy

The Controlling Process (continued)

France

- Managers employ control systems closer to that of German than British
- Control used more for surveillance than guidance
- Process centrally administered
- Less systematic and sophisticated than in German companies

The Controlling Process

U.S. vs. Europeans:

- U.S. firms rely much more on reports and other performance-related data
- Americans make greater use of output control; Europeans rely more heavily on behavioral control
- Control in U.S. MNCs focus more on quantifiable, objective aspects of foreign subsidiary; control in European MNCs used to measure more qualitative aspects.

Planning and Control

Table 11–4
Selected Beliefs Related to Planning and Control

	Statement of Results—Average Responses			
	Japan		United States	
	Managers	Controllers	Managers	Controllers
To be useful in performance evaluation of managers, a budget must be revised continuously throughout the year.	3.07	3.14	2.70	2.48
It is important that budgets be very detailed.	3.38	3.31	2.93	2.97
It is appropriate to charge other activities when budgeted funds are used up.	3.01	2.91	1.96	1.52
Budgets should be developed from the bottom up rather than from the top down.	3.13	3.01	3.68	3.96
Budgets are useful in communicating the goal and planned activities of the company.	4.54	4.68	4.11	4.23
Budgets are useful in coordinating activities of various departments.	4.24	4.46	3.78	4.02
A manager who fails to attain the budgets should be replaced.	2.56	2.67	2.00	1.92
Top management should judge a manager's performance mainly on the basis of attaining budget profit.	3.25	3.38	2.27	2.07
It is important that executive compensation depend on a comparison of actual and budgeted performance.	3.18	3.18	3.55	3.56
It is important that managers who perform exceptionally well receive more money than other managers in similar positions.	3.84	3.92	4.28	4.14
It is important for a manager to have quantitative or analytic skills as opposed to people skills.	3.12	3.15	2.04	1.96
The best way to determine the value of capital projects is through the use of quantitative analysis.	3.61	3.80	3.23	3.37

Note: The response scale was as follows:

Strongly disagree	1
Disagree	2
Neutral	3
Agree	4
Strongly agree	5

Source: Adapted from Lane Daley, James Jiambalvo, Gary L. Sundem, and Yasumasa Kondo, "Attitudes Toward Financial Control Systems in the United States and Japan," *Journal of International Business Studies,* Fall 1985, pp. 100–102.

Control Techniques

Financial performance

- Most important part of ROI calculation is profit; often manipulated by management
- Amount of profit directly related to how well or poorly a unit is judged to perform

Control Techniques

Financial performance (continued):

- Bottom line (i.e., profit) performance of subsidiaries can be affected by a devaluation or revaluation of local currency
  - If a country devalues its currency, subsidiary export sales will increase
  - Price of goods will be lower for foreign buyers with currencies that have greater purchasing power
  - If country revalues its currency, export sales will decline
  - Price of goods for foreign buyers rises since currencies now have less purchasing power in subsidiary's country

Control Techniques

Quality performance: Why Japanese goods of higher quality than goods of many other countries:

- Quality control circle (QCC)
- Japanese firms train people carefully
- Staying on technological cutting edge
- Focus on developing and bringing to market competitively priced goods
- Design, engineer, and supply people to ensure product produced at prices customers can bear
- Fostering continuous cost-reduction efforts (kaizen)

U.S Japan owned Auto Plants

Table 11–5
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.

Most Admired Global Companies

Table 11–6
The 50 Most-Admired Global Companies, 2007

Rank	Company	Country
1	General Electric	U.S.
2	Toyota Motor	Japan
3	Procter & Gamble	U.S.
4	Johnson & Johnson	U.S.
5	Apple	U.S.
6	Berkshire Hathaway	U.S.
7	FedEx	U.S.
8	Microsoft	U.S.
9	BMW	Germany
10	PepsiCo	U.S.
11	IBM	U.S.
12	Target	U.S.
13	Wal-Mart Stores	U.S.
14	United Parcel Service	U.S.
15	Costco Wholesale	U.S.
16	Walt Disney	U.S.
17	Singapore Airlines	Singapore
18	Exxon Mobil	U.S.
19	Boeing	U.S.
20	Nokia	Finland
21	Citigroup	U.S.
22	Bank of America	U.S.
23	Honda Motor	Japan
24	Coca-Cola	U.S.
25	Caterpillar	U.S.

Source: "The 50 Most Admired Companies in the World," (2007 All-Stars), Fortune International March 19, 2007. Copyright © 2007 Time inc. All right reserved.

Most Admired Global Companies

Table 11–6
The 50 Most-Admired Global Companies, 2007

Rank	Company	Country
26	Nestlé	Switzerland
27	Dell	U.S.
28	Toyota Industries	Japan
29	Intel	U.S.
30	Tesco	Britain
31	Dupont	U.S.
32	Cisco Systems	U.S.
33	Walgreens	U.S.
34	Samsung Electronics	South Korea
35	Anheuser-Busch	U.S.
36	BP	Britain
37	Best Buy	U.S.
38	Siemens	Germany
39	Home Depot	U.S.
40	L'Oréal	France
41	Sony	Japan
42	Motorola	U.S.
43	Hewlett-Packard	U.S.
44	Northwestern Mutual	U.S.
45	Lowe's	U.S.
46	Canon	Japan
47	Deere	U.S.
48	HSBC Holdings	Britain
49	Xerox	U.S.
50	Dow Chemical	U.S.

Source: "The 50 Most Admired Companies in the World," (2007 All-Stars), Fortune International March 19, 2007. Copyright © 2007 Time inc. All right reserved.

REVIEW AND DISCUSS

1. Which cultures are more likely to focus on external controls? Which cultures would consider direct controls more important than indirect?
2. How would you explain a company's decision to use centralized decision-making processes and decentralized control processes, considering the two are so interconnected?

   Provide an industry example.