A drama in three acts . . .

The Tortuous Evolution of the Multinational Corporation

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FOUR senior executives of the world's largest firms with extensive holdings outside the home country speak:

Company A: "We are a multinational firm. We distribute our products in about 100 countries. We manufacture in over 17 countries and do research and development in three countries. We look at all new investment projects—both domestic and overseas—using exactly the same criteria."

Company B: "We are a multinational firm. Only 1% of the personnel in our affiliate companies are non-nationals. Most of these are U.S. executives on temporary assignments. In all major markets, the affiliate's managing director is of the local nationality."

Company C: "We are a multinational firm. Our product division executives have worldwide profit responsibility. As our organizational chart shows, the United States is just one region on a par with Europe, Latin America, Africa, etc., in each product division."

Company D (non-American): "We are a multinational firm. We have at least 18 nationalities represented at our headquarters. Most senior executives speak at least two languages. About 30% of our staff at headquarters are foreigners."

While a claim to multinationality, based on their years of experience and the significant proportion of sales generated overseas, is justified in each of these four companies, a more penetrating analysis changes the image.

The executive from Company A tells us that most of the key posts in Company A's subsidiaries are held by home-country nationals. Whenever replacements for these men are sought, it is the practice, if not the policy, to "look next to you at the head office" and "pick someone (usually a home-country national) you know and trust."

The executive from Company B does not hide the fact that there are very few non-Americans in the key posts at headquarters. The few who are there are "so Americanized" that their foreign nationality literally has no meaning. His explanation for this paucity of non-Americans seems reasonable enough: "You can't find good foreigners who are willing to live in the United States, where our headquarters is located. American executives are more mobile. In addition, Americans have the drive and initiative we like. In fact, the European nationals would prefer to report to an American rather than to some other European."

The executive from Company C goes on to explain that the worldwide product division concept is rather difficult to implement. The senior executives in charge of these divisions have little overseas experience. They have been promoted from domestic posts and tend to view foreign consumer needs "as really basically the same as ours." Also, product division executives tend to focus on the domestic market because the domestic market is larger and generates more revenue than the fragmented European markets. The rewards are for global performance, but the strategy is to focus on domestic. His colleagues say "one pays attention to what one understands—and our senior executives simply do not understand what happens overseas and really do not trust foreign executives in key positions here or overseas."

The executive from the European Company D begins by explaining that since the voting shareholders must by law come from the home country, the home country's interest must be given careful consideration. In the final analysis he insists: "We are proud of our nationality; we shouldn't be ashamed of it." He cites examples of the previous reluctance of headquarters to use home-country ideas overseas, to their detriment, especially in their U.S. subsidiary. "Our country produces good executives, who tend to stay with us a long time. It is harder to keep executives from the United States."

A Rose by Any Other Name . . .

Why quibble about how multinational a firm is? To these executives, apparently being multinational is prestigious. They know that multinational firms tend to be regarded as more progressive, dynamic, geared to the future than provincial companies which avoid foreign frontiers and their attendant risks and opportunities.

It is natural that these senior executives would want to justify the multinationality of their enterprise, even if they use different yardsticks: ownership criteria, organizational structure, nationality of senior executives, percent of investment overseas, etc.

Two hypotheses seem to be forming in the minds of executives from international firms that make the extent of their firm's multinationality of real interest. The first hypothesis is that the degree of multinationality of an enterprise is positively related to the firm's long-term viability. The "multinational" category makes sense for executives if it means a quality of decision making which leads to survival, growth and profitability in our evolving world economy.

The second hypothesis stems from the proposition that the multinational corporation is a new kind of institution—a new type of industrial social architecture particularly suitable for the latter third of the twentieth century. This type of institution could make a valuable contribution to world order and conceivably exercise a constructive impact on the nation-state. Some executives want to understand how to create an institution whose presence is considered legitimate and valuable in each nation-state. They

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want to prove that the greater the degree of multinationality of a firm, the greater its total constructive impact will be on host and home nation-states as well as other institutions. Since multinational firms may produce a significant proportion of the world's GNP, both hypotheses justify a more precise analysis of the varieties and degrees of multinationality.[1] However, the confirming evidence is limited.

State of Mind

Part of the difficulty in defining the degree of multinationality comes from the variety of parameters along which a firm doing business overseas can be described. The examples from the four companies argue that (1) no single criterion of multinationality such as ownership or the number of nationals overseas is sufficient, and that (2) external and quantifiable measures such as the percentage of investment overseas or the distribution of equity by nationality are useful but not enough. The more one penetrates into the living reality of an international firm, the more one finds it is necessary to give serious weight to the way executives think about doing business around the world. The orientation toward "foreign people, ideas, resources," in headquarters and subsidiaries, and in host and home environments, becomes crucial in estimating the multinationality of a firm. To be sure, such external indices as the proportion of nationals in different countries holding equity and the number of foreign nationals who have reached top positions, including president, are good indices of multinationality. But one can still behave with a home-country orientation despite foreign shareholders, and one can have a few home-country nationals overseas but still pick those local executives who are home-country oriented or who are provincial and chauvinistic. The attitudes men hold are clearly more relevant than their passports.

Three primary attitudes among international executives toward building a multinational enterprise are identifiable. These attitudes can be inferred from the assumptions upon which key product, functional and geographical decisions were made.

These states of mind or attitudes may be described as ethnocentric (or home-country oriented), polycentric (or host-country oriented) and geocentric (or world-oriented).[2] While they never appear in pure form, they are clearly distinguishable. There is some degree of ethnocentricity, polycentricity or geocentricity in all firms, but management's analysis does not usually correlate with public pronouncements about the firm's multinationality.

Home Country Attitudes

The ethnocentric attitude can be found in companies of any nationality with extensive overseas holdings. The attitude, revealed in executive actions and experienced by foreign subsidiary managers, is: "We, the home nationals of X company, are superior to, more trustworthy and more reliable than any foreigners in headquarters or subsidiaries. We will be willing to build facilities in your country if you acknowledge our inherent superiority and accept our methods and conditions for doing the job."

Of course, such attitudes are never so crudely expressed, but they often determine how a certain type of "multinational" firm is designed. Table 1 illustrates how ethnocentric attitudes are expressed in determining the managerial process at home and overseas. For example, the ethnocentric executive is more apt to say: "Let us manufacture the simple products overseas. Those foreign nationals are not yet ready or reliable. We should manufacture the complex products in our country and keep the secrets among our trusted home-country nationals."

In a firm where ethnocentric attitudes prevailed, the performance criteria for men and products are "home-made." "We have found that a salesman should make 12 calls per day in Hoboken, New Jersey (the headquarters location) and therefore we apply these criteria everywhere in the world. The salesman in Brazzaville is naturally lazy, unmotivated. He shows little drive because he makes only two calls per day (despite the Congolese salesman's explanation that it takes time to reach customers by boat)."

Table 1: Three Types of Headquarters Orientation Toward Subsidiaries in an International Enterprise

Organization Design	Ethnocentric	Polycentric	Geocentric
Complexity of organization	Complex in home country, simple in subsidiaries	Varied and independent	Increasingly complex and interdependent
Authority; decision making	High in headquarters	Relatively low in headquarters	Aim for a collaborative approach between headquarters and subsidiaries
Evaluation and control	Home standards applied for persons and performance	Determined locally	Find standards which are universal and local
Rewards and punishments; incentives	High in headquarters low in subsidiaries	Wide variation; can be high or low rewards for subsidiary performance	International and local executives rewarded for reaching local and worldwide objectives
Communication; information flow	High volume to subsidiaries orders, commands, advice	Little to and from headquarters. Little between subsidiaries	Both ways and between subsidiaries. Heads of subsidiaries part of management team
Identification	Nationality of owner	Nationality of host country	Truly international company but identifying with national interests
Perpetuation (recruiting, staffing, development)	Recruit and develop people of home country for key positions everywhere in the world	Develop people of local nationality for key positions in their own country	Develop best men everywhere in the world for key positions everywhere in the world

Ethnocentric attitudes are revealed in the communication process where "advice," "counsel," and directives flow from headquarters to the subsidiary in a steady stream, bearing this message: "This works at home; therefore, it must work in your country."

Executives in both headquarters and affiliates express the national identity of the firm by associating the company with the nationality of the headquarters: this is "a Swedish company," "a Swiss company," "an American company," depending on the location of headquarters. "You have to accept the fact that the only way to reach a senior post in our firm," an English executive in a U.S. firm said, "is to take out an American passport."

Crucial to the ethnocentric concept is the current policy that men of the home nationality are recruited and trained for key positions everywhere in the world. Foreigners feel like "second-class" citizens.

There is no international firm today whose executives will say that ethnocentrism is absent in their company. In the firms whose multinational investment began a decade ago, one is more likely to hear, "We are still in a transitional stage from our ethnocentric era. The traces are still around! But we are making progress."

Host Country Orientation

Polycentric firms are those which, by experience or by the inclination of a top executive (usually one of the founders), begin with the assumption that host-country cultures are different and that foreigners are difficult to understand. Local people know what is best for them, and the part of the firm which is located in the host country should be as "local in identity" as possible. The senior executives at headquarters believe that their multinational enterprise can be held together by good financial controls. A polycentric firm, literally, is a loosely connected group with quasi-independent subsidiaries as centers —more akin to a confederation.

European multinational firms tend to follow this pattern, using a top local executive who is strong and trustworthy, of the "right" family and who has an intimate understanding of the workings of the host government. This policy seems to have worked until the advent of the Common Market.

Executives in the headquarters of such a company are apt to say: "Let the Romans do it their way. We really don't understand what is going on there, but we have to have confidence in them. As long as they earn a profit, we want to remain in the background." They assume that since people are different in each country, standards for performance, incentives and training methods must be different. Local environmental factors are given greater weight (See Table 1).

Many executives mistakenly equate polycentrism with multinationalism. This is evidenced in the legalistic definition of a multinational enterprise as a cluster of corporations of diverse nationality joined together by ties of common ownership. It is no accident that many senior executives in headquarters take pride in the absence of non-nationals in their subsidiaries, especially people from the head office. The implication is clearly that each subsidiary is a distinct national entity, since it is incorporated in a different sovereign state. Lonely senior executives in the subsidiaries of polycentric companies complain that: "The home office never tells us anything."

Polycentrism is not the ultimate form of multinationalism. It is a landmark on a highway. Polycentrism is encouraged by local marketing managers who contend that: "Headquarters will never understand us, our people, our consumer needs, our laws, our distribution, etc. . . ."

Headquarters takes pride in the fact that few outsiders know that the firm is foreign-owned. "We want to be a good local company. How many Americans know that Shell and Lever Brothers are foreign-owned?"

But the polycentric personnel policy is also revealed in the fact that no local manager can seriously aspire to a senior position at headquarters. "You know the French are so provincial; it is better to keep them in France. Uproot them and you are in trouble," a senior executive says to justify the paucity of non-Americans at headquarters.

One consequence (and perhaps cause) of polycentrism is a virulent ethnocentrism among the country managers.

A World-Oriented Concept

The third attitude which is beginning to emerge at an accelerating rate is geocentrism. Senior executives with this orientation do not equate superiority with nationality. Within legal and political limits, they seek the best men, regardless of nationality, to solve the company's problems anywhere in the world. The senior executives attempt to build an organization in which the subsidiary is not only a good citizen of the host nation but is a leading exporter from this nation in the international community and contributes such benefits as (1) an increasing supply of hard currency, (2) new skills and (3) a knowledge of advanced technology. Geocentrism is summed up in a Unilever board chairman's statement of objectives: "We want to Unileverize our Indians and Indianize our Unileverans."

The ultimate goal of geocentrism is a worldwide approach in both headquarters and subsidiaries. The firm's subsidiaries are thus neither satellites nor independent city states, but parts of a whole whose focus is on worldwide objectives as well as local objectives, each part making its unique contribution with its unique competence. Geocentrism is expressed by function, product and geography. The question asked in headquarters and the subsidiaries is: "Where in the world shall we raise money, build our plant, conduct R&D, get and launch new ideas to serve our present and future customers?"

This conception of geocentrism involves a collaborative effort between subsidiaries and headquarters to establish universal standards and permissible local variations, to make key allocational decisions on new products, new plants, new laboratories. The international management team includes the affiliate heads.

Subsidiary managers must ask: "Where in the world can I get the help to serve my customers best in this country?" "Where in the world can I export products developed in this country—products which meet worldwide standards as opposed to purely local standards?"

Geocentrism, furthermore, requires a reward system for subsidiary managers which motivates them to work for worldwide objectives, not just to defend country objectives. In firms where geocentrism prevails, it is not uncommon to hear a subsidiary manager say, "While I am paid to defend our interests in this country and to get the best resources for this affiliate, I must still ask myself the question 'Where in the world (instead of where in my country) should we build this plant?'" This approach is still rare today.

In contrast to the ethnocentric and polycentric patterns, communication is encouraged among subsidiaries in geocentric-oriented firms. "It is your duty to help us solve problems anywhere in the world," one chief executive continually reminds the heads of his company's affiliates. (See Table 1.)

The geocentric firm identifies with local company needs. "We aim to be not just a good local company but the best local company in terms of the quality of management and the worldwide (not local) standards we establish in domestic and export production." "If we were only as good as local companies, we would deserve to be nationalized."

The geocentric personnel policy is based on the belief that we should bring in the best man in the world regardless of his nationality. His passport should not be the criterion for promotion.

The EPG Profile

Executives can draw their firm's profile in ethnocentric (E), polycentric (P) and geocentric (G) dimensions. They are called EPG profiles. The degree of ethnocentrism, polycentrism and geocentrism by product, function and geography can be established. Typically R&D often turns out to be more geocentric (truth is universal, perhaps) and less ethnocentric than finance. Financial managers are likely to see their decisions as ethnocentric. The marketing function is more polycentric, particularly in the advanced economies and in the larger affiliate markets.

The tendency toward ethnocentrism in relations with subsidiaries in the developing countries is marked. Polycentric attitudes develop in consumer goods divisions, and ethnocentrism appears to be greater in industrial product divisions. The agreement is almost unanimous in both U.S.- and European-based international firms that their companies are at various stages on a route toward geocentrism but none has reached this state of affairs. Their executives would agree, however, that:

1. a description of their firms as multinational obscures more than it illuminates the state of affairs;
2. the EPG mix, once defined, is a more precise way to describe the point they have reached;
3. the present profile is not static but a landmark along a difficult road to genuine geocentrism;
4. there are forces both to change and to maintain the present attitudinal "mix," some of which are under their control.

Forces Toward and Against

What are the forces that determine the EPG mix of a firm? "You must think of the struggle toward functioning as a worldwide firm as just a beginning—a few steps forward and a step backward," a chief executive put it. "It is a painful process, and every firm is different."

Executives of some of the world's largest multinational firms have been able to identify a series of external and internal factors that contribute to or hinder the growth of geocentric attitudes and decision. Table 2 summarizes the factors most frequently mentioned by over 500 executives from at least 17 countries and 20 firms.

From the external environmental side, the growing world markets, the increase in availability of managerial and technological know-how in different countries, global competition and international customers, advances in telecommunications, regional political and economic communities are positive factors, as is

Table 2: International Executives View of Forces and Obstacles Toward Geocentrism in Their Firms

Forces Toward Geocentrism: Environmental	Forces Toward Geocentrism: Intra-Organizational	Obstacles Toward Geocentrism: Environmental	Obstacles Toward Geocentrism: Intra-Organizational
1. Technological and managerial know-how increasing in availability in different countries	1. Desire to use human vs. material resources optimally	1. Economic nationalism in host and home countries	1. Management inexperience in overseas markets
2. International customers	2. Observed lowering of morale in affiliates of an ethnocentric company	2. Political nationalism in host & home countries	2. Nation-centered reward and punishment structure
3. Local customers demand for best product at fair price	3. Evidence of waste and duplication in polycentrism	3. Military secrecy associated with research in home country	3. Mutual distrust between home country people and foreign executives
4. Host country's desire to increase balance of payments	4. Increasing awareness and respect for good men of other than home nationality	4. Distrust of big international firms by host country political leaders	4. Resistance to letting foreigners into the power structure
5. Growing world markets	5. Risk diversification in having a worldwide production & distribution system	5. Lack of international monetary system	5. Anticipated costs and risks of geocentrism
6. Global competition among international firms for scarce human and material resources	6. Need for recruitment of good men on a worldwide basis	6. Growing differences between the rich and poor countries	6. Nationalistic tendencies in staff
7. Major advances in integration of international transport & telecommunications	7. Need for worldwide information system	7. Host country belief that home countries get disproportionate benefits of international firms profits	7. Increasing immobility of staff
8. Regional supranational economic & political communities	8. Worldwide appeal of products	8. Home country political leaders' attempts to control firm's policy	8. Linguistic problems & different cultural backgrounds
	9. Senior management's long term commitment to geocentrism as related to survival and growth		9. Centralization tendencies in headquarters

the host country's desire to increase its balance-of-payments surplus through the location of export-oriented subsidiaries of international firms within its borders.

In different firms, senior executives see in various degrees these positive factors toward geocentrism: top management's increasing desire to use human and material resources optimally, the observed lowering of morale after decades of ethnocentric practices, the evidence of waste and duplication under polycentric thinking, the increased awareness and respect for good men of other than the home nationality, and, most importantly, top management's own commitment to building a geocentric firm as evidenced in policies, practices and procedures.

The obstacles toward geocentrism from the environment stem largely from the rising political and economic nationalism in the world today, the suspicions of political leaders of the aims and increasing power of the multinational firm. On the internal side, the obstacles cited most frequently in U.S.-based multinational firms were management's inexperience in overseas markets, mutual distrust between home-country people and foreign executives, the resistance to participation by foreigners in the power structure at headquarters, the increasing difficulty of getting good men overseas to move, nationalistic tendencies in staff, and the linguistic and other communication difficulties of a cultural nature.

Any given firm is seen as moving toward geocentrism at a rate determined by its capacities to build on the positive internal factors over which it has control and to change the negative internal factors which are controllable. In some firms the geocentric goal is openly discussed among executives of different nationalities and from different subsidiaries as well as headquarters. There is a consequent improvement in the climate of trust and acceptance of each other's views.

Programs are instituted to assure greater experience in foreign markets, task forces of executives are upgraded, international careers for executives of all nationalities are being designed.

But the seriousness of the obstacles cannot be underestimated. A world of rising nationalism is hardly a pre-condition for geocentrism; and overcoming distrust of foreigners even within one's own firm is not accomplished in a short span of time. The route to pervasive geocentric thinking is long and tortuous.

Costs, Risks, Payoffs

What conclusions will executives from multinational firms draw from the balance sheet of advantages and disadvantages of maintaining one's present state of ethnocentrism, polycentrism or geocentrism? Not too surprisingly, the costs and risks of ethnocentrism are seen to out-balance the payoffs in the long run. The costs of ethnocentrism are ineffective planning because of a lack of good feed-back, the departure of the best men in the subsidiaries, fewer innovations, and an inability to build a high calibre local organization. The risks are political and social repercussions and a less flexible response to local changes.

The payoffs of ethnocentrism are real enough in the short term, they say. Organization is simpler. There is a higher rate of communication of know-how from headquarters to new markets. There is more control over appointments to senior posts in subsidiaries.

Polycentrism's costs are waste due to duplication, to decisions to make products for local use but which could be universal, and to inefficient use of home-country experience. The risks include an excessive regard for local traditions and local growth at the expense of global growth. The main advantages are an intensive exploitation of local markets, better sales since local management is often better informed, more local initiative for new products, more host-government support, and good local managers with high morale.

Geocentrism's costs are largely related to communication and travel expenses, educational costs at all levels, time spent in decision-making because consensus seeking among more people is required, and an international headquarters bureaucracy. Risks include those due to too wide a distribution of power, personnel problems and those of re-entry of international executives. The payoffs are a more powerful total company throughout, a better quality of products and service, worldwide utilization of best resources, improvement of local company management, a greater sense of commitment to worldwide objectives, and last, but not least, more profit.

Jacques Maisonrouge, the French-born president of IBM World Trade, understands the geocentric concept and its benefits. He wrote recently:

"The first step to a geocentric organization is when a corporation, faced with the choice of whether to grow and expand or decline, realizes the need to mobilize its resources on a world scale. It will sooner or later have to face the issue that the home country does not have a monopoly of either men or ideas. . . .

"I strongly believe that the future belongs to geocentric companies. . . . What is of fundamental importance is the attitude of the company's top management. If it is dedicated to 'geocentrism,' good international management will be possible. If not, the best men of different nations will soon understand that they do not belong to the 'race des seigneurs' and will leave the business." [3]

Geocentrism is not inevitable in any given firm. Some companies have experienced a "regression" to ethnocentrism after trying a long period of polycentrism, of letting subsidiaries do it "their way." The local directors built little empires and did not train successors from their own country. Headquarters had to send home-country nationals to take over. A period of home-country thinking took over.

There appears to be evidence of a need for evolutionary movement from ethnocentrism to polycentrism to geocentrism. The polycentric stage is likened to an adolescent protest period during which subsidiary managers gain their confidence as equals by fighting headquarters and proving "their manhood," after a long period of being under headquarters' ethnocentric thumb.

"It is hard to move from a period of headquarters domination to a worldwide management team quickly. A period of letting affiliates make mistakes may be necessary," said one executive.

Window Dressing

In the rush toward appearing geocentric, many U.S. firms have found it necessary to emphasize progress by appointing one or two non-nationals to senior posts—even on occasion to headquarters. The foreigner is often effectively counteracted by the number of nationals around him, and his influence is really small. Tokenism does have some positive effects, but it does not mean geocentrism has arrived.

Window dressing is also a temptation. Here an attempt is made to demonstrate influence by appointing a number of incompetent "foreigners" to key positions. The results are not impressive for either the individuals or the company.

Too often what is called "the multinational view" is really a screen for ethnocentrism. Foreign affiliate managers must, in order to succeed, take on the traits and behavior of the ruling nationality. In short, in a U.S.-owned firm the foreigner must "Americanize"—not only in attitude but in dress and speech—in order to be accepted.

Tokenism and window dressing are transitional episodes where aspirations toward multinationalism outstrip present attitudes and resources. The fault does not lie only with the enterprise. The human demands of ethocentrism are great.

A Geocentric Man—?

The geocentric enterprise depends on having an adequate supply of men who are geocentrically oriented. It would be a mistake to underestimate the human stresses which a geocentric career creates. Moving where the company needs an executive involves major adjustments for families, wives and children. The sacrifices are often great and, for some families, outweigh the rewards forthcoming—at least in personal terms. Many executives find it difficult to learn new languages and overcome their cultural superiority complexes, national pride and discomfort with foreigners. Furthermore, international careers can be hazardous when ethnocentrism prevails at headquarters. "It is easy to get lost in the world of the subsidiaries and to be 'out of sight, out of mind' when promotions come up at headquarters," as one executive expressed it following a visit to headquarters after five years overseas. To his disappointment, he knew few senior executives. And fewer knew him!

The economic rewards, the challenge of new countries, the personal and professional development that comes from working in a variety of countries and cultures are surely incentives, but companies have not solved by any means the human costs of international mobility to executives and their families.

A firm's multinationality may be judged by the pervasiveness with which executives think geocentrically—by function, marketing, finance, production, R&D, etc., by product division and by country. The takeoff to geocentrism may begin with executives in one function, say marketing, seeking to find a truly worldwide product line. Only when this worldwide attitude extends throughout the firm, in headquarters and subsidiaries, can executives feel that it is becoming genuinely geocentric.

But no single yardstick, such as the number of foreign nationals in key positions, is sufficient to establish a firm's multinationality. The multinational firm's route to geocentrism is still long because political and economic nationalism is on the rise, and, more importantly, since within the firm ethnocentrism and polycentrism are not easy to overcome. Building trust between persons of different nationality is a central obstacle. Indeed, if we are to judge men, as Paul Weiss put it, "by the kind of world they are trying to build," the senior executives engaged in building the geocentric enterprise could well be the most important social architects of the last third of the twentieth century. For the institution they are trying to erect promises a greater universal sharing of wealth and a consequent control of the explosive centrifugal tendencies of our evolving world community.

The geocentric enterprise offers an institutional and supra-national framework which could conceivably make war less likely, on the assumption that bombing customers, suppliers and employees is in nobody's interest. The difficulty of the task is thus matched by its worthwhileness. A clearer image of the features of genuine geocentricity is thus indispensable both as a guideline and as an inviting prospect.

NOTES

1 H. V. Perlmutter, "Super-Giant Firms in the Future," *Wharton Quarterly*, Winter, 1968

2 H. V. Perlmutter, "Three Conceptions of a World Enterprise," *Revue Economique et Sociale*, May 1965

3 Jacques Maisonrouge, "The Education of International Managers," *The Quarterly Journal of AIESEC International*, February, 1967