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Multinational Corporation Techniques

by Dr Eckard Paul Imhof, Los Angeles

A quarter century of technological innovation and social evolution has increased the scope and changed the nature of relations between sovereign nations. The same dynamic factors have spurred the record growth of multinational corporations. The secret of their success is rapid adaptation to worldwide change. On the other hand resistance to change has caused friction among nations.

The purpose of this study is to examine contrasts and analogies in the management of global representation. The United States, Great Britain and Germany have recently initiated foreign service reforms with the emphasis on better management.

"We have tended to be intuitive in nature, weak in planning and unenthusiastic about management. In retrospect, it is clear that these change-resistant instincts have caused a great share of our difficulties", admits the third highest ranking official of the US Department of State, William B. Macomber¹. His "management strategy" incorporates many suggestions offered by frustrated American foreign service officers². Farther reaching even are the recommendations of the British Duncan Report on Overseas Representation³ which could be built on the findings of the Plowden-Report published five years earlier. The Government expects to be guided by the main body of the controversial Duncan Report, announced Lord Shackleton in the House of Lords. That indicates a considerable improvement in the management of the British foreign service. Administrative considerations are reflected also in the interim report of the German reform commission. Further studies are necessary to determine a comprehensive program for the 70s⁴.

The reform proposals of three nations deal with problems corresponding to these encountered by multinational firms in the management of their worldwide activities. The corporate experience is

subject to a steady stream of professional comment and academic analysis. Students of foreign affairs however rarely concern themselves with mundane matters of management.

Goals of National Government

Obviously the goals of a national government and profit oriented business are different. Nevertheless some management aspects appear to be similar. Notably they include:

- ☐ world corporation vs. international division format
- ☐ frequency of travel and rotation
- ☐ central vs. delegated authority
- ☐ audits and management controls
- ☐ executive mobility and cross fertilisation
- ☐ motivation and career
- ☐ compensation patterns
- ☐ transfer of technology

The multinational corporation may adopt one of two basic organisational forms: The world corporation format has merged domestic and foreign operations. The corporate divisions represent primary business functions. Each division head carries a global responsibility for his segment. The international division format separates all foreign operations from the domestic management. Global responsibilities for a number of different functions are vested in the international division. The most advanced multinational corporations tend to integrate foreign and domestic management.

The traditional foreign service corresponds to the international division format. Historically one single government department could handle effectively all the official relations with foreign countries. As new functions have emerged additional, highly specialised agencies of representation have been created. This has led to costly duplications and interdepartmental frictions. The current trend is to re-unify and streamline diplomatic and semi-diplomatic representations.

The facts of interdependence are now recognised by the advanced nations of the North Atlantic group. Characteristic for a new style of diplomacy

¹ Remarks by William B. Macomber, Deputy Under Secretary of State for Administration, January 14, 1970, "Management Strategy: A Program for the '70's." Washington, D.C.

² "Toward a Modern Diplomacy", A report to the American Foreign Service Association, Washington, D.C., 1968.

³ Report of the Review Committee on Overseas Representation 1968-69. Chairman: Sir Val Duncan, London.

⁴ Zwischenbericht der Kommission für die Reform des Auswärtigen Dienstes, Vierteljahrszeitschrift der Vereinigung Deutscher Auslandsbeamten e. V., Jahrgang 32, Heft 3, Sept. 1969.

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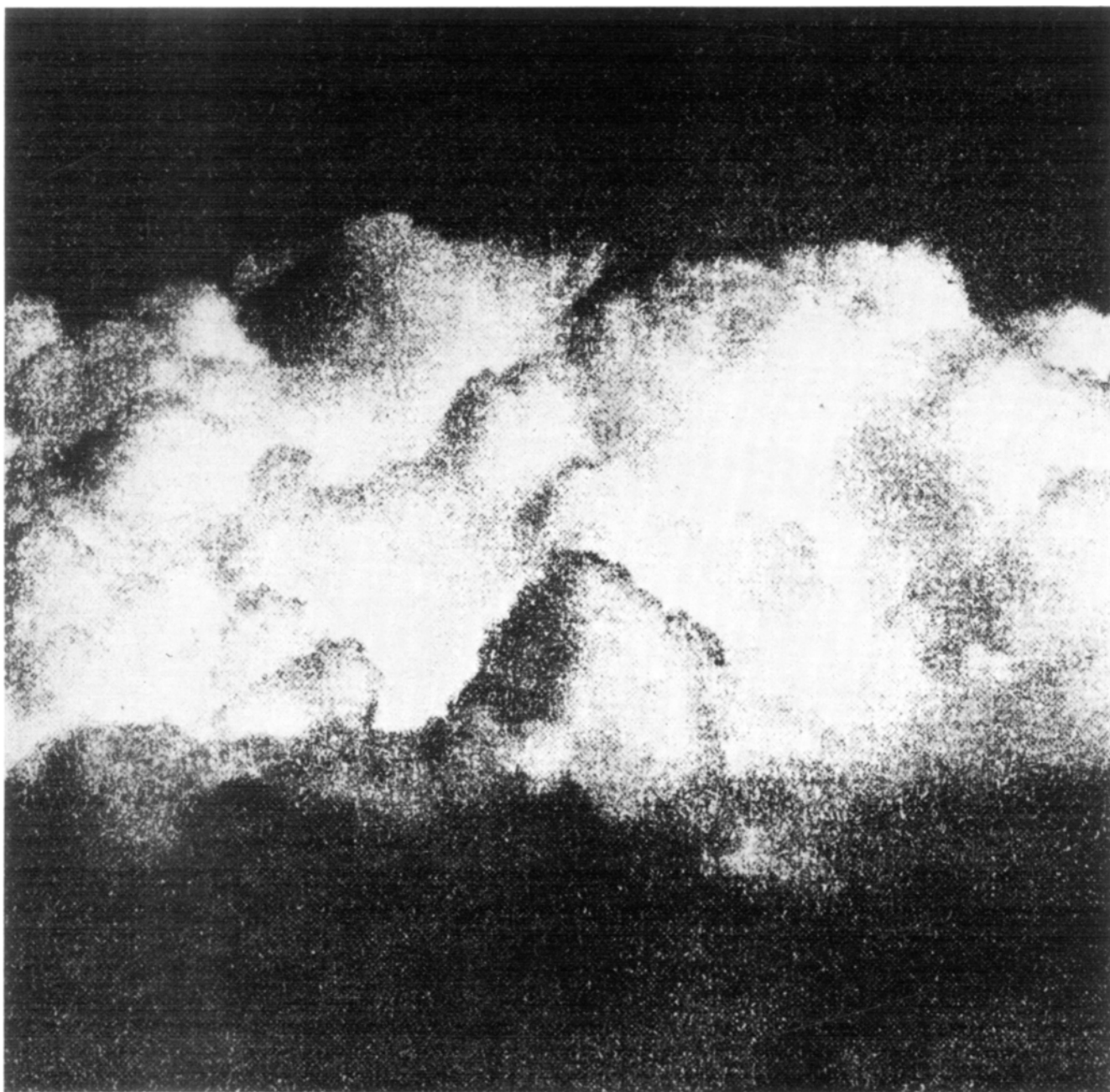
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is that government departments, and even sections of departments, in different states tend to have direct relations with one another. "The Duncan Committee suggested that the foreign service should deliberately set itself to train people for the role of coadjutors of the government departments which will be conducting a great volume of day to day business directly with the corresponding departments of foreign governments, to which diplomats will be accredited⁵.

Frequency of Travel and Rotation

Just as multinational corporations limit in many instances their resident representative abroad to a "door opening" and "holding" function, resident diplomats should spend an increasing portion of their time preparing for and following up on visits from competent specialists at headquarters. Frequent travel allows the most efficient use of highly qualified manpower. Counterproductive delays and misunderstandings are avoided. The operational overhead is reduced.

The maintenance of a British foreign service officer in Washington, D.C., Tokyo or Moscow can cost as much as 42, 19 or 30 roundtrips between London and the respective post, by an officer of equal rank visiting for a full week. Chancellor Brandt's Ostpolitik has prompted a doubling of the annual travel budget for his aides. While the jet-age mobility of multinational managers is imitated by diplomats, rotation from foreign assignment to foreign assignment is curtailed. Short stints are recognised to be less productive and wasteful. A median term of five years at one foreign location is considered optimal by multinational executives. The foreign service is accepting a similar rationale.

Delegated Authority and Effective Controls

Typically the foreign service reserves all but the most trivial decisions to central authority. Multinational enterprises have a strong orientation to "placing responsibility where the problem is"⁶. Operating in an alien environment it is expedient to establish broad guide-lines and put more emphasis on the discretion of the man on the spot. The management technique developed with in General Motors has been the key to successful multinational management. Central staff functions coordinate control of policy, while clearly defined line authority decentralised operating responsibility.

"One curse of civil services—including foreign services—is the over-rigid control of expenditures

by detailed regulations", remarked Neil H. Jacoby. "Far better to give broader discretion to the local official to allocate his resources in the way that best enables him to maximise his effectiveness, and then to post-audit the results."

Cost controls are an essential management tool. In the multinational business they are the most reliable means to keep competitive on a world-wide scale. Every known reform plan suggests refining the auditing procedures for the foreign service. The Duncan Committee's scheme for a "super inspectorate" which will provide the "built-in machinery for strategic as opposed to tactical self-examination" is worked out in some detail. Alternative structures are discussed. Unlike the multinational business, diplomatic posts enjoy immunity from taxation by the host country. Frequent audits are indispensable, because the normal restraints on government spending, i.e. scrutiny by concerned tax-payers and an informed press, tend to diminish with distance.

Executive Mobility and Cross-fertilisation

Multinational corporations recruit managers from different educational and professional backgrounds. The cross-fertilisation of minds proves productive of new concepts and methods. There is reason to believe that temporary assignments of men distinguished in business, the professions or academia will bring similar benefits to the foreign service. Reformers point to an additional advantage. Eventually the temporary diplomat will return and stimulate his particular community through experience gained abroad. Foreign countries prefer envoys of academic distinction like John Kenneth Galbraith or prominence in business like Arthur K. Watson to career ambassadors. A man presumed to have immediate and personal access to his own country's establishment is viewed with more confidence than the product of an anonymous, if distinguished bureaucracy.

Maintaining a qualified man overseas is expensive. The productivity of many foreign posts is marginal. Still arguments for their preservation might be persuasive. Their use as fellowship or sophisticated sabbatical can constitute an ultimate justification for the otherwise questionable budget. The concept for an "open service" corresponds to the realities and needs of an open society. An increasing interdependent world cannot afford to limit the responsibility of minimising potential conflicts to a rigid elite.

Motivation and Career

"Managers of the foreign affiliates of multinational companies once had the reputation of being "second-stringers", sidetracked from the main

⁵ Andrew Shonfield, "The Duncan Report and its critics", *International Affairs*, Vol. 46, No. 2, April '70.

⁶ Jack N. Behrmann, "Some Patterns in the Rise of the Multinational Enterprise", Research Paper 18, Graduate School of Business, University of North Carolina, March 1969.

line of advancement to top management. This has changed, as companies have learned the folly of entrusting markets with high profit potentials to men of less than top-flight abilities. A foreign assignment now is part of the grooming process for leadership of the multinational company. Overseas placement is typically not a preconceived career goal but a step in broadening the young executive's experience⁷."

In the public domain exactly the opposite trend is manifest. Firmly established social elites used—and in less advanced countries are still using—a succession of diplomatic assignments to groom their political leadership. In the 19th century a high percentage of US presidents, European prime ministers, influential legislators and top-echelon administrators had served their countries as ministers abroad, before reaching the zenith of a public career. Nowadays foreign service is a preconceived career goal, and end to itself for most diplomats. Rarely practitioners rise above the ranks of their bureaucratic field and make a decisive contribution to the nations which afford their costly and prestigious international training and tenure.

Redundancy creates frustration among career officers, while lowering the efficiency of the foreign service. Reformers contemplate the possibilities of early retirement and lateral transfers. Notably Hans Morgenthau and George Kennan have suggested that the US Department of State could operate more efficiently with half as many people. Reductions in personnel forced by an adverse balance of payments are considered a blessing⁸. Meanwhile affluent Germany considers further expansion of its foreign service.

Compensation Patterns

A system putting a premium on less productive and a penalty on more productive use of its manpower is necessarily selfdefeating. Social and climatic conditions in foreign lands, the schooling of the representative's children, health care, etc. may make special allowances necessary. Nevertheless compensation programs for domestic, expatriate and foreign national managers should not be allowed to function separately, but should bear a well-defined relationship to each other⁹. The National Industrial Conference Board pointed more recently to the frequent over-payment of

multinational managers and warned that disruptions in personnel planning must result.

Even a rather junior foreign service officer abroad lives reasonably high by US standards. An ambassador without any personal fortune can live like a very, very rich man, remarked columnist Stewart Alsop. The differential between standard compensation in London or Bonn and the benefits accruing to British or German officials on foreign assignment is far greater. In terms of compensation and standard of living the lateral arabesque (as explained in the Peter Principle) is infinitely more rewarding than the chances of slow advancement on the hierarchical ladder. Thus financial incentives are compounding the bureaucratic stagnation of the foreign service.

Transfer of Technology

"Where traditional analysis attributes product gains to efficiencies of national specialised production, the gains now appear, in terms of the international dissemination of product techniques¹⁰." The selective flow of technology is "perhaps the most important single factor in worldwide economic development¹¹." Champions of the multinational corporation view it as "carrier of advanced management science and technology, an agent for the global transmission of cultures, bringing closer the day when a common set of ideals will unite mankind¹²."

What is widely considered as the most important contribution of multinational corporations may prove to be a new frontier for ambitious diplomats. Dr Jacoby suggests: One valuable function that foreign service officers could perform effectively would be the international transmission of management and technical knowledge to their home countries.

Conclusions

The "new diplomacy" needs men, motivations and methods well distinguished from the traditional mold. Major powers have recognised the need for foreign service reform. Modern management of international affairs can indeed benefit from the experience of multinational corporations. The threats of neo-protectionism, of inflation and recession, of pollution and drug abuse transgress national boundaries and concern all men of good will in all countries. Not one nation can solve the most pressing problems of our time by itself alone. The restructuring of anachronistic communications between nations deserves a high priority.

⁷ Richard F. Gonzalez and Anant R. Neghandi, "The United States Overseas Executive: His Orientation and Career Patterns", Michigan State University, Graduate School of Business Administration 1967.

⁸ "Ambassador Fulton Freeman Urges Closure of Educational Gap Between Nations", General Luncheon Town Hall, Los Angeles 6/4/69; condensed remarks Town Hall Journal, Vol. 31, No. 25.

⁹ John J. Lasher and Ralph Griffith, "Structuring the International Compensation Program", Business Horizons, Graduate School of Business, Indiana University, December 1968.

¹⁰ Judd Polk, "The Rise of World Corporations", Saturday Review, Nov. 22, 1968.

¹¹ James Brian Quinn, "Technology Transfer by Multinational Companies", Harvard Business Review, Nov./Dec. 1969.

¹² Neil H. Jacoby, "The Multinational Corporation", The Center Magazine, Vol. III, No. 3, May/June 1970.