

Management Styles of Multinational Corporations and PepsiCo Orientation in the Lebanese Market

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ABSTRACT:

Multinational companies face competition and challenges in the global market in a constant battle to prosper, profit, and sustain. The challenge is real, and it affects the managerial, economic and workforce levels. Subsidiaries are subject to economic and cultural influences and pressures and home country managers are constantly burdened when crucial decisions should be taken. The resources are scarce, and all products and services should be globalized which needs a staff that is competent, resourceful, and incentivized. In this article, we define management style as the method path that corporations follow to steer their businesses, exercise authority and direct their personnel in order to achieve their national and global targets. There are three management styles discussed in the article revealing their main traits and procedures and showing their advantages and disadvantages. The case of PepsiCo management style practices and operations will be illustrated evidencing how its orientation led to success in the Lebanese market.

Keywords: *Multinational companies, Global market, Subsidiaries, Management style, PepsiCo, Sustainability, Targets, Lebanese market*

INTRODUCTION

In a world where global growth, technology, and knowledge are developing exponentially, multinational companies face exigent challenges in competing in the global market in a constant battle to prosper, profit and above all sustain. The challenge is real, on the managerial, economic and workforce level. Subsidiaries are subject to economic and cultural influences and pressures, home country managers are constantly burdened when crucial decisions should be taken, resources are scarce even human resources, products and services should be globalized and staff should be competent resourceful and motivated on top.

Management style is the method path that corporations follow to steer their businesses, exercise authority and direct their personnel in

order to achieve their national and global targets. Challenges saddle the corporation when such questions arise: should local aspects influence decisions? Which comes first global or national targets? How open should communication be between headquarters and branches? Which strategies to home country or host country? All these uncertainties should be well studied consistent with the type of the business, countries where they operate, taking always into account the core aim, maximization of the company welfare.

Three management styles characterize corporations: Ethnocentric, Polycentric and Geocentric. Ethnocentric style is when headquarters believe that their strategies are the

best and never reveal their secrets to subsidiaries, polycentric style is when host country strategies are applied and decision-making takes place in subsidiaries, and finally the geocentric style which is a synthesis of ethnocentrism and polycentrism and makes no special distinction between the domestic and foreign market, as Professor Howard Perlmutter states, the geocentric firm identifies with local company needs (The Tortuous Evolution of Multinational Corp, 1964). In this article, the three management styles will be discussed in details focusing on their main traits and procedures, highlighting their advantages and showing their disadvantages. PepsiCo management style practices and operations will be illustrated evidencing how its orientation led to success in the Lebanese market and most importantly to sustainability.

The Three Management Styles: Ethnocentric, Polycentric, and Geocentric

Multinational companies use different management styles in foreign companies that help maximize the organizational profit and wellbeing. Sometimes the national aspects impose the management style to be adopted and some other times the company itself believes in its strategy and generalizes it in all subsidiaries. Professor Drachal, in his article, explains how important is that activities of the organization remain coherent with each other at various stages. It is also important that the culture of organization, its marketing strategy, etc. are consistent. Only then, the organization can operate efficiently on the market (What do we know from EPRG model, 2014). The strategy of the organization is characterized by three factors: ethnocentrism, polycentrism and geocentrism.

Ethnocentric companies believe that if rules occurred well nationally and were verified, they should succeed in any other market. This is due to the fact that ethnocentric managers trust that their methods are the best no matter what cultures they are applied in. Ethnocentrism arises from the dominance of one culture over another in some sense. This dominancy can relate to the cultural sphere, manual, technical, mental or even ethical and moral skills (What do we know from EPRG model, 2014). In his article, Professor Howard discusses how managers in subsidiaries are all brought from the domestic country. Top

managerial posts will be appointed from the home-country since those managers are trained and have the mentality of the corporation (The Tortuous Evolution of Multinational Corp, 1969). Decisions are rarely taken in foreign countries. Subsidiaries have to refer back always to the domestic country no matter how basic issues are. Efforts in such companies are focused on production and sales but mainly on the domestic market. Foreign market activities are usually perceived as temporary ones. Procedures and marketing strategies are copies from the domestic market, for the foreign market is considered as a secondary one and again, for domestic strategies are assumed the best ones and superior over any other foreign ones. For example, video game company Nintendo Co. LTD adopts an ethnocentric approach to their operations. Researching the company's history, we realize that all the men who have headed the company since its founding, have been natives to its home country of Japan (International and global policies Nintendo and Samsung, 2017).

While ethnocentric companies copy in all foreign countries their strategies from the home country, polycentric companies consider the foreign marketing strategy, customer preferences, expectations and cultural diversity. A polycentric organization studies the aspects of each of the foreign market where it is present and embraces the philosophy that it is better to use local methods to cope with and solve local problems, rather than force unfamiliar solutions. Phillips Electronics uses this method in their marketing approaches which is led by local host-country managers, and they do not really get involved in the whole process (Colin Mangham, 2016). Polycentrism is the opposite of ethnocentrism when managers seek to operate the way local do. "When in Rome, do as the Romans do," as the old saying goes reducing communications and channels with headquarters and even subsidiaries. Polycentrism assumes that actions of managers in different countries should not be strictly controlled by the headquarter in the domestic country and it allows for some freedom in actions (What do we know from EPRG model, 2014).

In contrast to the ethnocentric and polycentric patterns geocentric firms encourage communication among subsidiaries. It aims for a collaborative approach between headquarters and subsidiaries to fulfill their goal to apply a

worldwide approach. Subsidiaries are seen as a part of a whole, whose focus is on worldwide targets as well as local targets. In addition, each part has its unique contribution thanks to its competence. Geocentric organizations identify with local needs and understand the global market as a single market uniform in terms of sociology and economy. The focus is on global objectives aiming for a truly international company but that still identifies with national interests. It leads to improvement in the quality of offered products and services and in the efficiency of using the global resources (What do we know from EPRG model, 2014). The personnel policy supports that they should get the best man everywhere in the world for key positions regardless of his nationality.

Dr. Daniel Friel discussed in the case study of “Danone” a multinational company that applies geocentric orientation. This is obvious when we see how the company has strong networking among managers to discuss their operations and conflicts. Employees were financially rewarded, and they were promoted to high positions to motivate them. The significant increases in salary that accompanied promotions was an important motivating force for workers to pursue a career in this company (Adapting Lean Production, The Case of Danone). Also, the Vice President of Finance, Latin America believes that it is his duty to help people share with all countries best practices to be able to move to other countries, which supports the idea of thinking of each subsidiary as part of a whole where any good prospect should be beneficial to all other parts. In parallel, Dr. Drachal discusses in “What do we know from EPRG model” the case of General Electric. General Electric is listed in New York stock exchange and its annual revenues for the past years exceed 12 billion dollars. General Electric is a leader in the global market in some of its products and it applies the geocentric model. The employees of General Electric are a mix of different nationalities. The company is one of the very few multinational companies, in which a high management position is occupied by a Hindu. In this sense, General Electric creates a universal, global system that can be joined by representatives of any possible nationality (What do we know from EPRG model, 2014).

Advantages and Disadvantages of the Three Management Styles

Observably, the three various orientations detailed above have advantages and disadvantages and it is crucial to consider both to understand better management styles and decide upon which is best to apply. Noticeably, evolution in management style move toward geocentrism to fulfill their objectives. However, as emphasized by Bartlett and Beamish (2010), geocentric orientation is somehow an inevitable necessity for any organization that operates on the world's largest markets. In the article “What do we know from EPRG model”, the author believes that the advantages of the ethnocentric orientation are the simplicity of the organizational structure, the simplicity of the flow of the information and the simplicity in performing the internal control. Nevertheless, lack of openness and flexibility is caused by the superiority of the domestic culture and consequently lower efficiency is perceived in subsidiaries.

Polycentric orientation focuses on more intensive penetration of foreign markets with respect to their locality, and thus to improve sales (What do we know from EPRG model, 2014). It offers freedom and flexibility in all subsidiaries but, unfortunately, lack of communication can lead to chaos, excessive growth and reluctance from local managers to abide by regulations set by the headquarter.

Finally, geocentric orientation has many advantages on the company rate of return, human resources, goods and service quality and globalization levels. It creates a stronger international company, better quality of goods and services, the utilization of the best resources, and more profit (The Tortuous Evolution..., 1969). It is flexible and open to changes and adaptations and proves success everywhere in the world. Such an orientation must be implemented, if the priority is focused not only on achieving market success, but also to maintain the successful presence on the market and keeping the long-term stabilization. On the other hand, there are high costs associated with human resources, personnel management, etc. The costs arise due to the need of training activity, efficient communication channels, transportation costs (What do we know from EPRG model, 2014). In

addition, it imposes some family challenges because of the high mobility among countries, where families are not always ready for the change and have to move, kids have to leave school and face social changes, etc.

The Case of PepsiCo in Lebanon

PepsiCo started its business in Lebanon 20 years ago. It started with a representative office, then became a business unit responsible for the Levant North Africa Sub Sahara Africa. The only competitor of PepsiCo in the region is Coca Cola and some local brands in Morocco and Algeria. PepsiCo has food portfolio operations and beverage. In addition to Pepsi, Seven up and Miranda, the company has still water "Aquafina", Sport drink "Gatorade", energy Drink "AMP", "Evervess" tonic water, "H2OH" sparkling water, Juices "Tropicana" and "Mr Juicy" Lipton "Ice Tea" and their pertaining sub-brands. Food portfolio covers "Lays" "Doritos" and "Quaker" and their sub-brands.

As for business functions, they have multi-functional Departments: Finance Department, Marketing Department, Insight Department, HR Department, R&D and sub departments and divisions. Their Global Hierarchy stays always consistent to guidelines set by New York however, they never lose sites with local priorities. Miss Amal Kasbani - Insights Manager stated that anything in PepsiCo should be in line with the vision of the company. She explained that PepsiCo supports human rights, gender equality and doesn't discriminate between nationalities but employs good people for good positions and top managerial positions are occupied by local and foreign people. As examples, Mr. Mike Spanos Greek-American is the President of AMINA region (Asia Middle east and North Africa), while Mr. Omar Farid, Egyptian, is the Vice President, and Mr. Elie Bou Akel Lebanese, is the Franchise Senior Director and General Manager of the Commercial Unit. New York offices issue global guidelines and what they call Annual Operating plan "A.O.P". For example, in 2018 the annual operating plan was shifting to nutritious products as part of health awareness and conservation. Once guidelines and initiatives are set, all subsidiaries are updated about them. Each market picks what its priority is, but decisions still need approval from higher rank signatories. As an example, in

Kurdistan, they noticed that Coca Cola is taking over the market because people favor a less sweet taste. Therefore, they needed to adjust the sugar concentration in the drink in the formulation. Approval was gotten from the mother company R&D due to the importance and sensitivity of the matter because it might disrupt the whole product and its taste.

Nevertheless, each manager enjoys full liberty in many areas. They have full liberty in department budgeting, how and where to allocate money no matter how high the budget is. Managers have full accountability and can decide on the market depending on that market contribution in total sales. In addition, Marketing manager freely decides on what promotions they will do throughout the year if there isn't any violation for freedoms (religion, sexual freedom) because they always avoid controversy, for Pepsi is consumed by all ages, segments, and religions. For example, the marketing department proposed in Ramadan adding a small sketch of a mosque on the bottle, that proposal was rejected by the legal department in New York because they thought that cans will be thrown on the floor and stepped on, which might be misinterpreted and might disturb Muslims' feelings.

Managers are free if nothing disrupts the product characteristic brands equity for each brand represents a certain persona: Pepsi is about youth and fun, seven up is about being clear functional more than emotional attribute. They maintain the general spirit of the brand but try fit to the local taste. Also, prices can be changed locally and freely, packaging (plastic/ cans/ returnable bottles) and sizes too, depends on markets demands and tastes.

Interestingly, there is a tool kit for everything in PepsiCo as guidelines to follow. Main offices decide on hotels, airlines in traveling and even topics that shouldn't be discussed in premises because ethics are on top on everything, says Miss Kasbani. Guidelines include gifts received from customers, to avoid bribery because "nothing should jeopardize the company image and reputation", as affirmed Miss Kasbani, and there is a scoring system set by auditors frequently sent to insure regulations enforcement, especially in high corruption index markets.

As for communication, initially, managers used to travel to meet with superiors. Then, to rationalize travels expenses tele-presence were

introduced (TV meetings) in addition to emails, skype calls and of course regular phone calls. They still go twice or 3 times a year to meet forums in Dubai where even managers from NY meet too.

Regarding manufacturing, the bottler is not owned by PepsiCo but by S.M.L.C “Societe Libanaise Moderne pour le Commerce”. Employees from PepsiCo are assigned to stay in S.M.L.C to supervise the bottling, production, and machinery to maintain quality standards, social and environmental responsibilities. Therefore, S.M.L.C protects the earth's natural resources through more efficient use of water, energy, and packaging materials. It uses environmentally friendly packages as cans and plastic packages are fully recyclable. Technically, SMLC buys concentrates from PepsiCo for all drinks. Suppliers for concentrates are assigned by the mother company, from Switzerland, and they are very expensive to maintain quality.

As for promotions among employees, a lot of Lebanese people were promoted to higher positions. Everybody has a chance if willing to relocate. “Talents are very important in the company, and they don't recruit outsiders, they promote from within and believe in their employees' potentials” says Miss Kasbani. Furthermore, PepsiCo gives skills development high importance. PepsiCo university is an online training program for employees. The superior picks for his subordinates the necessary programs according to his level and job description. Leadership skills, functional improvement and cross functional trainings are required. For example, the Insights Manager has to do training in supply chain or finance to ensure competence and then sits for tests to become certified.

Moreover, employees receive generous annual bonuses according to individual and business unit objectives. Normally, global Targets are set by mother company again, but each subsidiary can decide on how to allocate targets taking into consideration macro-economics of the country as inflation, devaluation, or high taxation. Employees are granted Insurance for the entire family and car allowance. Consequently, loyalty is high at the company, with a very low employee turnover and resignation.

Creating a Global Strategy

Multinational companies encounter constantly prominent challenges, for the global market confront them with continuous growth of world markets, up-warding global competition among multinational companies, and increase in technical and managerial knowledge. Today consumers are well informed, demanding better products and services with international standards. Also, resources are all scarce, and should be used optimally, including human resources necessitating providing the best staff on a global basis. As a result, multinationals should be prepared for the perpetual changes and have the capabilities to adapt and cope to those changes, procure the best products, services, and managers, in order to maintain an international caliber and secure sustainability.

Among the three orientations, only geocentric approach seeks to create a global strategy that responds fully to local needs and wants. Geocentrism is Unilever board chairman's statement of objectives: “we want to Unilever our Indians and Indianize our Unilever Ans” (The Tortuous Evolution, 1969). Its focus on skill development, talents, and competency increases loyalty and help it succeed in all countries.

CONCLUSION

In fact, multinationals need a management style that embraces a worldview to global and local targets, and not a nationally bounded and limited approach. General Electric, the successful company, is a truly geocentric corporation that didn't gravitate around Europe and USA solely (What do we know from EPRG model, 2014).

In the Lebanese market, multinationals are aware of all challenges and recognize the need to globalize products and services, therefore the most successful companies adopt the geocentric approach in managing their businesses. In his article, where he discussed Mc Donald's case, Mr. Tabsh states that “the Lebanese market is very attractive to such an approach and any firm who uses this style will succeed” and classified McDonald's Lebanon as geocentric in its management style viewing its structure, networks, and communication. (Management Styles of Organizations, and McDonald's International Management Approach in the

Lebanese Market, 2017).

Finally, as discussed in this case, PepsiCo clearly proves the geocentric orientation in its style of generalizing guidelines, communicating with host countries, setting objectives while taking local market needs and wants into consideration, giving full liberty to managers in some decisions and fostering talents and promoting employees no matter what nationality they have.

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Appendix A: Questions of the Interview

- 1- Are top managerial positions occupied by local or foreign executives?
- 2- Does decision making and management style resemble headquarters, or it is local?
- 3- Do you have liberty in decision making? To which extent is this independence?
- 4- In decision making, do manager prioritize mother country or national interests?
- 5- Can you describe the process of communication between subsidiaries and headquarters?
- 6- To what level cooperation is in channeling between other country and regions? Flow of information and communication tools.
- 7- What are the standards set in quality and performance? Are they local or standardized?
- 8- Do you manufacture in house? Explain a bit about production, suppliers, and standards.
- 9- Has any Lebanese employee occupied an international position?
- 10- Skills development: How frequent are the training programs? Do they include top and low-level employees? Do they take them abroad for seminars?
- 11- How is the rewarding system? Are there targets set? Who decides upon targets? What if goals are not met?
- 12- Do you personally think Pepsi follows geocentric style in its management process?