

The EPG Model in Multinational Companies: The Case of Mazaya

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ABSTRACT:

The purpose of this paper is to present the main concepts of the EPG model management styles (Ethnocentric, Polycentric, and Geocentric) highlighted with an illustrative real life case study. Many international organizations use the EPG model as a management style framework to maintain focused direction when defining their international business strategy especially for their foreign subsidiaries. With a one or a combination of two or three EPG model orientations, MNCs may set their preferred management mindset when running their international subsidiaries in order to improve organizational performance. When doing so, MNCs take into consideration important factors such as local market needs, cultural differences between headquarter and foreign countries, domestic marketing plans, etc. Aiming to identify the management orientation of an organization, I study "Mazaya" as a particular case, by interviewing key personnel face to face, and relate it to the EPG model by showing how MNCs successfully manage its key subsidiaries.

Keywords: *EPG Model, Ethnocentrism, Polycentrism, Geocentrism, MNCs, Subsidiaries, Mazaya, Organizational Structure*

INTRODUCTION

This paper provides an overview about the popular three corporate management orientations/mindsets adopted by companies involved in international business as identified by the EPG Model: a model introduced by Howard V. Perlmutter within the journal article "The Tortuous Evolution of Multinational Enterprises" in 1969. The first orientation is the Ethnocentric management style, where homogeneous managers made up of people from the home country believing that they know best and other subsidiaries should follow them. The second orientation is the Polycentric organization, a decentralized one. This kind of multinational corporation maintains a domestic global headquarters; however, it lets host national top management teams manage local overseas

operations. Finally, the Geocentric orientation, where organizations consider all foreign markets as one global market. In the geocentric based businesses, functions and product lines are interdependent on a global rather than a national level. The three philosophies have an impact on corporate culture, structure, governance, and the way companies do business.

But what is the best management style should a multinational corporation apply? Can the headquarter use different management orientation for each of its subsidiaries? Should corporations evolve their corporate Ethnocentric or Polycentric mindsets to become a Geocentric one? Are corporations a mix of all orientations? This paper will examine these wonderings through evaluating a real case study for an

existing multinational company based in Kuwait: “AlMazaya Holding Company”, with the objective of how this company applies the EPG model in the management of its regional offices.

The Three Management Styles - EPG Model

Prof. Howard Perlmutter (1969) introduced a model of three corporate management orientations or mindsets used by companies involved in international business – Multinational Corporations (MNCs). These philosophies characterize the management strategy of the MNCs. The three management styles are: Ethnocentrism, Polycentrism, and Geocentrism, known as the EPG model or profile.

Starting with Ethnocentrism. According to Prof. Howard Perlmutter (1969), companies under this management style believe that the home country is superior. “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” (Perlmutter, 1969). When such companies look to new markets, they rely on what they know and seek similarities with their home country. Also, overseas subsidiaries in international markets are seen as less able and less important than the head office. Generally, these MNCs undertake not much of research in the international markets and make little adaptations to their products adhering to the perception that the products that succeed in the home country are better and can be sold everywhere. Therefore, the organizational culture, marketing plans, policies and procedures and so on, can be considered to a large extent copies from the domestic market. In addition, ethnocentric people believe that their ways of doing things are the best, no matter what cultures are involved. They tend to project their values onto others, and see foreign cultures as odd or of little or no value to them (Ahlstrom and Bruton, 2010).

Although the ethnocentric mindset has advantages such as the simplicity of the organizational structure, flow of information and internal control (Drachal, 2014). A major pitfall for this management style is the development of innovations which usually leads to inefficient planning and low flexibility when reacting to market fluctuations (Bartlett, Beamish, 2010;

Alon, Jaffe, Vianelli, 2011). Also, the significant costs generated from recruiting managers in the home country to compensate them for work in another country can be added to the Ethnocentrism disadvantages (Drachal, 2014). Finally, Hofstede (2010) argues that in the broader area of management, ethnocentric approaches over the past 30 years have gradually lost support, if only because they proved ineffective, even fatal.

As for the polycentric orientation, organizations or managers see each country as unique where they focus on individualities of foreign markets and all their local specificities, which distinguish them from the domestic market. According to this orientation, 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 (Perlmutter, 1969). It is the opposite of ethnocentrism in the sense that people seek to do things the way local do (Ahlstrom and Bruton, 2010).

Also, according to Nowak (2008), the subsidiaries under the polycentric management style are run like profit centers, with financial controls as the only tool used by the parent in managing them. The marketing function is organized on a country by country basis, and research is conducted independently in each country. Separate product lines are developed in each country, and home country products are modified to meet foreign markets’ specific requirements.

On a positive note, polycentric organization would improve their sales/performance by better focus on the penetration of foreign markets with respect to their locality, finding highly qualified local managers and by receiving some support from local government (Drachal 2014). On the other hand, polycentrism can lead to excessive growth of the chaos and the lack of coordination between the subsidiaries of the organization. Moreover, local managers may be reluctant to implement the recommendations from headquarter due to being too much convinced of a better understanding of the local market. It is also argued by Perlmutter and Heenan (1974) that extreme polycentrism is not effective, since it assumes that the local market is understood only by local managers, so any “flow of know how” is useless.

Finally, the last management style: the geocentric orientation. This management style has a mixture of the former two orientations where everybody in the organization and subsidiaries are unified and work together. It represents a synthesis of ethnocentrism and polycentrism and can be considered a “worldview” that sees similarities and differences in markets and countries, and seeks to create a global strategy that is fully responsive to local needs and wants (Drachal 2014). Here, the organization shapes its operations in a global basis where it views the world as a potential market and tries to minimize the significance of national boundaries (Nowak, 2008). That is, the differentiation of countries, to a high extent, fades out. For example, marketing and other functional strategies are integrated and coordinated across country markets. Also, standardized product lines for worldwide markets are developed, and pricing is established on a similar basis. In addition, promotional campaigns are developed worldwide to project a uniform image of the company and its products (Nowak 2008). In doing so, the selection of managers is based on the fact that the person must be the most competent in particular field where no geographical, cultural, etc. preferences are present.

Nevertheless, Geocentrism does not imply that the company completely ignores differences between national environments and blindly pushes standardized products and processes on to the subsidiaries and their local markets. Therefore, the geocentric predisposition does adhere to the famous saying “think globally, act locally”. It also embraces national or local responsiveness, and it does allow local variations in its strategies and operations (Nowak, 2008). This is also supported in the case study of Danone documented by Prof. Daniel Friel. Danone with its global objective “generally allow their subsidiaries to decide which best practices to implement because they believe local managers have the greatest knowledge about what works well in their contexts” (Friel, 2018). Executives in Danone, help people share with all the countries the best practices they identify in a country and be able to move it to another one (Friel, 2018).

While many MNCs are moving towards the Geocentrism orientation due to global drivers, there are still some obstacles hindering such evolution. For example, some of the strong

drivers towards Geocentrism can be the increase in technical and managerial knowledge globally, growth of world markets, global competition among multinational companies for scarce resources (including human resources), integration of global political and economic communities, desire to optimally use all resources, and risk diversification through global production and distribution arrangements (Drachal, 2014). To put it briefly, no matter what the drivers and obstacles towards Geocentrism are, the most important feature of a geocentric organization, as discussed before, is that it operates as a network of organizations, which are all tied together by common objectives and strategies and capitalize on their individual distinct competences and competitive advantages.

On the other hand, the Geocentrism orientation involves few drawbacks. According to Drachal (2014), economics nationalism, political sensitivities involved in host country operations, lack of international monetary system, growing differences between rich and poor countries, parent country management desire to control MNC policy, management inexperience in foreign operations, mutual distrust between host country and parent country senior managers, nationalistic attitudes of staff, immobility of staff and cultural barriers can be serious obstacles to Geocentrism.

RESEARCH METHOD

The methodology used to analyze Mazaya case is a typical qualitative research technique through conducting face to face interviews. The interviews involved asking topic related questions to converse with respondents and collect elicited data about the paper. My interviews conducted by meeting the CFO and HR Manager of Mazaya Headquarter. The interviews included reliable qualitative data through (but not limited to) asking the questions stated in Appendix A. The interviews were personal semi-structured where I had the questions previously prepared and at the same time, I had a considerable amount of leeway to probe the CFO and HR Manager along, with maintaining basic interview structure. That is, I designed my questions in a survey where I made sure I can take notes aside for any comments or points of view that stand out from the interviewee.

The CFO and the HR Manager had been working for Mazaya for many years where they are involved in key management decisions at the company. They totally understand the structure of Mazaya and the relation of the headquarters with its subsidiaries. Therefore, I believe the interviewees provided me with sound information and enough details to make a proper conclusion about the management style orientation of Mazaya.

The Case of “Mazaya”

Mazaya is a widely recognized real estate development company in Kuwait. It is publicly traded company dually listed on both Boursa Kuwait (previously Kuwait Stock Exchange) and Dubai Financial Market. The company provides various comprehensive real estate products and development services in several fields, among them housing projects such as deluxe villas and high-class residential buildings, commercial projects such as office and retail buildings and malls, logistics projects such as warehousing, and health projects such as medical centers. Mazaya also handles the purchasing and apportionment as well as the real estate development of large spaces/lands in selected areas. Furthermore, the company performs the management of third parties’ properties and management, operation and investment, leasing and rent of hotels, health clubs, recreational parks, gardens, exhibition grounds, restaurants, residential and commercial complexes, and tourist and health resorts.

Mazaya is a well-managed, well-operated company with a diversified regional portfolio of efficient operating real estate assets. Geographical wise, the company owns and

operates projects all over the GCC (Gulf Council Countries: Kuwait, UAE, Oman, KSA, Bahrain, and Qatar), Turkey, and Lebanon (Fig. 1).

The company operates its business through three offices (a headquarter and two other operating offices):

1. Kuwait – the headquarter office
2. Dubai (UAE) – to handle UAE operations
3. Istanbul (Turkey) – to handle Turkey projects

The company doesn’t have separate physical offices in the remaining countries as Kuwait headquarter office handles the projects’ operations in these countries. As mentioned above, however, the company has two operating offices in Dubai-UAE and Istanbul-Turkey. Mazaya-Dubai office has been considered an important profitable contributor to the company’s overall performance (for example: by end of 2018, over 35% of the overall gross profit were attributed to Dubai operations compared to over 55% by end of 2017). With less contribution to profit than Dubai Office, Mazaya-Turkey office operations have also been doing good since initiated in 2014, especially before the slump of the Turkish Lira. Since those two subsidiaries were two of the most important arms to Mazaya overall operations, and since Mazaya runs the two subsidiaries from two different offices through Kuwait headquarters, I chose Mazaya to be a case study to examine whether the company headquarter is running the two offices ideally in the same manner, as well as to investigate the management style applied in running each of the two offices.



Figure 1: Mazaya is a multinational company. Source: Mazaya website

To examine the management style adopted by the headquarter of Mazaya in operating the two offices, I interviewed two of the mother company's executives: the Chief Financial Officer (CFO), and the HR Manager. For these interviews, I prepared a list of questions that was shared with them along with other discussions (Appendix A).

The interviews focused on the following six major organizational dimensions:

- Strategic decision making
- Communication and information flow
- Organizational structure
- Product development – R&D
- Marketing strategy
- HR management practices

The discussions and questions were tailored to enable me to observe the current management style used by Mazaya headquarter in running each of the two other offices in Dubai and Turkey. For example, for each of the interview questions, I ordered the answers to have three choices where each of the choices demonstrates one of the three management orientation i.e., either Ethnocentrism, Polycentrism, or Geocentrism.

RESULTS

Starting with Mazaya strategic decision making, it is the company headquarter who makes the key strategic decisions for both subsidiaries. The board of directors usually handles issues related to critical decisions such as the weight of business in each country, the real estate segment/sector allocations, the targets/KPIs from each subsidiary, etc. For example, according to the CFO, the head office directs the CEOs of the subsidiaries at the beginning of each fiscal year: "I have a target "XYZ" in sales, and I need you to meet it." Therefore, both subsidiaries here are being managed in an ethnocentric way.

As for the communication and information flow: the way Mazaya headquarter handles the communication process in Dubai Office is more oriented to Polycentrism. The commands, advice, and counsel are shared between headquarter and Dubai Office team. However, it is not the case at Mazaya Turkey Office where the subsidiary usually receives orders and advice from headquarter in a steady stream. The reason for this, according to the HR Manager, is attributable to the small manpower working in Turkey Office

(25 employees) as compared to 84 in Dubai Office.

With regards to the organizational structure, Dubai Office has local hierarchal structure based on autonomous national units. Only the CEO of the subsidiary reports to headquarter and other employees report to their local executives inside the subsidiary which in turn reports to the subsidiary's CEO. On the other hand, employees at Turkey Office report to the mother company where the head office sends key executives to the subsidiary in order to oversee operations. Therefore, I believe Dubai Office is managed in a polycentric way and Turkey Office in an ethnocentric way when it comes to the organizational structure dimension.

As to the product development - R&D, at Mazaya, any R&D or new product development decisions (normally real estate projects) are usually handled collaboratively between the headquarters and the subsidiaries. Local needs are taken into consideration in coordination with headquarters to come up with successful products. The headquarters also does not mind having successful local products introduced to other global markets. I believe this orientation at Mazaya head office can be considered under the geocentric management style for both subsidiaries.

On the other hand, the way marketing strategies managed by Mazaya domestic office seems closer to the polycentric approach for both local subsidiaries. Despite they receive few headquarter support in marketing, the marketing campaigns, tools, sales plan, advertisement, etc. at the two subsidiaries are customized at the national level. In Turkey, for example, there is a language barrier, and the culture differs from that of the GCC. So, advertisement, for instance, has to be in the Turkish language. The payment plan from customers is another example. In Dubai, notably starting few years ago, payment plans should be stretched enough to be able to compete the too many developers in an immensely supplied market, especially with the availability of financing tools. However, if we compare the marketing strategy applied in Kuwait, it is mainly tailored to stimulate the rental income produced from the income generating assets because the business model in Kuwait does not include sales model and relies mainly on leasing properties. Therefore, the two subsidiaries are managed in a

more polycentric way when it comes to the marketing strategies.

Finally: the HR policies and procedures. The way HR management practices are applied in the subsidiaries is more polycentric for Dubai Office but more ethnocentric in Turkey Office. In Dubai, the day-to-day operations are managed by local executives living there. The headquarters is confident subsidiaries offices can work independently especially that they previously proved to make profitable results. Thus, they have no problem letting them use different criteria for performance, packages, incentives, or training methods. According to the headquarters HR manager, “the team in Dubai office is big with 84 employees, this allows the headquarters to give the subsidiary more autonomy on managing its HR practices. However, it is not the case for Turkey team where the size of manpower there is

relatively small with only 25 employees”. On the other hand, Mazaya headquarters has more control over the HR practices at Turkey Office. Apart from the differences in the Turkish labor law in Turkey, the headquarters apply the same HR management functions used in Kuwait on Turkey Office. The head office usually sends key executives from Kuwait to manage the Turkish subsidiary operations. Therefore, we can conclude that with the application of same HR policies and procedures, the small manpower size, and due to assigning key personnel from Kuwait to manage Turkey operations, the head office management style is more of ethnocentric in applying the HR policies at Turkey Office.

To summarize, below are the findings of the interviews performed with the head office executives (Table 1):

Table 1: EPG Model interview findings

Dimension	Dubai Office	Turkey Office
Strategic Decision Making	Ethnocentric	Ethnocentric
Communication and Information flow	Polycentric	Ethnocentric
Organization Structure	Polycentric	Ethnocentric
Product Development- R&D	Geocentric	Geocentric
Marketing Strategy	Polycentric	Polycentric
HR Management Practices	Polycentric	Ethnocentric

CONCLUSION

It is highly noticeable from “Table 1” that Mazaya headquarters management style of the company is mixed and more skewed towards Polycentrism for Dubai Office and mixed but more skewed towards Ethnocentrism for Turkey Office. Different factors have led to these different results such as the rules and regulations prevailed in each country, size of operations, share of profit, availability of talents, size of manpower, and language barrier. By tailoring the needs of each standalone office as detailed before, I consider Mazaya headquarter is well-managing its foreign businesses.

In real life, and after assessing Mazaya case, I believe it is more likely that there is no perfect or ideal way for the MNCs to manage their subsidiaries; it is really a mix. Each of the three EPG model orientations can be successful in the right circumstances or can fail in the wrong ones. However, between the two extremes of highly centralized, controlled and standardized organizations on one spectrum, and decentralized, host country focus strategy organizations on the other, there lies a possibility of combining the features of the two to better respond to the situation.

Shall Mazaya maintain its current management style with the two subsidiaries? Shall it focus on transforming its management style to the Geocentrism orientation? I believe it is yes for the former and no for the latter. In my opinion, by contributing more than 55% and 35% of Mazaya consolidated gross profit for the years 2017 and 2018, respectively, Dubai Office is doing great. Therefore, granting the subsidiary the freedom to manage its operations, with clear input from headquarters pertaining to strategic decisions, proved to be successful over past years. Also, controlling Turkey Office with more ethnocentric orientation is viable for the headquarters due to the small team of the Turkish subsidiary, lower size of operations, and the lower contribution to overall consolidated profit. Therefore, maintaining control of the subsidiary should be more feasible. But would it be better to manage any of the two subsidiaries in a geocentric way? I believe not. With lack of internationalization policy, small to moderate balance sheet, and focused profit in few countries, challenges of internationalization may arise making it difficult for Mazaya to manage its

subsidiaries with a global view at least for the time being. This could be attributed to factors such as the headquarters management desire to control certain subsidiaries, nationalistic attitudes of staff, the political sensitivities involved in host country operations (e.g., Turkey), etc.

In conclusion, although the identification of the right orientation is essential (e.g., through the EPG model), it still can be a mix of orientations. It is also important to note that different activities of the organization should be consistent with each other at various stages along with the culture of the organization, its marketing strategy, and its HR policies and procedures. In addition, it should optimize how well its products reach customers whose behavior is affected by values that may vary in random ways. Only then, the organization can operate efficiently in the market.

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Appendix A: Interview Questions

1. Who make the strategic decision making at Mazaya?
 - a. Headquarters
 - b. Subsidiaries
 - c. Collaboration between the two
2. How do information and communication flow?
 - a. Orders/commands from HQ to subsidiaries
 - b. Little from and to HQ; little between subsidiaries
 - c. Between HQ and subsidiaries and among subsidiaries
3. Describe the orientation of Mazaya corporate strategy:
 - a. Domestic – market driven
 - b. National responsiveness
 - c. Global integration and national representativeness
4. Describe the organizational structure:
 - a. Hierarchical, product base or functional
 - b. Geographic area base based with autonomous national units
 - c. Product-based or matrix (heterarchical or non- hierarchical)
5. Who is responsible for R&D and new product development decisions?
 - a. Centralized at headquarters
 - b. Products developed at the subsidiary level based on local needs
 - c. Collaborative between HQ and subsidiaries
6. How is the Marketing strategy determined?
 - a. by the needs of the home country customers; “extended” to foreign markets
 - b. Customized at the national level
 - c. Standardized across the world with local variations
7. Describe the HR policies and practices?
 - a. Overseas operations managed by people from the home country
 - b. Local nationals used to manage subsidiaries
 - c. The best managers anywhere in the world developed for key positions everywhere in the world