Cultural Barriers in Multinational Project's Management

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Abstract

Because of economic progress and globalization, many businesses expand their operations internationally during periods of fast growth. For most international corporations, managing worldwide projects with team members spread across numerous time zones and nationalities has become the standard. There are numerous benefits to working on global projects as a project manager, director, or part of a project team, including the ability to work around the clock, pooling the finest talent from throughout the organization, and leveraging regional experience for localization efforts. At the same time, the potential for problems grows. Multinational companies are forced to apply a complex process of management and organization of their human resources in order to coordinate their activities internationally, in light of the cultural dimensions. The cultural dimension refers to the basic elements that characterize a people, such as culture, language, and religion. Cultural differences can create barriers for a business that believes it can apply the same management practices everywhere, but they can also be competitive advantages if recognized and adapted appropriately. This paper attempts through the bibliographic review to outline the issue of cultural barriers to the management of multinational projects.

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Introduction

Any company's primary goal is to expand. Indeed, profit-maximizing behavior forces many businesses to extend their size until they achieve the optimum size that maximizes profits. This improvement cycle is constrained by a company's ability to expand its production units, whereas long-term development necessitates an increase in the popularity of the things it produces in order to absorb the growing production.

In this regard, the ability to internationalize its company activities, i.e., extend it abroad, is one of the important variables that might impact the business development process. Indeed, for many organizations, expanding into new areas is an important aspect of their growth strategy. (Deakins & Freel, 2012).

Businesses modify many of their management tasks, including human resource management, as their company activities become more worldwide. HRM, in particular, is concerned with making the most of a company's workers. Labor is unquestionably one of the most significant aspects in production. The term "human resource management" refers to the strategies and operational processes that a company should use to attract, retain, and exploit employees with the desired skills. Human resource planning, candidate recruitment and selection, training and development, employee remuneration, performance evaluation, labor relations, and hygiene and safety are some of the important activities of human resources management in this setting. (Muza-Lazaridi, 2013).

However, because of the numerous disparities between the countries in which a multinational organization operates, policies in the field of human resources management must be adapted in the context of internationalization of commercial activities. In fact, corporations that operate in worldwide markets and have set up production facilities in other countries confront different challenges than domestic companies. In view of the cultural characteristics, multinational organizations are required to use a complicated method of human resource management and organization in order to coordinate their activities abroad. (Seuring et al., 2008).

The cultural dimension refers to the basic elements that characterize a people, such as culture, language, and religion. Culture, also called culture, encompasses the set of values, beliefs, behaviors, morals, and customs that differentiate countries. Culture sets the rules by which a society operates, resulting in the actions of transnational businesses being directly or indirectly influenced by them. For example, status is perceived differently in France than in the USA. In France, status is often associated with an organization's position, total working time, or educational level; in the USA, status is derived from personal accomplishments. Cultural differences can create barriers for a business that believes it can apply the same management practices everywhere, but they can also be competitive advantages if recognized and adapted appropriately (Hofstede, 1991).

Despite differences, cultures are characterized by some key elements that are shared, such as changing very slowly, being learned through socialization, being intertwined and becoming empowered and replicated, shared by members of society, and differentiating them from members of other societies. Several studies have attempted to study culture and measure country differences globally; one of the most significant is that of Hofstede (1991), who introduced a set of characteristic values or dimensions that could be used to measure culture. As per him, these measurements allude to fundamental issues of mankind looked at by any general public. In any case, every general public arrangement with these issues diversely and this is reflected in the various degrees that every nation has set apart in each measurement (Hofstede, 1991):

- Power distance (or acknowledgment of disparities): shows how much a general public acknowledges the inconsistent conveyance of force. The disparity can likewise exist corresponding to abundance, capacities, or distinction. Some public societies are portrayed by incredible disparity, centralization of force in possession of a little and extremely durable world-class, unifying associations with high various leveled pyramids and restricted base up a correspondence. Choices are made by the trivial few, and many are only leader bodies. The disparity is OK, and the most un-capable acknowledge non-support in the dynamic cycle and the release of liabilities. Conversely, different societies are portrayed by less imbalance, more friendly portability, less centralization of force in possession of the meager few, decentralized associations with all the more level pecking orders, and somewhat free upwards correspondence.

- Uncertainty avoidance: it alludes to the bigotry that society shows towards vulnerability and uncertainty. This need is communicated in more significant levels of worry for the future and more noteworthy energy discharge, more prominent requirement for formal principles and essential fact of the matter, and less resilience towards individuals or gatherings with thoughts and practices that digress from the standard. A few societies display more significant levels of action and individual energy. More dynamic societies will, in general, practice more specialization, formalism, and normalization and spot a more prominent worth on consistency than unique thoughts. They are portrayed by an organization and a great deal of protection from change. They additionally keep away from high-hazard choices; interestingly, less dynamic societies try to ignore formal standards and specialization, show no revenue in consistency except for enduring the various thoughts and practices. The absence of formalism permits fast reactions and transformations to future change. At long last, they all the more effectively face the challenge of individual choices.

- Individualism/Collectivism: depicts the connection between the individual and the gathering or society overall. It portrays the degree to which individuals in a nation figure out how to act more as people than as individuals from a gathering. In nations where collectivity wins, more prominent accentuation is set on friendly, cordial, or family relationship bonds. Individuals are naturally introduced to aggregates like more distant families, have a group mindset, and care to benefit the group, regularly consigning their own objectives to the interests of the group. Colleagues are reliant and accept that keeping up with the group's prosperity is the best assurance for their own prosperity too. Conversely, in individualistic social orders, the connections between people are loose, and individuals look to a similar personal circumstance. Individual accomplishment and opportunity matter a great deal; individuals are independent and don't want to depend on others. They see their character as a different substance, past any general public and culture, and offer needs to meet their own objectives as opposed to the group's objectives.

- Masculinity/Feminity (or inclination to accomplishment/social affectability): it is identified with the degree to which 'manly' qualities like implementation, execution, achievement, and rivalry overshadow 'ladylike' qualities like personal satisfaction, keeping up with warm close to home connections, administration, really focusing on the feeble and fortitude. The family in a manly society guides youngsters towards requirement, aspiration, and contest, forcing various jobs on people. Society often thinks about outcomes and prizes as indicated by execution. The upsides of such a general public are viewed as flourishing in an open economy. Interestingly, "female" social orders stress social relations and common guide, mentalities that might be reflected in government strategies preferring pay reallocation and a significant degree of social spending.

- Confucian Dynamism/Temporal Orientation: this measurement recognizes momentary situated societies from long haul arranged societies. Long haul direction infers tirelessness, characterization of relations as per societal position and adherence to this request, saving and a feeling of disgrace. The short direction identifies with individual dependability, assurance of honor, regard for custom, and the arrival of good tidings, favors, and gifts.

Similarly, significant research, GLOBE (Global Leadership and Organizational Behavior Effectiveness), supplements Hofstede's social measurements. This examination intends to investigate the connection between friendly culture, hierarchical culture and rehearses, and authoritative administration (House et al., 2004). It brought about nine components of social culture that reflect center supervisors' view of the present status of society just as their inclinations of the ideal condition of society. These measurements are: 1) Force Distance, 2) Vulnerability Aversion, 3) Institutional Collectivity (Collectivity I), 4) Intra-group Collectivity (Collectivity II), 5) Gender Equality, 6) Enforcement (Self-assurance), 7) Future Direction, 8) Execution Direction, and 9) Human Direction. The initial seven social measurements are taken from Hofstede's (1991) measurements. The other two are additionally important:

- Execution Direction: is how much a general public supports and rewards its individuals for working on their presentation and greatness.

- Human direction: it alludes to the degree to which people in a general public support and prize others for their equity, fellowship, amicability, liberality, care, and generosity.

Culture, therefore, reflects a variety of behaviors, some preferred and some not accepted. Transnational corporations are expected to operate within different cultures, manage people from different cultural backgrounds with different values, beliefs, and attitudes. It is to be expected that if human resource management practices are used to encourage the desired behavior, they should be in keeping with the imperatives of the culture. Research suggests that human resource practices are highly culturally defined and that some practices exhibit a low degree of cultural transfer. For example, people from collective cultures act best within a group and are more effectively motivated by group motivation; also, a management style that provides a lot of initiative and encourages participation may not produce the expected results if applied to employees whose culture is characterized by high power distance; these people not only accept the unequal distribution of power but also tend to avoid responsibility (House et al., 2004). This paper attempts through the bibliographic review to outline the issue of cultural barriers to the management of multinational projects.

Chapter 1

1.1 Literature Review

1.1.1 International Business

The last decade of the 20th century was characterized by the liberalization of markets and the abandonment of state planning, which resulted in the elimination of state intervention and regulation of markets. There is complete liberalization of the financial sector and freedom of movement of capital. Export diversification was gradually adopted throughout the developing world and accompanied by the attraction of foreign capital and investment (Hofstede, 1994).

International business refers to all business operations involving cross-border trade in goods, services, and resources between two or more countries. The transactions of financial resources include capital, technology, manpower, etc. The International Enterprise includes all commercial transactions between two or more regions, countries, and peoples beyond their geographical and political boundaries. All businesses experience the effects of foreign markets and competition in today's globalized economy. Because of this, some small businesses are taking steps to exploit not only the domestic market but also markets in other parts of the world (Hofstede, 1994).

The globalization of markets is the process of strengthening the degree of interdependence that the economies of countries all over the world have. This process is characterized by a reduction in the importance of distances and easy access for businesses to markets beyond national borders. This led to a rapid increase in the volume of international trade in goods and services (Hofstede, 1994).

The internationalization of markets refers to the degree of involvement of domestic and foreign businesses, which have international activities in local markets, as well as the extent of the influence these businesses have on the functioning of the market. The greater the involvement and the more important the role of internationalized firms in operating a market, the greater its degree of internationalization. The extensive adaptations and differentiations required to perform business functions are one of the main reasons for increased difficulties in international business activities (compared to doing business in the domestic market). The business functions affected by the international business are (Cavusgil et al., 2014):

- Production.
- Marketing.
- I was managing people.
- Financial management and accounting.

Promoting and marketing a business’s products in foreign markets entails substantial changes in the management methods by which its core business functions, such as manufacturing, marketing, human resource management, finance, and accounting, are conducted. Expanding a business's commercial and production activities in international markets requires serious, proper, and methodical preparation and preparation (Cavusgil et al., 2014).

1.1.2 General distinction and definitions of international business activities

There are various forms of international business that a business can take, the most important of which are (Hill, 2008):

- International Merchandise Trade. These are imports and exports of goods that are the most traditional international activity of economic units (includes purchases and sales between businesses and organizations from two different countries).
- International Service Trade. These are imports and exports of services, which concern payments outside the country's borders, and receipts from abroad for

services to foreigners (includes purchases and sales of services between businesses and organizations from two different countries).

- Foreign Portfolio Equity Investment. Portfolio investment takes the form of either the provision of loans abroad, the holding of shares in companies listed in the rest of the world, or short-term foreign currency banking in order to exploit different returns between countries.
- Foreign Direct Investment (FDI). This is the establishment of subsidiaries abroad that are partly or wholly owned by the parent undertaking. FDI involves the transfer across national boundaries of a productive resources/input package. These inputs are either physical (e.g., equity capital, equipment, intermediate and raw materials) or intangible (e.g., production organization, quality control, marketing know-how).

The major reasons for thinking about moving into international markets are (Hill, 2008):

♣ Foreign competitors attack the local market,

♣ Foreign markets often offer significant opportunities for increased profitability;

♣ Local markets are shrinking,

♣ The need for a broad customer base to create economies of scale;

♣ Reducing dependence on a single market;

♣ Customers are likely to expand internationally.

Most businesses are not doing business internationally until they are prompted to do so.

1.1.3 Forms of business internationalization

Ways of expanding a business in international markets do not require joint management and ownership of foreign wealth assets between parent and subsidiary. This is the basic difference between these forms of penetration in foreign markets and foreign direct investment (FDI), namely that the company does not require a physical presence of ownership and management in the countries of destination of its activities. It should be noted that many companies, although multinationals, use these forms in parallel for further penetration in international markets (Melin, 1992).

Exports are the first form of international business of business traders and constitute the most widespread method of penetration in the international market. Export trade moves products from one country to another. The two main advantages of this form of international activity are that (a) it does not require significant investment, so businesses are not exposed to major financial risks, and (b) it gives the opportunity for a first acquaintance with the main features of a new market. An enterprise's export activities can take the following forms (Cai et al., 2020):

- Exports made directly. The firm offers its goods directly to buyers in other countries. In direct exports, the producer company is in charge of all phases of the export process up to the final transaction with the foreign customer (delivery of a product for a price). Direct exports are associated with high levels of control by the exporting company, which may choose to enhance its level of involvement over time and with increased local market expertise by engaging in non-export forms of international activity.
- Exports that are not direct. The corporation offers its items to a domestic customer as well as to an international customer. Indirect exports are less profitable than direct exports since they rely on other parties or companies for control, information, and enhancing the company's position in the overseas market. Indirect exports, on the other hand, are the most suited technique of internationalization for a small business that does not have the financial resources to transition to direct exports or other foreign activities or does not want to face business risks.Business trade. Commercial transactions between a parent company

and a subsidiary or between subsidiaries of a multinational corporation. Intra-corporate trade is directly related to the concept of transfer pricing. Through the transfer of prices, the multinational will try to generate low profits in the subsidiary facing high taxes and high profits in the subsidiary facing low taxes. The above process could have a negative impact on the subsidiary, which shows low profits. In conclusion, we would say that it is good for the multinational enterprise as a whole, and it may not be as good for its subsidiary.

1.1.4 International agreements and conventions

The ways of internationalization to exploit business opportunities internationally are of various forms. They are the forms that do not require capital investment, and they include exports (direct and indirect), franchising, delivery agreements, licensing of intellectual property rights, sales agreements for technological support, and management contracts. In addition, there are forms of cooperation that require partial or full participation and capital investments. Such forms are direct investment abroad, joint ventures, strategic alliances, partial acquisition, and exclusive ownership. In this section, we will analyze the forms of internationalization that are export-oriented and fall under the category of international conventions and agreements (Schaffer et al., 2014).

1.1.5 Licensing

A company grants a company in another country the right to use certain elements of its intellectual property. In this case, the local enterprise is given the right to use the knowledge and technology, which are characteristics transferred from the foreign enterprise. In this case, a mainly industrial firm that wants to enter a foreign market can do so by selling some rights over its products and the processes for their production; it is an agreement between a business that holds the rights to produce one product and another that wishes to obtain the license to produce the product (company-renter - Licensee). The remuneration for the business that will license its product is called the loyalties fee. Licensing agreements are particularly lucrative for the Licensor, as they are a fast and cost-effective method of penetrating foreign markets. Another advantage of this method is that the grantor does not need to know the characteristics of the foreign market, as in the case of exports, since it uses local knowledge of the foreign market of a product license, a detailed, legal contract, which must specify the number of things. These are (Schaffer et al., 2014).:

♣ The duration of the contract.

♣ The number of products.

♣ The rights and privileges guaranteed and the restrictions imposed.

♣ The remuneration and the manner in which it will be attributed to the beneficiary.

♣ The conditions for the termination of the contract.

The problems that may be faced by the company providing the right to use its product are:

♣ The lax application of copyright law in the country where the renter company operates.

♣ The cooperation with rental companies that will not comply with the terms of the agreement and will try to exploit for their benefit the knowledge they acquired from the company that provided them with the production license.

Licensing agreements are used extensively in the pharmaceutical industry, not because of the easy learning of techniques but because of the excessive amounts required by research and development. So often, the functions of Research and Development and production are not performed by the same company (Schaffer et al., 2014).

The basic advantages of licensing can be summarized as follows (Schaffer et al., 2014):

(1) Zero funds.

(2) Pay gains with minimal financial costs and minimize business risks.

(3) Speed of market entry.

(4) Create a Customer for Sale of Licensor Byproducts.

(5) Create guardian of the interests of the Licensor.

(6) An appropriate strategy for high-risk markets, compact shopping, distant markets, companies lacking funds and/or appropriate capacities, overcoming problems by international trade restrictions

(7) Lengthening the international life cycle of the product.

The basic disadvantages of licensing can be summarized as follows:

(a) Inappropriate for countries with insufficient protection of intellectual property. ⇒Difficulty in protecting intellectual property

(b) Creation of a competitor after the expiry of the agreement

(c) Lack of billing, distribution, and display control.

(d) Difficulty in checking compliance with the quality standards and other terms of the agreement by the Licensee.

1.1.6 International franchising

A company grants a company of another country the right to use the name, brand, technology & know-how. In this case, the foreign company allows the local company to work under the same brand of the parent company, producing exactly the same product (or service), acting as an individual company for a certain period, always under the strict guidance of the company (Dant & Grunhagen, 2014).

International franchise agreements are about trademark licensing and are essentially a specific form of licensing. While licensing is for industrial enterprises, franchising is mainly for companies in the service sector (e.g., hotels, car leasing). The award of the trademark of a service business (supplier company) to an independent operator or organization (user company) is considered to be a special form of product licensing. The sole trader, in essence, operates a business under the name of another business. The supplier company allows the user company to use (Dant & Grunhagen, 2014):

- ♣ Its trademark.
- ♣ The way it is organized.
- ♣ The specific ways of training its staff and advertising its services/products.

Franchising is an effective and fast way to increase the market share of the supplier and enter new markets. Like licensing agreements, franchising involves certain risks, notably in terms of the reliability of the user company (franchisee) and the difficulty of controlling its activities by the supplier company (franchisor). International franchise agreements are divided into the following four categories (Dant & Grunhagen, 2014):

- Distribution Franchise-Commercial franchise. In franchising of this type, the franchisee has the right to move and promote franchised products produced by the franchisor. In particular, the franchisee exploits the franchise package of the franchisor to sell through his/her shop, which is part of the donor's franchising network, retail to the consumer public the products included in the franchise contract aims to develop an extensive distribution network for the product it produces or markets. Depending on the status of the licensor and the origin of the products, we distinguish the following two categories.

- Franchise of the producer-franchisor. Here the franchisee sells the products manufactured by the franchisor. Examples of this category are Anna Riska, Benetton, Stefanel, Sisley, Zara, Oxford Company, etc.
- Franchise of the distributor-franchisor. Here the licensor supplies the licensees of the network with products that: (a) either has himself chosen and subsequently has them manufactured for him (subcontracted), (b) either directly procures them from producers having obtained specific trade agreements, (c) or indicates third-party suppliers from whom the network licensees purchase the products. This form of franchising is one of the most widespread in the world, and in fact, the franchisor operates as a wholesaler marketing its products through its own network. Examples of this category are Goody's, Mc Donald's, etc.
- Production franchise-Industrial franchise. The licensee is authorized to produce or process products under the direction of the licensor. More specifically, this agreement between licensor and licensee may also include the processing of some products from the latter. The franchisor and the franchisee are both producers, and the contract usually includes technology transfer, patent and trademark clauses, and the provision of raw materials. The focus of the franchising package is on the exploitation of specialized know-how and branding. The best-known cases are Coca-cola, Seven Up, Pepsi, etc.
- Service franchise. The contract is for the license of the token (e.g., the franchisor's trademark, logo) and the franchisee's provision of services to end-users under the instructions of the former. In this type of franchising, the franchisee takes advantage of the franchise package of the franchisor to provide within its own shop or office, which is part of the franchisor's network, services included in the franchise contract to end-users, faithfully following the relevant method of the licensor.
- Mixed franchise. It is a combination of the first and third categories. It is quite common in the world of franchising to combine harmoniously within the same network the distribution of products with the provision of services. The Licensor grants the Licensee the right to market its products and at the same time use its distinguishing feature (e. Franchising networks that distribute products and at the same time provide services are in our country of business Pizza Hut, Café Haagen

Dazs, Roma Pizza, Applebees, Flocafe, German, Hondos Center, Beauty Shop, etc.

The advantages and disadvantages of international franchising are the same as those of Licensing, except for two important differences (Dant & Grunhagen, 2014):

(a) Freezing more funds => Higher business risks.

(b) a Higher degree of control of pricing, visibility, and other activities of the foreign partner.

1.1.7 Management contracts

One company is charged with running, using its own executives, another company in another country for a fee. Mobile managers act as instructors for the business that essentially rents them for a limited period of time. The fee rate usually depends on the performance of the client under new management (Dev et al., 2002).

Management contracts are also known as management contracts, dealing with agreements in which one firm provides another firm with administrative and technical assistance as well as specialist services for a fixed fee. These agreements are concluded between a supplier business and a client business to provide the latter with a package of managerial skills through the secondment of its managers. The renter aims to increase the productivity of its workforce, restructure its business structure and achieve overall higher returns. Management contracts allow businesses to generate additional revenue with low risk (Dev et al., 2002).

The major advantages of management contracts can be summarized as follows (Dev et al., 2002):

(a) An inexpensive way of achieving business goals is achieved without paying significant resources probably earmarked for other activities.

(b) Opportunity to make profits without investing capital and without taking significant business risks.

(c) ‘Rented’ managers can provide the company with knowledge about the purchase of business so that the company expands its share and acquires a more permanent place in the local market.

(d) Opportunity to take advantage of local business supply contracts.

The disadvantages of management contracts are linked to failure and converge on the negative effects on the reputation of the business. In addition (Dev et al., 2002):

(a) Seconded managers may not perform as well in the client business.

(b) The fact that foreign executives remain in the company to replicate its fundamental skills is also a threat.

1.1.8 Contract manufacturing

A company assigns a business in another country to manufacture or assemble its product for a fee. This agreement lasts for a certain period of time, and the company producing the product is not entitled to invoice and market the product (Cavusgil et al., 2014).

It is the production of goods by one company under the label or trademark of another company. The recipients of the contracts provide the relevant services to various (even competing) undertakings on the basis of their own specifications and requirements. This type of contract is also called private label construction. This pertains to a popular type of outsourcing or subcontracting used by many companies. A production agreement might involve outsourcing part of a product's manufacturing process to reduce operating costs. A business may outsource the manufacture of certain parts of the product or assembly of the product. The outsourcing business is usually located in developing countries, where the labor-intensive operations performed by more foreign firms are used to specialize in its knowledge and capabilities (Cavusgil et al., 2014).

The key advantages of production agreements can be summarized as follows (Cavusgil et al., 2014):

(a) Outsourcing firms can save significant capital on labor, materials, and other manufacturing-related costs.

(b) Contract manufacturers are usually in developing countries with an abundant supply of cheap labor and minimal regulations.

(c) By keeping proper supervision of subcontracting, the company can reduce its manufacturing costs, maintain product quality, and increase its profit margins.

There are no significant disadvantages to production agreements for the subcontracting company unless it does not achieve proper supervision and there is a problem with the quality of the products produced (Cavusgil et al., 2014).

1.1.9 Turn-key agreements

A business undertakes to build a plant or large public project on behalf of another business or organization at a predetermined price. In particular, the contractor agrees with the foreign company to undertake the design and construction of facilities for its housing, supply it with the necessary materials and the necessary expertise and train its staff (Holm et al., 1996).

In particular, a business agrees in return to design, build and equip a manufacturing facility for someone else who will be the ultimate owner of that facility. Such spaces can be airports, refineries, etc. In particular, turnkey construction agreements refer to the construction and delivery of a complete production unit by foreign firms that bear the costs of the operation. After the above procedures have been carried out and the successful operation of the new unit, the contractor, abandons its foreign activities, the control, and conduct of which is then undertaken by the contracting undertaking (Holm et al., 1996).

It is very important to mention that often the company that has undertaken the project contributes part of the cost in exchange for the possibility of using the good (e.g., installations) at a later time. The construction agreements are either put out to tender or awarded directly to the manufacturers, which are usually large when it comes to substantial investments (e.g., extraction of oil or minerals) (Holm et al., 1996).

The major advantages of manufacturing agreements can be summarized as follows (Holm et al., 1996):

(a) Opportunity to capitalize on the experience and expertise to earn profits

(b) Relatively low business risks.

The main disadvantage of manufacturing agreements is the risk of creating a competitor. More specifically, through the exploitation of its know-how, the foreign company may expand and develop into a potential competitor in both the international and domestic markets. It is also considered an inglorious way of internationalizing business because it is an export of their know-how and skills. Agreements of this type are made between undertakings that are geographically remote in order to avoid the risk of creating competition (Holm et al., 1996).

1.1.10 Foreign Direct Investment (FDI)

FDI involves the transfer of funds from one country to another for the sole purpose of setting up a business there or buying up all or part of the share capital of a local business. Unlike portfolio investment, the primary objective of the owner of these funds is the total or partial control of the local enterprise in which he invests his funds (Moosa, 2002).

Foreign direct investment (as opposed to international portfolio investment) has as its main objective the total or partial control of the local business and the active involvement of the foreign entrepreneur in the management of that business. Businesses that, in addition to their involvement in exports and imports, expand their production activities beyond national borders by carrying out FDI are called multinational enterprises (MNEs) and multinational Corporations (MNCs) (Moosa, 2002).

In the early 19th century, most of the host countries put obstacles in their trade by introducing taxes, i.e., tariffs, into their international trade and their imports. The companies which had developed commercial links in the countries concerned, and therefore significant market shares, were at risk of shrinking their geographical expansion. The only way to avoid this risk was to conduct FDI (Moosa, 2002).

By combining the concepts of vertical and horizontal integration as well as differentiation in production, which characterizes many multinational enterprises, with the main reasons that lead a business to become multinational, then we can identify four basic types of Foreign Direct Investment (Moosa, 2002):

- Direct foreign investment seeking a resource. Through this type of FDI, vertical integration of production is encouraged. MNCs seek wealth-producing resources (such as natural resources, cheap labor, and technological/managerial capabilities) of cheaper costs or higher quality compared to the country of origin's costs and quality. The main types of wealth-producing resources that can be the FDI incentive of a multinational are:

(a) Natural resources.

(b) Cheap unskilled or partially skilled labor.

(c) Technological and managerial capabilities.

A business may need factors of production and other resources that may be inefficient or unavailable in the country of origin. In such cases, foreign direct investment is made for the following reasons (Moosa, 2002):

(a) Skilled scientific manpower

(b) Semi-unskilled low-cost workforce

(c) Availability of natural resources

(d) Raw materials at low cost

(e) Cheap land

Oil multinationals belong to this class of FDI, such as Shell, Mobil, or mining firms such as the Japanese Nippon Steel Corporation and French Pechiney SA.

- Market seeking. Through this type of FDI, horizontal integration is mainly encouraged. Multinational enterprises try with the help of these FDIs (a) to settle in markets where their customers and suppliers are located (b) to reduce the costs that would arise if they served the market through trade - rather than FDI - and (c) to have a presence in markets that are already active. The following reasons are an incentive for FDI to seek new markets:

(a) The installation of customers or suppliers in the target market of the business.

(b) The size of the host country's market.

(c) The growth prospects of the new market.

(d) The need to adapt to domestic consumer standards or production conditions (e.g., adapt to local consumer standards).

(e) Serving a market through FDI can be more cost-effective.

(f) The power of competition. When a competitive business enters a new market, the business follows leaders in order to prevent it from acquiring a significant share and dominating it.

(g) Overcoming protectionist barriers to entry.

For example, the Greek cement industry TITAN and the pharmaceutical company LAVIPHARM, which acquired production units in the USA in order to operate in one of the most dynamic markets in the world.

- Efficiency seeking. This type of FDI, in essence, "touches" on the two previous forms. MNCs consolidate resources and target markets and now try to coordinate their activities so as to achieve maximum efficiency (combining horizontal and vertical integration).

In a free-trade environment with low transportation costs, international companies may choose to set up manufacturing economic units on location in order to achieve economies of scale, thus reducing average production costs. Many businesses are creating economic units in foreign markets with multiple sources of supply with the goal of diversifying the risk of obtaining and managing raw materials for their production (Moosa, 2002).

Creating multiple financial units to produce supplies is considered an effective method for businesses that face several stages of production because they are able to exploit the different mixtures of inputs from each host country. The parent company has the possibility to move each production stage to the country, which offers it the corresponding comparative advantage. Foreign direct investment in search of profitability is mainly directed at (Froot, 2008):

(a) economies of specialization

(b) geographical concentration of production functions

(c) synergistic economies

(d) to management specialists, new high-level technologies, low production costs, etc.

Foreign direct investment in the search for strategic assets or capabilities. This type of FDI mainly concerns international companies that aim to maintain and improve their competitive advantages by acquiring wealth-producing resources (or unique productive resources and capabilities). The ultimate goal is to increase the efficiency of the multinational enterprise. So we see that there is a direct relationship between this type of FDI and the investments to look for efficiency that we mentioned before.

More specifically, FDI in search of strategic resources or capabilities aims to maintain and improve the international competitiveness of the multinational by acquiring the wealth-producing resources of other enterprises. The improvement of the competitiveness is expected to occur through the diversification and enrichment of its activities, which will ultimately also lead to an increase in the efficiency of the group. This kind of FDI is found mainly in high-tech industries (Froot, 2008).

Foreign direct investment in search of strategic resources is primarily directed at (Froot, 2008):

(a) strategic resources aimed at maintaining and improving the international competitiveness of the multinational enterprise through the acquisition of other enterprises.

(b) the acquisition of assets mainly in high-tech sectors.

(c) improving competitiveness by strengthening diversification and enriching production activities.

1.1.11 Economic units-FDI

Greenfield investment. The business expands into another country by establishing a new business, of which it is the sole owner. This investment is usually aimed at finding new markets, and in the future, it can also look for profitability. This type of investment requires substantial capital and sufficient time to fully operate the subsidiary and understand the specificities of the target market (Carcovic & Levine, 2002).

The major advantages of exclusive child ownership can be summarized as follows (Carcovic & Levine, 2002):

(a) The parent company retains managerial control of the subsidiary, with all the benefits it involves for the creation and implementation of its foreign strategies (the operating strategy of the subsidiary is an integral part of the broader operational strategy of the parent).

(b) The parent undertaking receives all the profits of the subsidiary.

(c) If the subsidiary operates in a different country's cultural context, it can specialize and diversify its products to better fulfill the needs of local market consumers (the parent company acquires a strategic advantage in trying to expand its production and commercial activities into new markets abroad).

(d) Economies of scale are achieved by increasing the total volume of production of the group.

The major disadvantages of being a wholly-owned subsidiary can be summarized as follows (Carcovic & Levine, 2002):

(a) The parent company bears all the financial costs of the venture and takes all the risks.

(b) The subsidiary is classified as foreign, which can negatively predispose public opinion, government, and public services.

1.1.12 Basic Distinctions

¬ Greenfield investment: It is the establishment of an entirely new entity from scratch (land acquisition, machinery construction).

¬ Brownfield investment: It is the acquisition of an existing business with premises, which is transformed and developed in its entirety (e.g., the acquisition of a multi-story department store to be used as a central store and headquarters of a bank).

♣ Acquisition. This method involves a significant proportion of the share capital of a local enterprise being acquired by a foreign enterprise. The investment of the acquisition is the fastest method of entering a foreign market, as the acquiring company is usually already active in the acquisition business. No significant capital investment is required, and the success of an acquisition depends on the degree of consolidation of the activities of the acquiring and acquiring undertakings.

♣ Merger and acquisition. It is the merger of two or more companies, usually one large and one small, with the aim of restructuring the small company. These cases often offer the fastest way in and in a comparatively larger segment than the alternatives described above.

♣ Offshore: It is the creation of an offshore business in a country where certain aspects of the relationship between multinationals and government, such as taxation, are favorable in order to take over part or all the activities of the parent business from abroad with minimal taxation. These countries are called tax heavens.

♣ Acquisition on the majority: It is the acquisition of the majority shares of an existing business.

♣ Acquisition of a minority: It is the acquisition of minority shares of an existing business. It is generally accepted in international literature that holding a 25% stake in the subsidiary is necessary to exercise effective control.

1.1.13 Establishment of a Joint Venture

The investment partnership of two or more enterprises, at least one of which is local and the other from a different country from where the enterprise is established. It is an alliance in which partners contribute inputs that typically compose their competitive advantage and share, not necessarily on an equal footing, assets. The consortium is essentially a risk-sharing process of investment between partners and contributes to the creation of new, more competitive products that have a high potential to conquer the local or even the international market, creating economies of scale. In essence, a joint venture is a case where two or more businesses form a new venture through a partnership that is legally independent of the parent companies. It requires a lot of capital but is not considered a standard FDI because there is no full foreign investor control; in this case, the founders of the consortium are considered partners and assume joint financing and management (Beamish & Lupton, 2009).

Joint ventures are set up primarily for two reasons: (a) where the entrepreneur wants to buy local knowledge and wants to exploit the existing marketing or industrial unit, and (b) where there is a need for rapid market entry. In many cases, the joint ventures are liquidated, and the entrepreneur acquires full ownership. The main criterion for distinguishing the joint ventures is the level of shareholding (Beamish & Lupton, 2009):

♣ Majority consortia

♣ Minority consortia

♣ Tied joint ventures

The management of a joint venture is divided into three categories (Beamish & Lupton, 2009):

¬ The management practiced by a partner (dominant management).

¬ Shared management.

¬ Management is not exercised by any partner but is delegated to third parties (independent management).

The major advantages of the joint venture can be summarized as follows (Beamish & Lupton, 2009):

(a) The company acquires a partner who has the right contacts and interconnections, knows the environment and the cultural characteristics of the country.

(b) The legislation of many countries provides considerable financial incentives to consortia, with the result that the establishment of a subsidiary entails lost profits.

(c) The larger common market results in a reduction in unit costs, hence the sharing of costs and risk of the project.

(d) It creates economies of scale because of cogeneration.

(e) Broadening the financial possibilities.

(f) Significant reduction of the risk of 'nationalization.'

(g) It helps to improve the results of the partnership (cost reduction resulting from the cooperation of two or more former independent economic units, because it avoids duplication of similar actions, etc.) of two or more enterprises.

The major disadvantages of the joint venture can be summarized as follows (Beamish & Lupton, 2009):

(a) The joint venture company has virtually no control over the management of the new venture and therefore cannot integrate it fully into its strategic planning.

(b) Experience has shown that there are often differences and disagreements between the partners about the objectives and strategy of the consortium, which usually leads to its dissolution.

It is a commonplace that in many consortia, partners are in conflict with each other for a number of reasons and are failing (Beamish & Lupton, 2009):

¬ Different cultures and goals. ⇒The incompatibility of partners

¬ Competition, not cooperation.

¬ Bad internal communication.

¬ Disagreement over the distribution of profits.

¬ Mismatch in organizational structure.

Whereas the success criteria are grouped together as follows (Beamish & Lupton, 2009):

¬ Equal cooperation and resources provided by partners.

¬ Common business philosophy and culture.

¬ Common investment horizon.

1.1.14 Strategic Alliances

It is a kind of joint venture with the only difference that the cooperation concerns longer-term goals. It involves the conclusion of formal or informal cooperation agreements between two or more companies, even competing companies, to expand their activities in the international arena. These alliances are concluded between local and foreign companies, with the aim of exploiting new technology and capital from local businesses and good local market knowledge from foreign companies (Inkpen, 2005).

The alliance aims to strengthen the competitiveness of its partners through the exchange of useful financial resources, cost savings in research and production, the strengthening of its position in world markets, access to intangible assets of other companies, and the expansion of its business and risk-sharing (Inkpen, 2005).

The main advantages of strategic alliances can be summarized as follows (Elmuti & Kathawala, 2001):

1) Easy penetration in the markets because the obstacles posed by the external environment are overcome.

2) Risk sharing and risk reduction are associated with the size of the investment when entering new international markets.

3) Complementary knowledge and skills and access to resources and skills.

4) Synergy and competitive advantage.

The main disadvantages of strategic alliances can be summarized as follows (Elmuti & Kathawala, 2001):

1) The incompatibility of partners due to different cultures and goals.

2) Access to information and barriers to the flow of information.

3) Disagreement in the distribution of profits.

4) Possible loss of autonomy due to acquisition of part of the strategic alliance.

5) Changes in the external environment and economic factors that modify the original terms of the agreement between the parties.

1.1.15 Foreign Portfolio Equity Investment

Essentially, they include the purchase of securities by residents and businesses of one country in markets of other countries and the deposits of other countries in currencies. The fundamental feature of portfolio investments is that they are made with the sole purpose of achieving an overall return or higher profits than would be possible if these funds were invested in the respective domestic market (Errunza, 2001).

In the context of portfolio investment theory, investors place their wealth in many different assets in order to maximize return and minimize risk or to achieve a return-risk combination appropriate to the needs of each particular investor. Investments in shares or securities of a foreign company are classified and considered as portfolio investments when the investor's participation in the share capital of the company is less than 10%. If the investor's participation is 10% or more, then the investment is considered a direct investment. They do not have a permanent character and move flexibly without long-term commitment (Errunza, 2001).

The main categories of the above investment placements that we mentioned in the first part of the chapter, we could mention the commitment of capital in (Errunza, 2001):

- Shares
- Bank deposits
- Currency
- Goods
- Bonds. This is a bond for which the issuer is obliged to pay, at the end of the contract, its nominal value and, in the case of bonds with a coupon, at regular intervals. They are issued either by the State or by private organizations (e.g., banks, companies, etc.) and are used to borrow funds from the investing public.
- Treasury bills. They are the securities with the lowest risk compared to all other products in the financial and capital markets because they are government securities and therefore have little to no chance of bankruptcy or non-fulfillment of the issuer's contractual obligations. They do not give coupons (zero-coupon bond), but the sale price is less than the face value that the holder will receive at maturity. The difference between the sale price and nominal value is the return that the investor will receive at maturity.
- Mutual funds. They are an institution of raising funds from a large number of savers that are placed together by management companies in specific open-end portfolios in response to the goals and preferences of investors. They do not give interest or have pre-determined returns, while the return for the shareholder is the difference that can be created between the investment capital and its valuation over time.
- Derived products. This is a contract, the value of which depends on the value of another key commodity (underlying asset). Essentially, that is, it is a security, the price of which is determined directly by the price of the underlying security).

International portfolios consist of more than one asset. The risk of a portfolio can be increased or decreased depending on the manipulations that can be made in determining its individual components and the correlation coefficients in their returns. As we add investment elements to a portfolio, its overall risk decreases.

The stability, degree of investment risk, and return of portfolio investments are all factors to consider. Efficient portfolios are made up of securities with "variable" performance characteristics, meaning they are made up of securities with the least stability and the most risk (e.g., stocks, derivatives). Portfolios including high-stability, low-risk securities, such as the well-known "fixed" securities, are less profitable (e.g., government bonds) (Durham, 2004).

It is worth noting that the lower the risk of portfolio investment, the more predictable its return. Foreign portfolio investment and foreign direct investment are important levers for a country's development. The design of an effective investment strategy requires multilevel and diverse research, both in the internal operations of the country and in the international financial environment. The good course of foreign portfolio investments is ensured through a persistent and steady effort to improve the above factors and at the same time highlight the country's investment opportunities (Durham, 2004).

1.1.16 Multinational Enterprises – MNEs

Companies have implemented a variety of ways to enter a foreign market. The classic organizational form was a wholly-owned subsidiary, but it always pre-existed along with a range of types of capital and non-capital participation, including joint-ventures, cartels, licensing franchising, and long-term contracts. Making foreign direct investment transforms companies into multinationals that own or control production units (subsidiaries) in more than one country (Rugman & Verbeke, 2004).

A multinational is a company that owns, controls, and manages wealth resources in more than one country (at least two countries). The country of origin of the business is the country of origin where the parent company is located, while the country or countries other than the country of origin where the company operates is called the host country, and that is where the subsidiary is (Rugman & Verbeke, 2004).

Multinational companies are also treated as carriers of a "package" of factors of production which they transfer from country to country and which they control independently of the country in which they operate. This ability to control allows multinational companies to influence the economic and social development of their countries of origin and host country (Rugman & Verbeke, 2004).

1.1.17 The main characteristics of multinational companies

A multinational company can be small or large - in terms of sales value and workforce, while the ownership of subsidiaries can be extended from sole to partial ownership. A multinational company can expand through the creation of new facilities, through acquisition, or through a merger. Its main features can be summarized as follows (Dunning & Lundan, 2008):

- Transfer of factors of production (capital and labor)
- Transfer of wealth-producing factors (research and development capabilities, administrative skills, know-how)
- Common strategy (parent and subsidiary)

Multinational companies are, therefore, the product of direct foreign investment. Foreign direct investment, depending on how it is interpreted, is divided into (Dunning & Lundan, 2008):

- Outward, where the point of reference is the country of origin.
- Inward, where the reference point is the host country.

Foreign direct investment can be either abroad when domestic citizens buy business abroad or domestically when foreign nationals buy a business in the domestic economy. In the first case, there are main outputs, and in the second case, there are main inputs in the domestic market (Dunning & Lundan, 2008).

A multinational company is not one company that (Dunning & Lundan, 2008):

- just owns shares of a "foreign" company (portfolio investment) or
- operates outside its country of origin but exclusively through trade (imports - exports).

1.1.18 Incentives for business internationalization and external factors

When a company takes the risk of expanding abroad, it aims at the following (Torres et al., 2016):

- Increasing profits and sales (e.g., market expansion and diversification of sales sources). It is realistic to believe that a firm that implements development strategies through internationalization would be able to improve earnings over time because it will now be able to reach a much bigger share of the global market's potential clients.
- Building a strong "fashion brand name" for the company. With its development into worldwide markets, a company will be able to build a positive reputation for its products or services. We believe that as a result of this, the company will be able to enter new markets around the world more easily and at a lower "cost" of entry (i.e., it will not have to make much effort to find dealers or spend money on advertising).
- Gaining access to new sources of money (e.g., new services and diversification of suppliers).
- Improving flexibility and competitiveness while lowering risks. The globalization of a company's operations boosts its market competitiveness and makes it more difficult for local competitors around the world to compete with it.
- Ability to access information on new international trends in its field of activity.

Because multinational corporations operate in a variety of nations, they are certain to encounter a variety of variables that must be considered in order to fulfill their objectives. These circumstances are related to a global corporation's external influences. When we talk about external elements that "impact" an international firm, we're talking about specific qualities that exist in the host nations that the company must identify and investigate in order to meet the objectives it established when it first started doing business internationally. (Torres et al., 2016).

The first category of effects comes from the natural and social environment of the host country and includes the following factors (Carpenter & Sanders, 2004):

- Historical and political (e.g., prevailing political ideologies, national law)
- Anthropological, Social, and Psychological (e.g., values and habits of citizens).
- Financial (e.g., financial situation).
- Geographical (e.g., location, climate).

The second category of effects generally refers to the competitive environment of each industry and how it varies from country to country.

Every business that operates internationally must be able to assess the economic environment as it appears based on certain indicators that we can use to rank countries. The global business and economic activities of multinational corporations are estimated to account for 10% of world GDP and 33% of world exports. Therefore, the domestically produced gross domestic product continues to dominate the formation of world GDP (Carpenter & Sanders, 2004).

1.1.19 Characteristics of the external environment of the multinational

There are five characteristics of the external environment that the multinational company must know and respect if it wants to succeed in the international market. These categorizations are not restrictive (Chakravarty et al., 2017):

- Natural Environment. There are differences in the physiology of people of the same nationality (e.g., skin color, height, age) that affect the production and promotion of a product.
- The Cultural Environment. Culture is generally associated with shared values, ideas, and specific codes of conduct that certain groups of people follow and accept. Multinational corporations should identify and research (a) the differences in the conduct of individuals who make up various social groupings, (b) the significance placed on the concept of work in each society, and (c) the language.
- The legal and political climate. A global corporation must consider (a) national common laws, (b) civil laws, (c) various special laws, (d) religious regulations in Muslim nations, and (e) the political and legal sovereignty of different regions within a country.
- Economic environment. The multinational company should research some important economic indicators before deciding to operate in an international market. Such indicators are: per capita income (rich and poor countries), quality of life (eg level of education and state benefits to citizens), purchasing power (what can we buy with a certain amount of money), the percentage of GDP coming from agriculture compared to that coming from industry and the provision of services (origin of GDP), economic growth (GDP growth rate), privatizations, inflation, the external balance of payments (international economic relations of a country) and external debt.
- Technological environment. Developments in this factor of the external environment may, depending on the actions of the multinational company, be an opportunity or a threat.

Multinational corporations must comprehend and account for the differences between persons of the same nationality. These qualities could include skin color, style, age, and others that have a substantial impact on business decisions on product manufacture and advertising (Chakravarty et al., 2017).

Businesses today more than ever realize how important the culture of the countries in which they operate is. Culture includes some standard patterns of a society's behavior, values, and beliefs. The values that make up a people's culture are difficult to change. Multinational companies must also take into account the political and legal environment of the countries in which they operate. The legal status may differ substantially from country to country (Chakravarty et al., 2017).

1.1.20 Advantages and disadvantages of multinational companies

Multinational corporations handle a large portion of worldwide trade and investment. They can be found in every sector of the economy that produces goods. They have made a significant contribution to market globalization. Their comparatively advanced know-how and experience, as well as their financial strength, enable them to pursue pricing, promotion, and distribution plans for their products that local competitors typically lack. To summarize, we list the main advantages and disadvantages of multinational companies (Rugman & Verbeke, 2004).

The advantages of multinational companies

- The exploitation of economies of scale. Economies of scale refer to the reduction of unit production costs, which is observed when the company increases its production. The company can now reduce the price of the product without reducing its profits and making the product more competitive. Economies of scale can also be achieved in the costs of advertising, transport, and distribution of the product.
- Their well-known name and reputation. The products of multinational companies are known in most countries of the world, so the cost of entering new foreign markets is lower.
- Access to the most advanced technology and know-how. The positive consequences are the introduction of new products in the international markets, the improvement of the quality, the efficient use of the productive factors, the adoption of more effective management & marketing methods, etc.
- Access to a large amount of information on new products, new markets, and international developments. Quick and correct information helps to formulate

realistic business goals and the appropriate strategy for each case by the executives.

- The availability of competent and experienced managers as well as executives with extensive experience in international markets. Multinational companies have a sufficient number of specialized and experienced executives who have worked in various parts of the world.
- The possibility of obtaining production factors, intermediate products and raw materials at lower prices. Multinational companies have the ability to obtain the above at lower prices, because of their large purchasing power, enabling them to negotiate and obtain lower prices and better payment terms from their suppliers. Also, using their information network, they discover and exploit sources of cheap factors of production, intermediate products, and raw materials in various parts of the world.
- The possibility of financing their activities at relatively lower costs. This is due to the better and easier access to the international financial markets with the possibility of more favorable lending terms. Also, their borrowing capacity and solvency are higher.
- The differentiation of business risks. The overall profitability of multinational companies does not depend solely on their performance in a limited number of countries or in a specific geographical area.

The disadvantages of multinational companies

- The many social and cultural settings. A thorough awareness of a country's unique social and cultural aspects is a prerequisite for successful market entry. Product characteristics, promotion and advertising strategies, and connections with home workers, customers, suppliers, and partners are all areas where mistakes can be made.

- Different business practices. Each country has its own set of unwritten rules and business practices (eg oiling). This results in increased costs as well as procedural and operational issues.
- New business dangers. Unexpected changes in the degree of political stability, as well as variations in the currencies of the nations where the company operates, are examples of such risks.
- The various regulations and processes. From country to country, the business processes and rules that regulate them differ. The CEOs' expertise and familiarity with these regulations raises the companies' operating costs.
- The various legal frameworks. Multinational CEOs must be trained and kept informed about the legal and tax frameworks of the countries in which they operate, which incurs additional expenses and reduces their competitiveness.

1.1.21 Structure and trends of multinationals in the world economy

The characteristics and structural trends of multinational companies can be summarized as follows (Kobrin, 2017):

- Concentration of Power: The largest multinational corporations worldwide (approximately 100 corporations) represent 12%, 18%, and 14%, respectively, of the total assets, sales, and workforce of all multinational corporations.
- Increase in Intra-corporate trade: 30% -40% of world trade concerns intra-corporate trade.
- Turn to industrial production and services: 4% of FDI primary sector, 28% secondary sector (industry), and 67% service sector.
- There is also a more diversified and complex administrative structure in multinational companies by enhancing the adoption of various types of partnerships, either in the framework of mergers and acquisitions, or in the context of joint ventures, or in the form of informal alliances.
- About 77% of the parent companies are located in developed countries.

- In 1980 the USA, England, Germany, and the Netherlands accounted for 72% of FDI. In recent years, these countries accounted for 48%.
- The United States, which was considered the largest FDI investor, has fallen from 42% in 1980 to about 20% in recent years, while the shares of Europe and Japan have risen significantly.
- The share of some developing countries such as China, Singapore, Brazil, and Russia has been increasing in recent years.
- Multinationals active in the consumer goods sector are taking advantage of the crisis to "disappear" smaller competitors and become even bigger. Recent research has shown that the sales of the 250 largest companies in the industry in the period 2011 to 2012 exceeded 3.12 trillion. Dollars (2.33 trillion euros), while just two years ago it was 2.82 trillion Dollars. The ten largest companies made sales worth $ 846 billion (630 billion euros). The largest company in Europe was Nestle (4th in the world), followed by Unilever and Nokia.
- More than half of the multinationals belong to the food, beverage, and tobacco sector, where the profit margin is even higher.

1.1.22 Roles of subsidiaries

Each subsidiary is part of the international network of the multinational company and has its own separate structure and distinct strategic orientation, defined in the framework of the corporate strategy. The basic separation of subsidiaries is determined by the degree of their autonomy, operation and their internal structure. The categorization of the roles of the subsidiaries is carried out as follows (Baskici, 2019):

- Truncated Miniature Replica. This type of subsidiary is a thumbnail of the parent company. The goal is to replace exports while performing certain business functions and maintaining strong relationships with the parent company. The subsidiary embraces the know-how of the parent or other subsidiaries, which makes it technologically dependent on the multinational network and particularly vulnerable to competition. In essence, the subsidiary of this type produces a part of the production of the multinational company with the main purpose of covering the target market of the host country. In terms of marketing and production, it faithfully follows the "steps" of the parent company.

- Rationalized Product Subsidiary. The role of the subsidiary is to produce intermediate goods and distribute them to the other units. It is a form of verticalization of the production of the multinational enterprise. This type of affiliate creates a type of dependency on the parent; however, the affiliate may market the intermediate product it produces to other independent companies. The subsidiary of this type is based on the "theory of internalization," and its main purpose is to contribute to the profitability of the multinational enterprise. It mainly produces and supplies the units of the multinational with intermediate products -through intra-company trade- and the choice of its countries of establishment is based on the existence or non-wealth-producing resources in the respective potential host country (eg raw materials, cheap labor, etc.).
- World / Regional Product Mandate. These are subsidiaries, agents of the parent company, who undertake the production and promotion of final products at the regional or global level. The goods produced are often innovative in nature, which gives the subsidiary independence but not autonomy. The subsidiary is solely responsible for the production and promotion of its products. Affiliates of this type have the ability to produce and promote new products. They are located in important markets (for the multinational company) and have human resources with specialized management knowledge.

1.1.23 Production strategies of multinational companies

The various roles played by a group's subsidiaries determine the variety of the group's productive potential. A multinational company must define a production strategy that will determine where the intermediate and final goods will be produced. There are two categories of production strategies (Edwards et al., 2021):

- Multidomestic strategy. According to the multi-local strategy, the company (parent or subsidiary) establishes subsidiaries in each target market in order to optimally meet local needs. These subsidiaries do not export and mainly try to "deal" with the subsidiaries of other multinational companies and domestic companies operating in the host country. These units focus exclusively on increasing their local market share, ignoring the international competition.

- Global strategy. In this case, the company develops global products to meet the homogeneous needs of the global market and thus, in essence, ignores the specifics between countries. It essentially focuses its productive activity on a few excellent or favored locations. The global strategy aims to increase global market share and gain cost competitiveness, which will increase the business competitiveness.

In addition there is:

Transnational strategy. When this strategy is followed, decisions about the places of production and distribution of intermediate and final goods are influenced by both global forces - homogeneous needs - and the local needs of each market. The company is called upon to adapt to both the global forces that lead to homogeneous production and the local ones that lead to product diversification.

1.1.24 Research and development strategies of multinational companies

A multinational company decentralizes its technological capacity when innovations are developed by its subsidiaries, while on the contrary we say that it concentrates this capacity when mainly the innovations come from the parent company. There are several alternative innovation strategies. Each of them gives a different dimension to the decentralization-concentration relationship of technological capability. There are four most prevalent innovation strategies based on the degree of decentralization or concentration of developed technological capacity (Bascici, 2019):

- Creation of global technology from the motherboard. In this case we have a complete concentration of technology in the parent company.

- Creation of technology by the subsidiaries for their domestic markets. In this case we have a partial decentralization of technological capabilities. More specifically, the subsidiary can use the parent company's resources to cover its domestic market.
- Creation of technology by subsidiaries for exploitation in global markets. In this case we have a partial decentralization of technological capabilities, with the difference that the subsidiary in this case can use the resources of the parent company to cover not only the domestic market.
- Innovation networking. And in this case we have decentralization of technological capabilities so that subsidiaries can create new products. The difference in relation to the second and third strategy is that the subsidiaries here do not operate with great autonomy but always in coordination and dependence on the parent company.

When a multinational company adopts a decentralized R&D strategy, the need arises for such a department to support the subsidiary. Research and Development is a process that requires a lot of time and high costs and results in it being adopted only by companies with large enough financial resources. The largest percentage of Research and Development takes place in the countries of origin of multinational companies, and belong to the category of developed countries (Baskici, 2019).

1.1.25 Organizational structure of a multinational company

A company's organizational structure is viewed as a way of (a) ensuring the seamless execution of these functions (e.g., human resource management, marketing, sales, and so on) and (b) ensuring the appropriate execution of its overall strategy. For a multinational corporation, the most difficult challenges are flexibility and coordination. The ability to be flexible while also coordinating a company's internal operations is undoubtedly the most demanding assignment for a multinational's executives. The final shape of this organizational structure is largely determined by (a) the company's size, (b) its external environment, and (c) the sort of strategy employed. (Edwards et al., 2021).

If a company decides to enter overseas markets, it will have to change its segmentation to some extent. If it just exports its products in the initial phase, it will set up an export department. However, if FDI continues to internationalize the company, it should establish an international unit. When a company expands its internationalization, it creates a worldwide organizational structure. The type of segmentation used should enable effective management and coordination, synergy and economies of scale, resource efficiency, and executive collaboration and satisfaction (Edwards et al., 2021).

The five basic types of global organizational segmentation are (Kobrin, 2017):

- Segmentation by product. This type of segmentation refers to the grouping and arrangement of activities according to the range of products of the organization. It serves more companies with a high degree of differentiation of their production. Some functions may be repeated (eg marketing, accounting, etc.). This segmentation succeeds in reducing the range of knowledge and skills required by most different products and services and thus makes it easier to manage a department or sector. At the same time, there may be a coordination problem between the different product groups, and for this reason, specific knowledge and understanding of the environment should be developed for each product group.
- Segmentation by geographical area. According to this form of segmentation, all jobs or activities carried out or related to a specific geographical area are placed in the same department. This segmentation groups the tasks according to the geographical area where they are performed. The geographical criterion is often used to divide the sales department into subdivisions. It is mainly useful for multinationals that adopt a multidisciplinary strategy to expand their activities and produce a small number of products. A key advantage of geographical segmentation is the coordination of activities related to a geographical area with the decentralization of decisions.
- Segmentation by function. Functional segmentation groups those tasks that involve the same or similar activities. The basic common functions that develop in all businesses, regardless of form, are production, sales and marketing, financial operation, and staff operation. However, depending on the case, other main or auxiliary functions are developed, such as research and development, maintenance, public relations, legal function, etc. Each business function is based

on specialized knowledge and skills and by grouping them in the same department. Resource utilization is achieved through economic scale and synergy.

- Segmentation by customer. With the help of customer segmentation, the organization tries to structure its activities in such a way that it responds and interacts more easily with specific customers and customer groups. The segmentation of this form expresses the multinational's attention to its customers, who are its potential capital.
- Segmentation by function and client (matrix). This is a complex type of segmentation that mainly gives flexibility to the business.

Chapter 2

2.1 Problem Definition

2.1.1 Internationalization of business activities

The global economy has entered an era of integration that has molded what has come to be known as globalization. Economic globalization, in particular, is a process of expanding national economies' interdependence, which is accomplished through the internationalization of markets, production, commerce, and capital flows, as well as the growing importance of multinational corporations. At the economic level, globalization can be described as a process of market integration, integration, and homogenization, increased trade and investment flows, regulatory harmonization, and deregulation of capital, goods, and human resources transfers (Bitzenis, 2014).

Indeed, starting in 1980, the international dimension of business began to emerge in the global economy, as governments began to play a smaller and smaller role in commercial and economic terms. The gradual abandonment of trade barriers, increased global capital availability, market deregulation and privatization, progress in the computer and communications sector, progressive convergence of consumer preferences, the collapse of the USSR, and the gradual opening up of the Chinese economy, among other factors, have led to what has been dubbed "globalization" since the 1990s (Pucik et al., 2017).

The expansion of international commercial activities is one of the most essential elements of globalization. The phrase "international business" refers to actions involving individuals, firms, and organizations that cross national borders and extend to other nations. As a result, activities involving the transfer of resources, goods, services, knowledge, skills, or information across national borders are referred to as international business. The resources that make up this flow are raw materials, capital, goods, and people, to name a few. Accounting, legal advice, banking, insurance, commercial services, training, and other services are examples of goods, while services include accounting, legal advice, banking, insurance, commercial services, training, and so on. Technology and invention, organizational and management abilities, and intellectual property rights are all examples of knowledge and skills. Finally, databases, information networks, and other types of information flows are included in information flows (Shenkar et al., 2014).

International commercial activities, in a broader sense, refer to transactions between distinct entities (individuals, businesses, and so on) in more than one country. International business operations are distinguished from domestic business activities in this context since the latter involves transactions within a single country's borders. Traditionally, foreign business has been fueled by the expansion of a domestic company. In fact, most of the current worldwide giants began their activities on the domestic market before expanding internationally. As these companies grew in size, it became more profitable or necessary to expand their manufacturing plants to other countries (Shenkar et al., 2014).

International business operations are linked to business in a broader sense. In most situations, internationalization of business activities appears to follow a pattern of steady expansion accompanied with the gradual accumulation of international entrepreneurship abilities. Increasingly sophisticated types of internationalization and high levels of business risk accompany the gradual expansion of worldwide commerce. Despite the fact that international business activities are an extension of domestic activities, they are highly differentiated because of the diversity of the environment between different countries. The complexity of running a business in multiple markets that are different from one another and the uncertainty of sudden change in any of these environments is at the heart of the international business. Therefore, from a business and organizational perspective, international business activities tend to be much more difficult to manage than those confined to a single country (Shenkar et al., 2014).

Indeed, the global business environment is characterized by the interaction between the external forces of a company's home country and those of the host country of its business activities. The activity in such a global business environment, therefore, shows increased complexity (Myloni & Georgopoulos, 2015). In particular, the global business environment can be divided into six sub-categories. The first category concerns the economic environment, i.e. the macroeconomic and microeconomic environment in the countries where a business operates, as well as the parameters of the international economic environment. The second category concerns the social environment and is linked to the wider socio-economic environment of foreign countries in which a business operates. The third category refers to the demographic dimension of the population in these foreign countries. The basic cultural elements that characterize a population in a foreign country constitute the fourth category of the global business environment. The fifth category refers to the political and legal environment and concerns the institutional framework governing business activity in a foreign country. Finally, the latest category of the global business environment refers to technological developments and changes taking place in the host countries of business activity (Myloni & Georgopoulos, 2015).

International company operations are likely to fall into one of four major groups, given the complexity of the global business environment: The first is international trade in goods, which refers to sales of goods between enterprises and organizations in other nations. The second category is international services commerce, which involves the sale of services between enterprises and organizations in various nations. The third category is international portfolio investment, which entails the purchase of various types of debt instruments such as shares or bonds in overseas markets by individuals, firms, and organizations. Foreign direct investments are the fourth category. This category contains international business transactions involving the movement of capital from one country to another in order to start a completely new company or to buy all or part of an existing local company's equity (Hadjidemetriou, 2003).

As a result, multinational corporations are associated with international business (MNC). In fact, multinational companies' operations and the internationalization of the economy are intertwined, with a two-way relationship, because, on the one hand, economic globalization allows multinational companies to rationally allocate their production factors, while, on the other hand, multinational companies develop a global strategy that accelerates the internationalization of the economy by increasing international competition (Pournarakis, 2004).

As a result, a multinational firm is one that is registered in one state but operates in another. Direct overseas acquisition, which comes in the form of a production unit established abroad and is an extension of the original firm, is used to transfer the productive operations of a multinational corporation. MNCs have a number of benefits that allow them to take advantage of the opportunities that exist in the international business environment. MNCs, in especially, can benefit from economies of scale, improve their brand and reputation, and gain access to modern technology as well as information about new goods and industries. MNCs can also buy manufacturing factors, intermediate products, and commodities at lower prices, hire qualified and experienced management, finance their operations on favorable terms, and diversify their business risks (Pournarakis, 2004).

2.1.2 International human resource management (HRM)

Doing business in a foreign market necessitates significant modifications in the way fundamental company tasks are carried out. Indeed, one of the basic sources of global business complexity is the changes necessary to fulfil these duties in more than one jurisdiction (Hadjidemetriou, 2003). As a due to globalization, many organizations have realized that their success depends not just on expanding internationally, but also on properly managing that expansion. In practice, expanding a business internationally necessitates complex management systems to keep track of worldwide operations. HRM functions are among the features of these systems. Managing human resources worldwide, on the other hand, is a big problem due to the numerous disparities across governments that impact these methods (Dessler, 2013).

HRM is well-known for including all of a company's strategies, rules, and practices for managing and developing its personnel. International human resource management, on the other hand, is a notion that is distinct from traditional human resource management. Indeed, the former refers to a collection of different activities, functions, and processes related to attracting, developing, and maintaining a multinational corporation's human resources, whereas the latter is limited to national contexts. It is becoming clear that the primary distinction between these two types of HRM would be that the factor that contributed to a multinational corporation, whereas the latter refers to a domestic corporation; of course, two very different concepts share some fundamental issues, as effective HRM is critical to the success of any type of business (Du Plessis & Huntley, 2009).

Furthermore, both international and formal HRM entail the same tasks, with the primary distinction being that in the first situation, personnel from multiple countries are involved, whilst in the second scenario, just one country is involved. It should be mentioned that a multinational corporation's worldwide HRM is more complicated than usual due to the complexities of operations in several nations. Thus, and less on the operations of HR management themselves, the crucial difference between the two forms of HRM concerns differences in staff employed in different parts of the world (Du Plessis & Huntley, 2009).

The following elements contribute to the complexity of international human resource management: first, human resource activities do not pertain to a home environment, but rather to a company's international activities. Second, human resource managers deal with the issue of a broader perspective that goes beyond national borders and the domestic worker group. Third, worldwide human resource management necessitates a greater level of involvement in employee concerns such as housing, health insurance, and so forth. Fourth, human resources activities should be differentiated in accordance with the diversity of the administrative and labor force around the world. Fifth, organizations that operate on a worldwide scale are more vulnerable to risk, and as a result, the repercussions of human resource failure are more severe. Finally the Sixth, multinational corporations operate in a larger external environment that includes a variety of governments, rules, and procedures. (Dowling, 2004).

Businesses that decide to grow internationally face a variety of cultural, political, legal, and economic variables that vary each country. As a result, it is stated that effective global human resource management necessitates an awareness of how countries differ on these characteristics. Businesses that only operate within their own country's borders, in instance, face a limited number of economic, cultural, and legal variables. Multinational firms, on the other hand, employ people from all over the world in their workforce, so they do not have a uniform set of internal human resource policies and practices. Instead, they must contend with cultural, political, legal, economic, and labor differences that influence international human resource management. (Budhwar & Sparrow, 2002).

A fundamental restriction is that multinational organizations must establish human resource policies and practices for a wide range of social, cultural, legal, economic, political, and historical situations. Consolidation-convergence and differentiation, that is, the distinction between global integration and local HRM reaction, reflect this restriction. Multinational corporations, in particular, aim to manage HR difficulties by employing one of three approaches: exportive, adaptable, or integrative. First, if a multinational employs an export strategy, it passes on its parent's human resource practices and policies to its subsidiaries (Stehle & Erwee, 2005).

However, this comes at the cost of flexibility, as the parent imposes a human resources policy that ignores any local differences. Second, an adaptable strategy allows a multinational corporation's subsidiaries to establish their own HR management practices in order to adjust to local conditions. This method implies that human resources policies and procedures are not transferred from the parent, but it also creates various systems and, as a result, internal inconsistency. Third, if a multinational employs a consolidation strategy, it incorporates elements of the previous two approaches. In this circumstance, the parent and its subsidiaries might transfer policies and practices in the field of human resources management in either direction. However, it is quite likely that the rules imposed do not reflect worldwide norms but rather are the consequence of compromise; so, these three approaches, or a mix of them, constitute three key possibilities for MNC HR top managers (Stehle & Erwee, 2005).

Businesses, in fact, evolve in five stages as they increasingly internationalize their operations. The higher a company's level of internationalization, the more its hr practices will need to be customized to the many cultural, economic, political, and legal parameters. The 5 phases of business growth in regard to as well as Hr are as follows in greater detail.(Gomez-Mejia et al., 2012):

1. The purchase of a firm is solely domestic in the first stage. At this stage, a corporation produces and sells its products in a specific geographic area. At this point, local and/or national parameters mostly determine staffing, training, and corporate pay. Only sites inside national borders are examined for the building of production facilities, and only the subregional market is considered in terms of production and marketing difficulties.

2. The corporation expands its market to include overseas countries in the second stage, but keeps its production facilities within national borders. At this stage, human resource techniques such as incentives, training, and good personnel help the firm export its products by meeting the demands of international clients. The product's manufacture, packaging, and distribution system are all being created with worldwide markets in mind at this point, and the company's human resource procedures are crucial in this regard. The reduction in trade barriers has resulted in a large increase in the number of businesses that have reached this point.

3. In the third stage, the company shifts some of its production activities from the domestic market to the international market. These overseas manufacturing facilities are typically used to assemble parts, but they may also be used for other limited manufacturing processes. At this stage, foreign branches or subsidiaries are typically under the parent's direct control, with a large proportion of senior management being expatriate employees. In this third stage, human resource practices are focused on expatriate selection, training, and compensation, but also establishing hr policies for local workers in the foreign countries where the company's manufacturing facilities are located.

4. A company becomes a true global company in the fourth stage, with installation and assembly line in many locations across the world. Strategic collaborations between domestic and foreign corporations are fairly widespread at this point. Despite the fact that corporations typically have some dispersed decision-making centers at this stage, many human resource decisions are still decided at global company offices, usually by the international personnel department.

5. Businesses at the fifth stage of internationalization, the most advanced stage, are commonly referred to as transnational since they are disconnected from their country of origin while also having weak ties to any country. These businesses are highly decentralized, with each business unit having very little control over personnel decisions from the transnational corporation's headquarters. Surprisingly, the board of directors is frequently made up of persons of many countries, and the transnational firm makes a concerted effort to develop executives who regard themselves as global citizens. Human resource techniques in transnational firms are aimed to bring individuals from various backgrounds together to form a shared company identity and culture, rather than a national one.

Chapter 3

3.1 Contribution

3.1.1 The role of national culture

Of course, cultural definitions differ depending on the topic of study, but the essentials of culture are generally agreed to comprise language, values, attitudes, religion, habits, traditions, and group normsIn this light, variances in personnel employed in each country exist within international HRM, an existing culture, because they have distinct beliefs, values, standards of behavior, and so on. As a result, diversity is becoming increasingly crucial in HRM. (Rugman & Collinson, 2009).

National culture, obviously, has an impact on human resource practices and policies, as well as organizational and management challenges in general. As a result, multinational corporations must tailor their human resource strategies to the national cultures of the nations in which they do business. The following are the processes via which national culture influences human resource practices. For starters, it is thought that country culture influences people's basic perceptions. As a result, people from a given cultural environment develop similar perspectives, principles, and opinions about the role of management and organizational methods; second, the lasting nature of cultural identity contributes to the social conditioning of millenials and reinforces dominant cultural values, which influences people's preferences for specific human resource practices. In this setting, multinational enterprises might use methods that are universally applicable across national cultures to accomplish the desired goals. (Rugman & Collinson, 2009).

The manner these practices are established and implemented, on the other hand, should be adapted to the national culture. Third, each employee's cultural background has a significant impact on their cognition. Employees' ability to identify, choose, analyze, and understand information acquired from the environment in order to prioritize and assign commensurate priority to diverse themes is influenced by national culture. As a result, country culture influences how employees perceive labor concerns and, as a result, how human resource procedures should be created. Fourth, national culture influences the socio-cultural environment, determining which actions are rewarded and which are discouraged. (Reiche et al., 2012).

G. Hofstede's work, which established is among the most globally recognized methodologies to grow to understand the differences with both national cultures, emphasized the importance and role of national culture. Hofstede is a Dutch psychologist who studied the repercussions of national culture for supervisors. Its inaugural study, which comprised of 116,000 questionnaires and was done at IBM locations in 70 countries, looked into the cultural features of the personnel in those nations. This study divided national cultures into four categories based on their organizational and operational features, the first of which was power distance. This dimension refers to how far a country's culture accepts the fact that power is allocated unequally in all sorts of organizations. A significant hierarchy distance, in this context, denotes vertical institutional culture, known for making, and employee non-participation in judgement; the second dimension denotes ambiguity and the degree to which a population is uncomfortable with risk uncertainty. (Rugman & Collinson, 2009).

In this context, a high level of uncertainty avoidance means that organizations would place a premium on types, routines, and processes, as well as bureaucracy in general, to construct institutions that minimize uncertainty. Organizations that stress flexibility and non-formal processes, on the other hand, have a low level of uncertainty avoidance because they do not perceive a threat by unpredictable circumstances. Individualism is the third dimension, which describes how individuals in organizations prioritize themselves and their immediate families while emotionally isolating themselves from others. Fourth, masculinity refers to the amount to which society appreciates ideals that are stereotypically male, such as achievement, money, and total material well-being, positively. In this context, a low level of masculinity connotes feminine qualities like human relationships, modesty, care for others, and life quality (Rugman, & Collinson, 2009).

3.1.2 National, multi-center, and geocentric approach

The staffing function refers to the human resource management activities that guarantee that a company has enough workforce in both quality and quantity, and that the correct individuals are assigned to each position. In the context of international business, three types of personnel policies for multinational organizations have been identified: ethnocentric, multi-center, and geocentric. The ethnocentric staffing model, in a broader sense, implies that management roles are filled with persons from the native nation.

Management positions in overseas countries are filled with people from host nations in the multicenter staffing strategy, however management positions at multinational headquarters are filled with employees from the parent company's home country. Finally, the geocentric staffing model directs a global corporation to use all of its available human resources without regard for the executives' country of origin (Phatak et al., 2008).

The following is a more in-depth examination. Initially, the ethnocentric staffing strategy entails filling all administrative positions with nationals from the parent country. This method is widely used because global corporations use it for three reasons. For starters, a firm may believe that the host country lacks adequate specialist personnel to fill senior management roles. This argument is especially compelling when a multinational operates in developing countriesSecond, a multinational corporation may see ethnocentric staffing as the most effective approach to preserve a common corporate culture throughout all of its global operations. If a multinational firm sets a high emphasis on its corporate culture, this argument becomes much more compelling. Third, a global corporation may use the ethnocentric strategy when transferring core competences to a foreign affiliate. In this context, it is thought that transferring to foreign country managers from the parent nation who already have knowledge of these core skills is the best method to do this. Because domestic managers share knowledge of the company's core capabilities and have gathered years of experience, the necessity to transfer managers abroad arises. As a result, if a company wants to move a key expertise to a subsidiary or branch in another nation, it must also move the relevant management (Phatak et al., 2008).

Despite these arguments in favor of an ethnocentric approach, global corporations no longer appear to find it appealing for two reasons. First, ethnocentric personnel policies limit opportunities for host country nationals to develop and flourish, which can lead to dissatisfaction, decreased productivity, and high turnover. This unhappiness can be exacerbated if, as is frequently the case, the host country's citizens are given higher pay than the host country's people. Second, an ethnocentric policy can lead to cultural myopia, making it impossible to comprehend the cultural distinctions between host countries, which necessitate different management approaches. Expats take a long time to adjust, yet they might make a lot of costly blunders. (Hill, 2009).

Second, the multi-center staffing model necessitates the recruitment of citizens of host nations to manage subsidiaries or branches of a multinational corporation, while nationals of the parent country occupy key roles at the corporation's headquarters. In many aspects, a multi-center strategy is a response to the ethnocentric model's drawbacks. One benefit of a multi-center strategy is that a multinational firm is less likely to exhibit cultural blindness. Executives in host nations are less prone to make mistakes due to cultural misunderstandings than expatriate executives. A multi-center solution may also be less expensive to execute since it eliminates the significant costs of relocating and installing expatriates in another countrya cross approach has its own set of disadvantages. Host country nationals, in particular, have limited options to gather experience outside of their home country and hence are unable to advance beyond senior positions in the subsidiary or branch where they now work. This, like an ethnocentric policy, can lead to dissatisfaction. The distance that can grow between the parent and host country managers is perhaps the most important downside of a multi-center staffing method. Language problems and a variety of other cultural variations among these executives may cause a multinational's abroad subsidiaries and branches to be isolated from its headquarters. Although a multi-center strategy might be successful for MNCs pursuing a strategy of adapting to local conditions, it can also be a reason in company inactivity. (Hill, 2009).

Third, regardless of race, the geocentric staffing model aims to deploy the best individuals in all of a global corporation's critical tasks. This personnel policy has a number of advantages. For starters, it allows a multinational firm to make the most of its workforce. Second, and perhaps most crucially, a geocentric approach allows the company to develop a group of multinational leaders who are comfortable working in a variety of cultures. Creating a framework of international executives can be a critical first step in developing a strong common company culture, which is essential for conducting worldwide commerce. Multinational companies that follow a geocentric personnel policy may also be better equipped to generate value than companies that follow alternative staffing policies. Furthermore, because of geocentric staffing, the global makeup of managers tends to diminish cultural myopia and increase localisation. However, some limitations limit a global corporation's capacity to follow a geocentric policy. Many governments, in particular, urge foreign enterprises to hire domestic workers. To achieve this purpose, legislation requiring the hiring of host-country nationals if they are available in sufficient numbers and possess the relevant abilities are frequently implemented. Training and relocation costs rise as managers travel from nation to country, making a geocentric employment policy costly to adopt. (Hill, 2009).

3.1.3 Nationals of a parent country, host country and third countries

MNCs can be staffed with one of three management teams discussed in more detail below:

3.1.3.1 Parent country nationals

Parent country nationals (PCN) are citizens of the country in which a multinational corporation is headquartered. Expatriates are workers who are willing to work in a foreign country for a set amount of time. The fundamental benefit of staffing a multinational corporation's subsidiary or branch in a foreign country with nationals from the parent country is that they are familiar with the company's organizational culture and can communicate easily with the head officeFurthermore, nationals of the parent country already possess the necessary technical and business skills and promote the business's interests regardless of the location in which they are stationed, thus they are not expected to start competing businesses in that foreign country. (Hisrich, 2015).

The employment of nationals from the parent country in the international offices of a multinational corporation also means that these workers have a common culture with those employed at the corporation's headquarters, making coordination with the headquarters easier. Furthermore, if an enterprise's overseas activity involves the use of new technologies and innovations created on the domestic market, nationals from the parent countries have a better chance of introducing these advances in a foreign host country (Hisrich, 2015).

Staffing with natives from the parent country has its own set of drawbacks. Multinational corporations, in particular, are concerned about retaining and reintegrating expatriates due to the fact that a substantial proportion of them leave their jobs before completing their mission after a length of time during which they have already collected expertise abroad. Furthermore, the expenditures of relocation, housing, education, and living in a foreign country are prohibitively expensive. At the same time, nationals of the host country are generally unaware of the host country's laws, current economic conditions, social standards, political processes, and national culture, whereas even if they could be trained to cover this knowledge, their education would be costly and, in any case, would not be able to replace the knowledge of someone who had grown up in that foreign country (Hisrich, 2015).

3.1.3.2 Host country nationals

Nationals of the country receiving a multinational corporation's subsidiary or branch are known as host country nationals (HCN). The host country's nationals are often a good supply of middle and lower-level executives. Furthermore, in many countries, governments and/or local clientele expect and/or compel that international enterprises recruit natives of host nations, thereby lowering unemployment in the local economy. In practice, multinational corporations typically hire parent-country executives to launch their business in a foreign country, then replace them with executives from the host country, who have been schooled and equipped for these managerial positions. (Griffin & Pustay, 1996).

3.1.3.3 Third-country nationals

TCNs are citizens of neither the country in which the multinational corporation is headquartered nor the country in which its global operations are based. This type of executive is typically hired at a later point in a company's internationalization effort or when local nationals lack the relevant experience and competence. Third-country nationals, on the other hand, are more likely to be familiar with the host country because they are from nations with similar cultures. It's fascinating to see that third-country citizens are frequently better able to complete work allocated to them by expatriates or host-country nationals, as well as fulfill business objectives more swiftly and efficiently. (Hisrich, 2015).

Third-country citizens, on the other hand, typically start their professional careers in the host country and are more likely to be recruited by organizations that lack essential administrative expertise. In the past, multinational firms used third-country nationals more often than international firms where they had direct knowledge as it was not offered to the enterprise in almost any other way, i.e. data that was not held by either the parent country's or the host country's citizens. Many multinational corporations, on the other hand, are intentionally hiring third-country nationals to encourage a global attitude throughout their operations, as these executives are perceived to have broader perspectives on their international business and a more global orientation (Hisrich, 2015).

3.1.4 Factors affecting the choice between PCNs and HCNs

The decision of whether a multinational firm should employ managers from host nations or from the parent country is influenced by a number of factors that, while interrelated to some extent, have separate effects on the choice between HCNs and PCNs. Following is a more in-depth examination of these variables. The qualities of the mother country/business are the first thing to consider. Multinational companies with subsidiaries and branches in nations with a high tendency to avoid uncertainty tend to hire nationals as management. There is a strong attraction for controlling business abroad in these multinational corporations, as there is skepticism of executives who are nationals of the host country. Given the requirement for a high level of control over international subsidiaries and branches, managers, particularly senior ones, are expected to be experts in their professions and are typically chosen based on seniority. These traits are usually indicative of a trustworthy native (Harzing & Pinnington, 2010).

If the disparities between the parent and host countries are significant, direct control of international activities will be necessary. In this scenario, there is a lack of trust in the information obtained from local managers at a multinational's headquarters, and there is concern that these managers are less focused on the parent business. At the same moment, interaction between employees from various cultural backgrounds can be challenging, and there is a high risk of misunderstanding. As a result, nationals of the parent country are preferred in critical administrative jobs. Also, because they have more resources and are more certain to have a management development program that entails transporting PCNs around the world, major MNCs have more PCNs in management roles (Harzing & Pinnington, 2010).

The features of the industry in which a multinational firm operates are the second consideration. In the Netherlands, for example, there is a significant number of CEOs who are natives of the parent country. Financial services and Europe have a high share of expatriates, while the advertising business has a low proportion. Multinational corporations' choices are largely explained by industry characteristics. In the banking sector, for example, the demand for a high level of control of crucial positions drives a large number of PCNs, but in the advertising sector, the necessity of local expertise causes organizations to utilize a high proportion of HCNs (Harzing & Pinnington, 2010).

The third element is the host country's characteristics. Because when level of education in the host country is poor, multinational firms are more inclined to hire local nationals because skilled local staff will be limited. Additionally, a high level of political risk in the host country is likely to assume direct control, and unrestricted communication through expatriates is a critical component. Furthermore, when the cost of living in the host country is higher than in the parent country, hiring host country natives becomes more appealing. In this scenario, a PCN would expect to be paid more to retain their former lifestyle, whereas local executives are likely to be better suited to the high cost of living and do not require more benefits (Harzing & Pinnington, 2010).

Fourth, there are a number of factors that influence subsidiaries or branches, as well as managers' decision between HCNs and PCNs. The likelihood of utilizing PCN as a manager, especially at the high level, will be inversely connected with the age of a subsidiary. When a subsidiary is first established, there is a higher need to guarantee that its activities are consistent with the parent company's policies, therefore nationals of the parent country will be given preference. Furthermore, international corporations may find it challenging to recruit high-level host nationals to their newly established subsidiaries. Staffing with local managers may be easier when subsidiaries are gradually created in a foreign country. PCNs are also preferred for top management roles in new ventures launched abroad because to the parent company's lack of expertise of the local labor market. Acquired subsidiaries, on the other hand, usually want a local manager. Also, when a subsidiary is particularly significant to the parent undertaking, assigning a manager to it, as well as big majority-owned subsidiaries reporting directly to the parent undertaking's head office, makes it easier to maintain its actions under direct control (Harzing & Pinnington, 2010).

3.1.5 Questionnaire

This paper attempts to outline the issue of cultural barriers to the management of multinational projects. That's why, in September '21, we developed and we published an electronic questionnaire with four sections in a wide range of people and gathered 32 responses. The questionnaire was shared with the author's postgraduate and undergraduate colleagues as well as the author's community on LinkedIn. The questionnaire was completely anonymous to allow the users to freely answer questions, but it was kind of difficult to find experienced project managers. The results from the questionnaire are shown in the graphs below.

Figure 1 shows the people who filled in the questionnaire were basically aged 25-29 (46.9%) and 30-39 (37.5%). The other age groups had smaller participation. Figure 2 shows the results from the experience field, which we can see that the majority of the individuals are coming from the IT sector (9.4) or from Sales (9.4%).

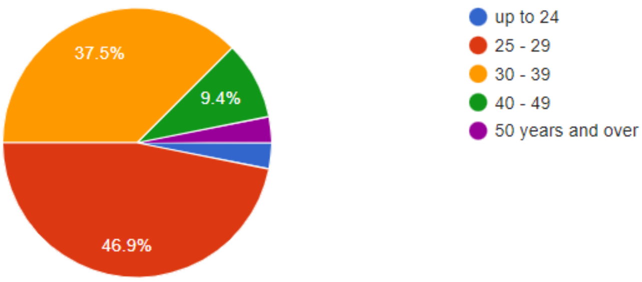

Figure 1:Results from age in years

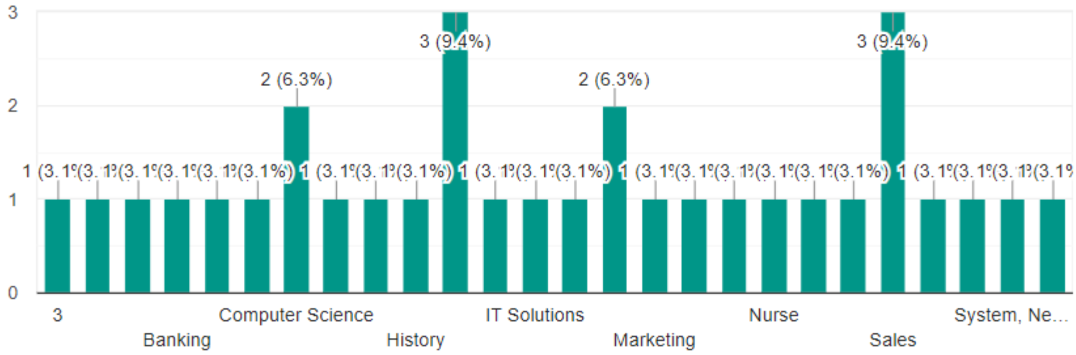

Figure 2:Results from Experience Field

Figure 3 shows the results of the current or previous primary role, which exceeds the percentage of team members by 56.3%.

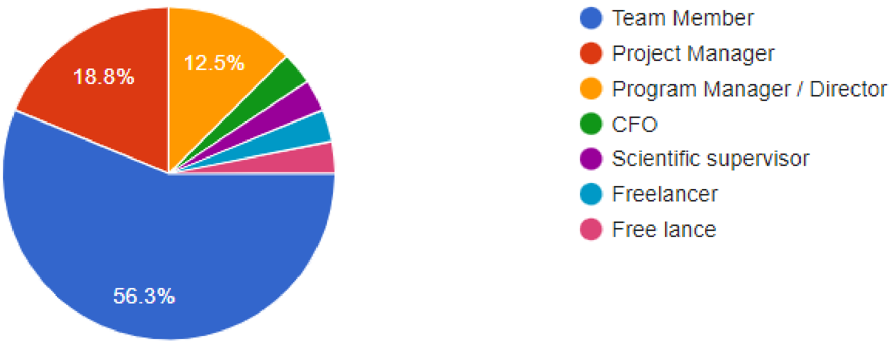

Figure 3:Results from the current or previous primary role

Figure 4 shows the results from the level of project management experience where the majority answered 1 to 3 years experience.

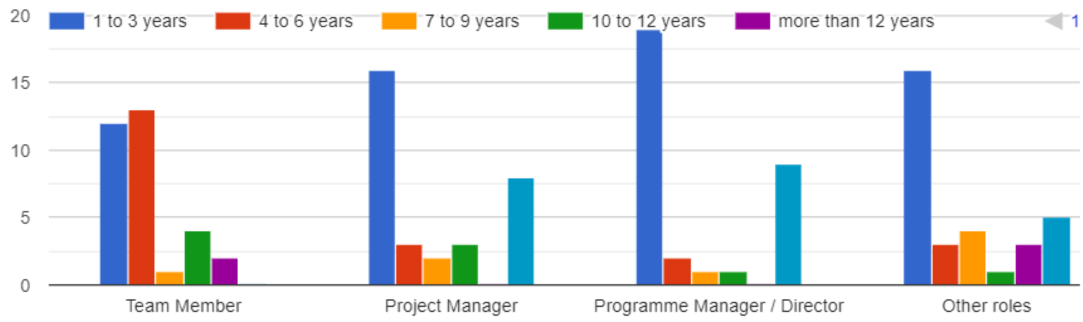

Figure 4:Results from the level of project management experience

Figure 5 represents the total answers to the questions "How likely is it that you will pursue an international career?" We had nine answers on Likely to pursue and eight on Unlikely.

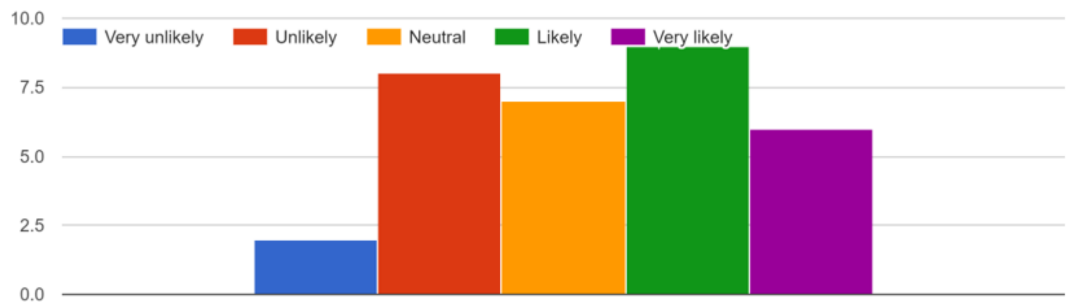

Figure 5: Results from international orientation

Figure 6 represents the total answers from the question 'How long would you like to live abroad for career purposes?' and the answer with the biggest result was 1 to 3 years with the percentage of 41.4%.

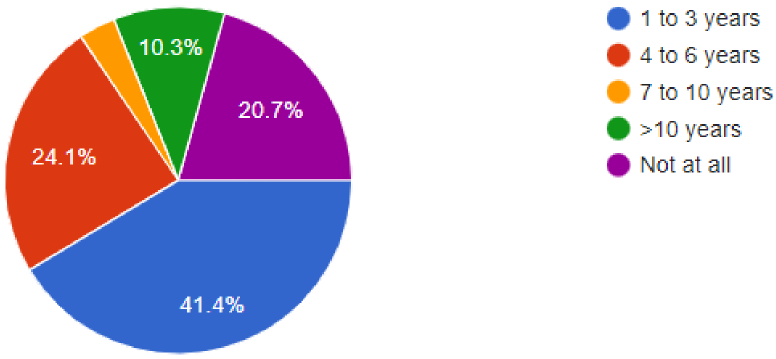

Figure 6:Results from the time of living abroad for career purposes?

Figure 7 represents the total answers to the question ‘How important do you think are the following factors for the people who work in international projects?’. The factors that appeared in the research were Sociocultural adjustment, Open to diversity, Social integration, and Psychological adjustment, Tendency to appraise the intercultural situations, Open-Mindedness, Emotional Stability, Flexibility. The strongly agreed answer was the Open-Mindedness factor.

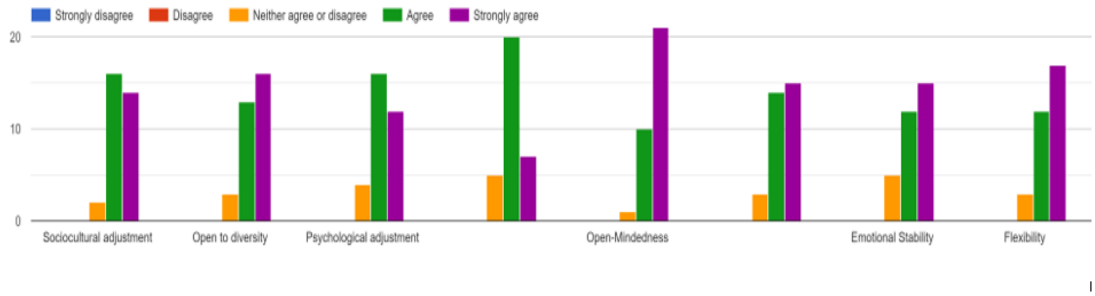

Figure 7: Results from the importance of factors for the people who work in international projects?

Figure 8 represents the total answers from the question ‘What do you think the benefits of multinational projects are?’. The majority answered that they agreed in the following benefits: a) Increased awareness and understanding of cultural differences b) An opportunity to explore different working c) management and communication styles d) An appreciation for the advantages of cultural diversity in international project work e) Enhanced cultural competence to reduce cross-cultural misunderstandings f) Provide with the cultural tools to help you manage international projects successfully.

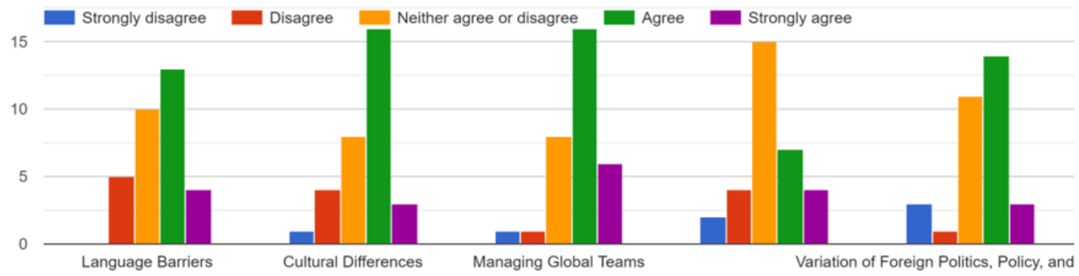

Figure 8:Results from "What are the barriers to running a multinational company?"

Figure 9 represents the total answers to the question 'What are the barriers to running a multinational company?'. The majority of people answered that cultural differences and Managing global teams are the biggest barriers to running a multinational company.

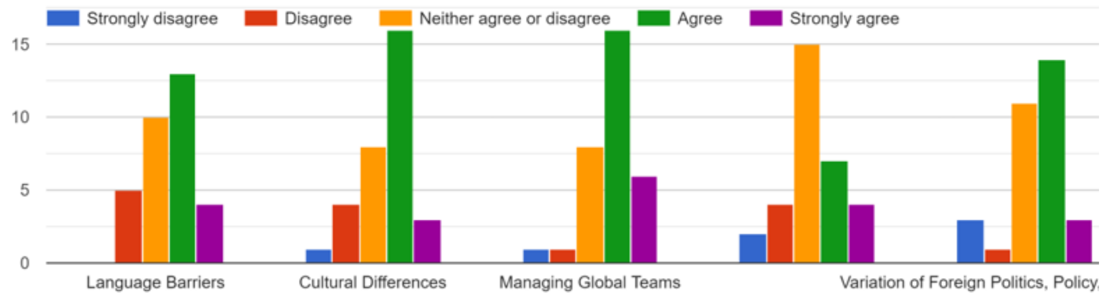

Figure 9:Results for the question "What are the barriers to running a multinational company?"

Figure 10 represents the results from the question 'How important is it to overcome Cultural barriers.' We can see that 50% is strongly agreed and 35.5% agreed.

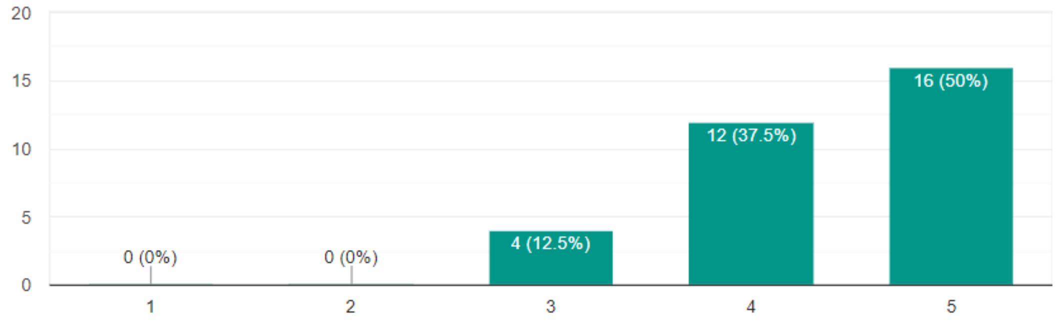

Figure 10:Results from "How important is it to overcoming Cultural barriers?"

Last, we have figure 11, which represents the results from the question "Which are the critical success factors for a multinational business?". In intercultural competence, we had 17 answers with 53.1%, in market intelligence, we had 16 answers with 50%, in unique products and services, we had 12 answers with 37.5%.

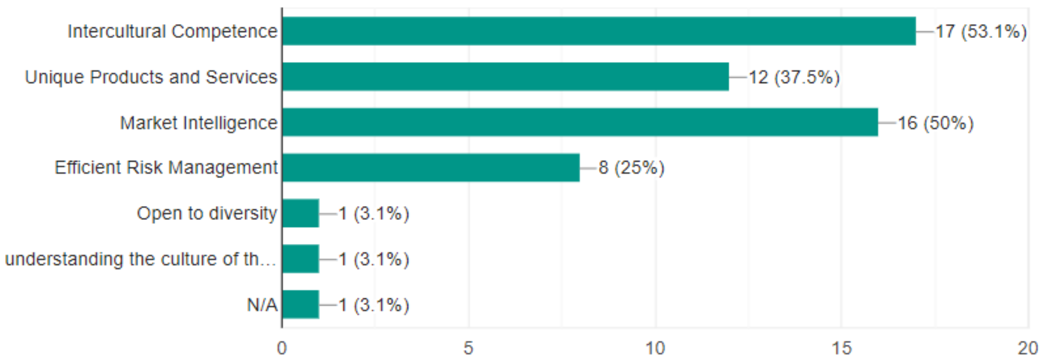

Figure 11:Results from "Which are the critical success factors for a multinational business?"

Conclusions

A multinational corporation is one that owns, controls, and manages assets in multiple nations (at least two countries). A multinational corporation can be modest or huge in terms of sales and manpower, and subsidiary ownership can range from sole to partial ownership. Businesses modify many of their management tasks, including human resource management, as their company activities become more worldwide. However, because of the numerous disparities between the countries in which a multinational organization operates, policies in the field of human resources management must be adapted in the context of the internationalization of commercial activities. In order to coordinate their activities internationally and in light of cultural elements, multinational corporations are compelled to use a sophisticated method of human resource management and organization. The cultural component encompasses the fundamental characteristics that define a people, such as culture, language, and religion. Cultural variations can be a barrier for a company that believes it can use the same management methods everywhere, but they can also be a competitive advantage if they are acknowledged and effectively adopted. Multinational firms employ diverse backgrounds worldwide in a workforce, so they don't have a uniform set of internal human resource policies and practices. Instead, they deal with cultural, political, legal, economic, and labor differences that influence international human resource management. A fundamental restriction is that multinational organizations must establish human resource policies and practices for a wide range of social, cultural, legal, economic, political, and historical situations. Consolidation-convergence and differentiation, that is, the distinction between global integration and local HRM reaction, reflect this restriction. Although cultural definitions differ depending on the topic of study, the fundamentals of culture are generally agreed to comprise language, values, attitudes, religion, habits, customs, and conventions of society and/or a group. In this light, within international HRM, an existing culture, there are differences in staffing employed in each country because they have different beliefs, values, standards of behavior, and so on. This diversity is therefore becoming increasingly important for HRM.

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