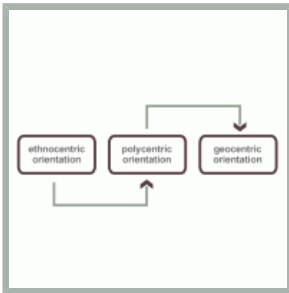


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#### characteristics

author:	Perlmutter, Howard V.
country:	United States
period:	1969
type:	model
role:	consultant, change agent and manager
activity:	analyse
topic:	org. design & development and culture & internationalisation
abstr. level:	organisation
perspective:	sociopolitical
status:	for review
module:	classics I
comments:	0

#### description:

Dr. Howard V. Perlmutter is a world authority on globalisation and pioneer on the internationalisation of firms, cities and other institutions. Trained as a mechanical engineer and as a social psychologist, Perlmutter joined Wharton's faculty in 1969. He specialised in the evolution of multinational corporations (MNCs) making predictions to how their viability and legitimacy would change.

Perlmutter is the first academic who identified distinctive managerial orientations of international companies. "The more one penetrates into the living reality of an international firm, the more one finds it necessary to give serious weight to the way executives think about doing business around the world". These organisational world views are shaped by a number of factors such as the circumstances during which the company was formed, the CEO's leadership style, its administrative processes, the organisational myths and traditions. Perlmutter stated that these cultural orientations determine the way strategic decisions are made and how the relationship between headquarters and its subsidiaries is shaped. In 1969 he bundled his insights by publishing the EPG model.

Perlmutter's EPG model states that senior management at an international organisation holds one of three primary orientations when building and expanding its multinational capabilities:

##### 1. ETHOCENTRIC (home country orientation)

The general attitude of a firm's senior management team is that nationals from the organisation's home country are more capable to drive international activities forward than non-native employees working at its headquarters or subsidiaries. The practices and policies of headquarters and of the operating company in the home country become the default standard to which all subsidiaries need to comply. This mind set has as advantages that it overcomes a potential shortage of qualified managers in host nations by expatriating managers from the home country, creates a unified corporate culture and helps transfer core competences more easily by deploying nationals throughout the organisation. The main disadvantages are that an ethnocentric mindset can lead to cultural short-sightedness and to not promoting the best and brightest in a firm.

##### 2. POLYCENTRIC (host country orientation)

This world view has as dominant assumption that host country cultures are different making a centralised, one-size-fits-all approach unfeasible. Local people know what is best for their operation and should be given maximum freedom to run their affairs as they see fit. This view alleviates the chance of cultural myopia and is often less expensive to implement than ethnocentricity because it needs less expatriate managers to be sent out and centralised policies to be maintained. The drawbacks of this attitude are that it can limit career mobility for both local and foreign nationals, isolate headquarters from foreign subsidiaries and reduces opportunities to achieve synergy.

##### 3. GEOCENTRIC (world orientation)

This orientation does not equate superiority with nationality. Within legal and political limits, executives try to seek the best men, regardless of nationality, to solve the company's problems wherever in the world they occur. This attitude uses human resources efficiently and furthermore helps to build a strong culture and informal management networks. Drawbacks are that national immigration policies may put limits to its implementation and it might be a bit expensive compared to polycentrism. It attempts to balance both global integration and local responsiveness.

Perlmutter's observation was that most MNCs start out with an ethnocentric view, slowly evolve to polycentrism and finally adopt geocentrism as the organisation familiarises itself more and more with conducting business on a global playing field.

In 1979 Perlmutter and his colleague David A. Heenan added a fourth orientation to create the EPRG model: the R stands for a regio-centric approach falling in between a polycentric and geocentric orientation. Regio-centric or regional orientation is defined as a functional rationalization on a more-than-one country basis. Subsidiaries get grouped into larger regional entities. Regions are consistent with some natural boundaries, such as the Europe, America and Asia-Pacific. Both polycentric and regio-centric approaches allow for more local responsiveness, with less corporate integration.

#### assets:



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#### pros:

- The orientation of the dominant senior management group influences and shapes diverse aspects of a multinational enterprise, including strategy, structural design, pricing, resource allocation, and administrative processes.
- The study made managers aware that culture was an important aspect to consider in (international) business affairs. It started a whole series of studies on culture in the business environment.
- The model provides insight in how an international organisation evolves in time and what organisational and staffing challenges lay ahead. The EP[R]G mix can be used to determine how far an organisation has internationalised.

#### cons:

- The model is organisation centred disallowing environmental influences. Its international orientation is

measured solely on internal aspects.

- In the real world these orientations never appear in a pure form. In any organisation some degree of ethnocentricity, polycentricity or geocentricity are present.
- Later studies showed that Perlmutter's organisational development process does not always hold. In certain circumstances, irrespective of the company's size and internationalisation experience, a country-centred strategy, similar to Perlmutter's polycentric view, may be the best possible orientation and not a geocentric orientation.

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