Analysis of Transition Risks and Remedies: GE and India

Ronald L Dearinger, University of Florida
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Ronald Dearinger

University of Phoenix
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Introduction

Risks are inherent to expansion from a domestic marketplace to a global setting. General Electric is a company prepared to expand its operations into the nation of India that is a country exhibiting layers of cultural complexity. General Electric can mitigate the transition risks imposed by issues of cultural diversity, technological and communications, political, and economic risks within the organization and communities as it enters India.

General Electric is a company with a growing transnational mentality; that is, thinking and acting globally. Bartlett., Ghoshal, and Beamish, (2008) referred to companies successful in the global market as developing a “transnational mentality” (p. 12). Teagarden (2009) said that successful leaders in the global marketplace exhibit competencies in intellectual, psychological and social capitals; that “competent global leaders who have the global knowledge of production and service capabilities, of consumer demands for products and services around the world, and who can influence others despite diverse cultural, political and institutional backgrounds that make them think, decide, analyze, act and communicate differently than the leader” (para. 3).

General Electric is headquartered in Fairfield, NY with many divisions spread throughout the world (GE Citizenship, 2009). One country in which GE has facilities is India. Through application of Wunderle’s (2007) conceptual model for developing cultural awareness GE can better train, plan, and execute business operations and strategies. Leadership “can…give meaning to and gain understanding of the events and conditions in which they make decisions and conduct operations” (Wunderle, p. 10).
GE recognizes that thinking with a global mindset is necessary to do business in the global marketplace. While moving from a domestic to a global operation is attached with inherent risks, GE is prepared to enter the culturally diverse nation of India. This paper evaluates the risks involved as General Electric enters international relations in India and recommends global risk-reduction strategies.

**Background**

**General Electric**

Risk management must be conducted in all areas of global operations. GE’s Board of Directors is responsible for assessing risk (The Board, 2009, para. 2). Some areas that the Board explored in 2008 were “U.S. and global tax policy, environmental risk management, healthcare costs, liquidity and credit risk, global project and product execution, portfolio management and commitment, the impact of changing public policy on core markets around the world, and privacy and copyright protection” (The Board, 2009, para. 2). As an example of how seriously GE takes its responsibilities to ameliorate global risk management, GE is working with the United Nations to “enhance understanding of human rights dilemmas for responsible business, thereby contributing to global thought leadership and best practice especially in emerging markets” (UN Global Compact, 2009, para. 2).

**India**

India is a large nation. One may encounter many different local cultures depending on geography, rural or city environments, religious beliefs, or languages spoken. As a nation, India is known for its emotionality; people celebrate and grieve in mass. “In complex countries with multiple cultures existing within the same political
boundaries, there would be multiple implications for an organization… Countries with multiple languages and religious groups present another set of challenges for organizations… The challenges that this kind of complex countries present are both relevant to ongoing companies as well as for MNCs trying to enter these markets” (Singh & Parashar, p. 7).

**Global Risks**

Entering the global marketplace exposes the organization to several types of risk. Risks include cultural risk, technological and communications risk, political risk, and economic risk. First, cultural diversity is also an area that GE concentrates its risk management efforts. Applying a global mindset to diversity among cultures, GE refers to its obligations to people and environment as “citizenship” and acknowledges its responsibility to global citizenship and the effect its facilities have on the indigenous environments. Through the study of cultural diversity and integrating those studies with operational and global leadership themes, GE has “the ability to better identify citizenship opportunities and challenges embedded in [its] business strategy” (Priorities and Engagement, 2009, para. 3). Second, every aspect of business has changed as society has become digitally connected; rules of national sovereignty change and interactions accelerate with greater complexity. “Technology and production has changed with the ability of instant access of information and “increased productivity to continuous strategic innovation” (Hames, 2007, p. 5). Third, organizations have to work with the political climate of the country in which they habituate. “Political risks, domestic debt ratio norms, and parent country debt norms influence business decisions of global organizations” (Grosse, 2000, p. 190). Political risk can pose challenges with the use of
“higher debt ratios and higher levels of local financing in countries with high levels of political risk and risk of blocked funds” (Grosse, 2000, p. 190). Last, businesses and countries around the world have been affected by the world-wide economic recession and GE is no exception. GE is taking steps to reduce the impact of the recession on the organization and its stakeholders and position itself for future competitive advantage (Financial Market, 2009, para. 7).

**Purpose of the Study**

The purpose of this study is to evaluate risks that may be encountered by General Electric as it enters business negotiations in India. Risks are inherent to business as organizations expand globally. GE and its Board of Directors are offered recommendations on strategic techniques to help assuage and better prepare to meet opportunities for operational success abroad.

**Significance of Study**

The significance of this study is to understand the risks involved as a company moves from a domestic enterprise to a global organization. Lodh and Nandi (2008) studied how international companies (defined as global organizations by Curry and Ferguson, 2000) approached risk in the areas of cultural environment, general economic health, stability of financial and import-export policies and political outlook (Lodh & Nandi, 2008, p. 24). Lodh and Nandi (2000) called this “country risk” explaining how leadership must approach areas of risk management with a global outlook on the repercussions of conducting overseas business. In addition, this study examines techniques that organizations can apply to their risk management strategies to mitigate risk exposure as they enter international business arenas.
**Methodology and Research Design**

This study is a qualitative study using a descriptive case study research methodology. The descriptive case study “concentrates upon a single phenomenon…This approach seeks to uncover the interplay of significant factors that is characteristic of the phenomenon. The case study seeks holistic description and interpretation. The content of a case study is determined chiefly by its purpose, which typically is to reveal the properties of the class to which the instance being studied belongs. (Qualitative Research Methods, p. 1).

**Literature Review**

The central question to evaluating GE’s risk as GE engages in business in India is, “How can General Electric mitigate global risk as it enters business relations in the nation of India?” This literature review offers insight into the realms of global risk that leadership must strategize to mitigate as organizations enter international negotiations. These risks include cultural risk, technological and communications risk, political risk, and economic risk.

**Cultural risk**

Cultural variations include “styles of behavior, values, and ways of thinking that are common to a culture” (Wunderle, 2007, p. 10). Cultural influences and variations “explain why the culture is the way it is” (p. 11). Cultural manifestations are “the concrete displays of a culture’s thought and behavior, whether through its members’ view of authority, negotiation style, willingness to compromise, embracing of risk, or some other form” (p. 10). “Cultural manifestations, on the other hand, refer to what one encounters in the culture” (p. 11).
Technological and communications risk

“Some executives consider daily contact with people from other cultures within the company, suppliers, clients, and other business associates as a good way to develop intercultural competence. Employees and business associates communicate and do business via e-mail, phone, fax, videoconference, or face-to-face meetings” (Grosse, 2000, p. 250).

“Managing cultural diversity, cultural differences, and cross cultural conflicts has become the most common challenge of multi-cultural teams (Marquardt & Horvath, 2001 in Matveev & Nelson, 2004). Virtual multicultural teams face many of the challenges that locally based teams face, but communication issues may be amplified if the manager does not understand cultural differences. Matveev and Nelson (2004) listed several challenges when discussing the need for team managers to develop leadership competencies. Five of the most typical challenges are: (a) managing cultural diversity, differences and conflicts; (b) handling geographic distances and dispersion of team members; (c) dealing with coordination and control issues; (d) maintaining communication richness; and (e) developing and maintaining team cohesiveness. Marquardt & Howarth, 2001 in Matveev & Nelson, 2004).

Virtual multicultural teams face many of the challenges that locally based teams face, but communication issues may be amplified if the manager does not understand cultural differences. Communication competence is a must for successful teams for two reasons: (a) “Cross cultural communication competence increases the likelihood of achieving high team performance, as the team members can clearly express themselves and better understand their colleagues; (b) Cross cultural communication also improves
the decision making and problem-solving abilities of managers in the global marketplace” (Matveev & Nelson, 2004)

**Political risk**

Legal systems throughout the world are based on different models. The United States uses a common law system based on customary law and judiciary law. The EU and most of Latin America rely on civil law; on legislative codes interpreted by scholars. The legal system of the Middle East is governed by Islamic Law (Grosse, 2000). When strategizing to enter a new domain, facing legal issues is often overlooked. A good policy is to engage a local lawyer that understands the legal system of his/her country. “The businessman who engages in international transactions must be cautious and make sure that those barriers to investment and/or trade that still exist in given nations are understood and respected” (Grosse, p. 166).

**Economic risk**

Eiteman, Stonehill, and Moffett (2007) said that economics is a key risk priority because economics interacts with all facets of business and that holds true at the macroeconomic level, as well. “A nation’s balance of payments interacts with nearly all of its key macroeconomic variables” (p. 79). “The balance of payments interacts with nearly all of a nation’s key macroeconomic variables, such as gross domestic product, the exchange rate, interest rates, and inflation rates” (p. 94). MNEs are sensitive to macroeconomic shifts, including those in exchange rates, interest rates and prices.

When a company thinks about investing large amounts of money in a foreign company it has to weigh the financial risks. The hope is that the investment will pay off in the long run for the company stakeholders. Several factors can create risk for the FDI.
One factor is government interference that may increase tariffs, quotas or other restrictions. “Governments interfere with comparative advantage for a variety of economic and political reasons, such as “to achieve full employment, economic development, national self-sufficiency… and protection of an agricultural sector’s way of life” (Eiteman, Stonehill & Moffitt, p. 256).

Other factors creating financial risk include “dependence on local and managerial skills of the host country; the legal structure for settling contract disputes; research and development competence; educational levels of available workers; energy resources; access to capital; tax differentials; and supporting infrastructure (roads, ports, communication facilities)” (p. 257).

Recently added to the list of financial risks a company may take when entering a new realm are “effect of uncertainty and information costs, the role of differentiated products in imperfectly competitive markets, and economies of scale” (p. 258).

**Recommendations**

A global strategy emphasizes the linking of competitive positions across national markets (Ghoshal, 1987 in Bartlett, 2008). A multinational organization needs to take advantage of opportunities and risks, coordinating and integrating activities to increase global efficiency and develop competitive advantage (Bartlett, 2008). Competitive advantage is based predominantly on capturing global scale or scope economies through integration of the activities of the business and focusing on customer demands that are standardized across markets” (Roth, 1992, p. 772).

Two methods that GE could employ as it enters India are establishment of a global mindset and establishment of best practices techniques. Hames (2007) described
the establishing a leadership global mindset as “not so much a role as it is a process of shared learning – a catalyst for changing the status quo. Here the act of leading is a collaborative process of realizing potential for purposeful advancement of the human condition” (p. 241). “Global leaders with “Global Mindsets” are the key to sustainable competitive advantage in the global economy” (Teagarden, 2009, para. 3). Many areas of risk should be considered when global organizations look for competitive advantage and expansion in the global arena. Four important areas of consideration are cultural, technological and communications, political, and economic arenas. A global mindset can propel an organization such as General Electric forward, leading to greater opportunities in the global marketplace.

Best practices dictate the need of a global organization to conduct ethical business to sustain its reputation and competitive advantage. An example of best practices risk management at GE in India is GE’s commitment to health care and safety. GE also feels an obligation to uphold human rights and adhere to Indian law. GE discovered that its ultrasound technology was being misused to perform female feticide (illegal abortions) and gender selection. “Since 2000, GE Healthcare India has worked through a combination of training programs, amendments to legal contracts, regular auditing, and rigorous sales screening and tracking, to increase the stringency of the sales review process” (Promoting Ethical product use, 2009). In addition, GE has a poster series and meets with government officials about increasing awareness of human rights issues.

In addition, best practices reduces costs, decreases error, increases innovation, and improves performance (Zahorsky, 2009). Risks posed by unplanned events could damage the business by creating liability or operational issues. “Increasing pressure from the
market, including globalization, increased competition, and the rising costs of regulatory compliance, and greater corporate accountability and visibility, organizations are looking to enterprise risk management (ERM) as a strategic way to reducing operational costs, improving efficiency, and ensuring long-term stability” (Risk Assessment, 2009, para. 1). One key to preparing for future success is development of risk management processes. By identification of critical issues, redesigning, re-strategizing, and monitoring outcomes for positive change, businesses can keep customers and stakeholders happy (Traylor, 2009). GE should conduct best practices techniques to include the use of benchmarks, listening to consumers, and hiring consultants if necessary.

**Conclusion**

General Electric needs to manage cultural interactions within India because of the costs involved of not understanding diversity. “Daily communication with people around the world, frequent trips abroad, and overseas assignments put managers at risk of cultural misunderstandings with serious repercussions for their business and career” (Grosse, 2000, p. 246). “When working in the global commercial environment, knowledge of the impact of cultural differences is one of the keys to international business success. Improving levels of cultural awareness can help companies build international competencies and enable individuals to become more globally sensitive” (World Business Culture, 2009, para. 1). The nations of the world provide organizations with access to new consumers and new resources. The challenge that culture presents is not to alienate an opportunity to make a sale and profit. Through employment of leadership global mindset and best practices techniques, GE can transition through the risks imposed by entering India.
References


