

Chapter 2

Russia: The Case for Going Global

Phonetika Corporation, an information technology company, produces liquid crystal video display units, handheld computers, and cell phones. It is a large multinational company located in Russia, which specializes in user-friendly mobile devices that are well designed, easy to use, and reasonable in price. Although Phonetika does business around the world, exporting its products internationally, it is headquartered in Moscow, with plants throughout Russia, so it has not become a truly global business. Unlike the global, or transnational, corporation, it focuses on Eastern Europe in terms of manufacturing, conducting market research, raising capital, and buying supplies. While Phonetika has a solid technology and distribution network, orders have gone soft, competition has intensified, and profit margins have decreased recently. Phonetika seems to be caught in a business downturn, with a decrease in high-volume sales.

Currently, Alexei Romantov, Chairman of the Board of Directors, and several of the top executives of Phonetika have been pushing for the company to go global on a large scale. They believe that Phonetika can compete more successfully against U.S. and Korean producers of cell phones and video display screens if it forms a joint venture in Korea with Song Corporation and also builds some new factories in locations outside of Russia, where capital and overhead costs are lower. Indonesia and China would be potential new locations for Phonetika factories. However, in order for Phonetika to globalize, a complete restructuring of the organization will be necessary, and some of its offices in Russia will have to be eliminated. Thousands of employees will be laid off, as a result.

Sergei Markov, President and CEO (Chief Executive Officer) of Phonetika, is the one member of upper management who is adamantly against the plan to globalize. He does not see the necessity to reshape the company and is especially averse to the idea of eliminating so many jobs. He has known many of his employees for over ten years and feels personally responsible for their financial stability. Along with his strong commitment to his employees, Markov does not believe in letting one central office make decisions about a global product line. Instead, he wants to maintain the country-by-country organization of Phonetika and the standardized products, marketing, and advertising that Phonetika has always had. Why should Phonetika restructure just because market dynamics have changed and globalization has become the ruling paradigm in business?

The first quarter earnings statement has come out, and Phonetika is not doing well, compared to last year at this time. It has suffered a four percent loss in revenue and earnings. Its major competitors, Sony, Samsung, and Motorola, all appear to be eating into Phonetika's markets. A meeting of the Board of Directors has been called for Tuesday at 4 P.M to discuss the future of Phonetika and its possible reorganization as a global business. Alexei Romantov will run the meeting and give a PowerPoint

presentation that will outline the benefits of globalization. He wants Markov to go along with his point of view, but he knows how stubborn Markov can be. Therefore, he has asked Natalya Janova, Director of Finance, to prepare a detailed financial analysis of the projected globalization plan and bring copies of it to the meeting. He has seen Natalya's preliminary figures, and they look good. But good figures may not be enough to change the mind of the President and CEO, Sergei Markov.

Discussion

1. What are the benefits to Phonetika if it becomes a global organization?
2. What could Sergei Markov do to change the minds of those who favor globalization of Phonetika?
3. What could Alexei Romantov do to change the mind of the President and CEO, Sergei Markov?
4. Should Phonetika remain a multinational corporation or become a global (transnational) corporation?
5. How can Phonetika make the transition from multinational to transnational?
6. What would you do if you were Alexei Romantov?

Case Study Report

- I. Statement of the problem
 - A. Definition
 - B. Analysis
 - II. Suggestions of possible solutions
 - A.
 - B.
 - C.
 - D.
 - III. Evaluation of possible solutions
 - A.
 1. Advantages
 2. Disadvantages
 - B.
 1. Advantages
 2. Disadvantages
 - C.
 1. Advantages
 2. Disadvantages
 - IV. Selection of a solution
 - A. Choice
- B. Justification