

## WHAT DO WE KNOW FROM EPRG MODEL?

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### Abstract

*The aim of this paper is to present the fundamental ideas behind EPRG model. They are discussed with some illustrating examples. Moreover, some attention is drawn on the evolution from one orientation to another. In particular, the geocentric orientation is widely discussed. General Electric is studied in more details as a particular case of the geocentric orientation. Finally, some non-market dissertations are presented, on how geocentrism can evolve and some threats to the public interest are sketched.*

**Key words:** corporations; EPRG model; General Electric; geocentrism; internationalization.

**JEL Classification:** F23, F60, L20, M14, M30

### I. INTRODUCTION

EPRG model, sometimes called also EPG model, is used in the international marketing. It was introduced by Perlmutter (1969). The strategy of the organization is characterized by three factors: ethnocentrism, polycentrism and geocentrism. Hence, the original name - EPG. A little later, Wind, Douglas and Perlmutter (1973) extended this model by another factor - regiocentrism. The extended model is known as EPRG model, in short.

This model aims to identify the orientation of the organization. The strategy can be differently oriented, indeed. As a result, costs and profits are generated in slightly different ways, depending on the mentioned kind of orientation. Therefore the identification of the right orientation is essential. For example, it is important that different activities of the organization are consistent with each other at various stages. It is also important that the culture of organization, its marketing strategy, etc. are consistent. Only then, the organization can operate efficiently on the market.

The following essay presents the main ideas of the EPRG model in the context of the modern economies. Some arguments are illustrated by particular examples from markets.

### II. ETHNOCENTRISM

As mentioned before, the model takes into account four different orientations: ethnocentric, polycentric, regiocentric and geocentric. The first one is very common amongst companies just starting the international activity. Such companies concentrate their efforts on production and sales, but mainly on the domestic market. Activity on a foreign market is usually perceived as a temporary activity. Hence, patterns of market behavior are based on the experience gained from the domestic market. Moreover, such patterns are usually not modified in any significant way to fit the foreign market. Organizational culture, marketing, procedures and so on, are copies from the domestic market. The foreign market is considered as a secondary one. For example, no significant research activity is done on the foreign market (Radomska, 2010).

Ethnocentrism arises from the dominance of one culture over another in some sense. This dominancy can relate to the cultural sphere, manual, technical, mental or even ethical and moral skills. This orientation is somehow natural because of some psychological factors. People have a tendency to unite in a compact, somehow similar groups. According to Ahlstrom and Bruton (2010, p. 42) „ethnocentrism (...) reflects a sense of superiority about a person's or firm's homeland. Ethnocentric people believe that their ways of doing things are the best, no matter what cultures are involved. (...) Ethnocentric people tend to project their values onto others, and see foreign cultures as odd or of little or no value to them.”

In this orientation, domestic strategies are assumed the best ones and superior over any other, foreign ones. Since national rules were verified by market and occurred good, they are believed to be good on another market also. Therefore managers are brought from the domestic country to subsidiaries. The hierarchy of the organization is usually highly centralized and directly subordinated to the headquarter located in the home country.

These factors generate significant costs. Managers must be recruited in the domestic country. As a result, compensation costs for work in another country must be added to the basis salaries. However, bringing own

managers can have some positive effect for the host country. For example, the flow of know-how is intensified. Nevertheless, the conviction of the superiority of the domestic culture of the organization results in the fact that domestic customs are rather imposed on the foreign market. This rather low elasticity and lack of openness and flexibility leads to increase in costs and lower efficiency.

In the worst case the company can be rejected by foreign customers and it has to change its orientation or exit the market. Such happened to Nissan on the U.S. market. This Japanese company decided to export cars to the United States. While Japanese winters are quite mild, the weather conditions in some states in the U.S. can result in very low temperatures and heavy snow. In Japan it was popular to cover car against snow falls, etc. For quite a long time, Nissan executives assumed that the U.S. customers will do the same, as Japanese. But they did not and have problems with their cars. Finally, Nissan had to change its orientation from ethnocentric to polycentric (Keegan, Green, 2003).

According to Hofstede (2010, p. xiv) “in the broader area of management, ethnocentric approaches over the past 30 years have gradually lost support, if only because they proved ineffective, even fatal. (...) It is a paradox that in the areas of marketing and advertising theories, ethnocentrism has survived longer than in (general) management. A paradox, because if there is one aspect of the business that is culture-dependent, it is consumer behavior. (...) There may be global products, but there are no global people. The success of a business in the end depends on how well its products reach customers whose behavior is affected by values that may vary in unexpected ways from those of the business managers.”

### **III. POLYCENTRISM**

Polycentric orientation (sometimes called multilocal) is close to the ethnocentric one, but requires activity on several foreign markets. Moreover, activities on these markets are individualized. So, polycentrism is connected with specialization depending on the considered foreign market. For example, in polycentric orientation factors such as the marketing strategy, customer preferences and expectations, cultural diversity, etc. are taken into account. A polycentric organization needs, and is interested in, studying the specifics of each of the foreign market where it is present. Therefore market researches are lead independently on each market (Radomska, 2010).

In case of the polycentric orientation, the organization focuses on individualities of foreign markets and all their local specificities, which distinguish them from the domestic market. This orientation is based on the philosophy that it is better to use local methods to cope with the local problems, rather than force alien solutions.

However, extreme polycentrism is also not effective, since it assumes that the local market is understood only by local managers, so any flow of know-how is useless (Perlmutter, Heenan, 1974).

According to Ahlstrom and Bruton (2010, p. 42) „polycentrism is the opposite of ethnocentrism in that people seek to do things the way local do - „When in Rome, do as the Romans do,” as the old saying goes. (...) Polycentrism is a major source of ethical lapses at many firms.”

Polycentrism assumes that actions of managers in different countries should not be strictly controlled by the headquarter in the domestic country and it allows for some freedom in actions. Unfortunately, this can lead to excessive growth of the chaos and the lack of coordination between the branches of the organization. Moreover, local managers may be reluctant to implement the recommendations from the headquarter. The local staff can be too much convinced of a better understanding the local market (Beamish, Calof, 1994).

As a result, the pathological polycentrism can diminish the economy of scale. For example, in the 1990s, Citicorp was a polycentric organization. (In 1998 the merge of Citicorp and Travelers Group has been done and Citigroup has been formed.) Its branches in various countries carried out their own policies. As a result, foreign subsidiaries did not serve for the whole group. Eventually, it was decided to switch to the geocentric orientation (Bartlett, Beamish, 2010).

### **IV. REGIOCENTRISM**

Regiocentric orientation is similar to the polycentric one, but an organization not only recognizes the specific nature of different foreign markets, but also perceives some similarities of these foreign markets. Therefore it makes groups of similar markets (regions) with similar characteristic features (Radomska, 2010). In other words, similarities between the countries and their markets located in one region are used in order to develop an integrated regional strategy (Bartosik-Purgat, 2010). It should be notice that groups of countries naturally emerges due to processes of trade liberalization. Examples of such regions are NAFTA and the European Union.

According to Shong (2008, p.49) an multinational corporation (MNC) “with a regiocentric predisposition will be interested in obtaining both profit and public acceptance (a combination of the ethnocentric and polycentric approaches) and will use a strategy that allows it to address both local and regional needs. The company is less focused on particular country than on a geographic region. For example, an MNC doing business in the EC will be interested in all the member nations.”

Market segmentation is based on finding regions (groups of countries) similar to each other. These similarities may exist on the economical, cultural or political background. For example, customers in North America may have different taste preferences than customers in the post-Soviet countries. In this sense, for example Coca-Cola and Pepsi are regiocentric companies.

Regiocentric strategy assumes that all countries of the region can be regarded as a single market. This allows for much greater economy of scale than the polycentric strategy (Wiktor et al., 2008).

An interesting example of a company with the regiocentric orientation is General Motors. The company has significantly different strategies in Europe, Americas and Asia. Top managers in different regions have considerable freedom in decision making. As noticed by Kajda (2009), regiocentric orientation is usually associated with the increase in decentralization in the enterprise.

## V. GEOCENTRISM

Geocentric orientation is the one, which is present when an organization treats all foreign markets as the one, i.e. global, market. The global market is understood as a single market, i.e. sociologically and economically uniform. Of course, this uniformity is much simplified, but a geocentrically oriented organization assumes that some differences can be deliberately forgotten. Moreover, that customers would accept such a universal approach (Radomska, 2010).

According to Keegan and Schlegelmilch (1999, p. 21) “the geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a “worldview” that sees similarities and differences in markets and countries, and seeks to create a global strategy that is fully responsive to local needs and wants.”

Geocentric orientation focuses on a strong, decisive behavior and taking benefits from the economy of scale. It leads to improvement in the quality of offered products and services and in the efficiency of using the global resources. On the other hand, there are high costs associated with human resources, personnel management, etc. The costs arise due to the need of training activity, efficient communication channels, transportation costs, etc.

It is also interesting that the current technological progress and the rate of exchange of information allows for the formation of global, transnational enterprises since the very beginning of their existence. They are sometimes called “born global” (Radomska, 2010). Such companies produce unique, specific products. For example, computer software, or a high-tech medical equipment.

Geocentrism makes no special distinction between the domestic and foreign markets. The market strategies are rather based on using a variety of opportunities in the best possible way. Managers are searched in the principle that the person must be the most competent in the particular field. No geographical, cultural, etc. preferences are present. Moreover, local managers are not assumed to have higher competence on the local markets, in comparison to managers from abroad. The differentiation of countries fades. The essence of this orientation is to take from each of the country what it has the best. It is in a sense similar to the classical ideas of the theory of comparative advantage, formulated by Torrens and developed by Ricardo (Budnikowski, 2003).

In the geocentric approach headquarter and subsidiaries must be somehow unified in order to erase any bias based on the country of origin. In this sense geocentrism is something more than just transnationality or multinationality. The point is that there is no explicit barriers between the headquarter and foreign subsidiaries. The organization can be paraphrased as the global organism with equally privileged organs scattered in different countries.

Of course, factors such as, for example, labor standards, customer taste, customer preferences, differ significantly between various countries. Therefore the geocentric approach is a huge challenge for the organization. Its proper implementation must be based on internal standards, which allow to overcome the above problems. Indeed, geocentrism assumes that there is a kind of the global customer - having similar taste, etc.

In words of Wiktor et al. (2008) the essence of geocentric strategy is an uniform approach to all national markets, and more specifically - to the global market, regardless of specific social and economic difference between the countries. All national markets are treated in the same way as just a segment of the global market.

However, as emphasized by Bartlett and Beamish (2010), geocentric orientation is somehow an inevitable necessity for any organization that operates on the world's largest markets. Such an orientation must be implemented, if the priority is focused not only on achieving (probably temporary) market success, but also to maintain the successful presence on the market and keeping the long-term stabilization. Bartlett and Beamish (2010) note that even if, for some reason, a company operating on the global market prefers polycentric or regiocentric (or even ethnocentric) orientation because of some reasonable arguments, it is still true that top managers must have the global vision.

Geocentric orientation is characteristic of the huge transnational corporations, conducting its business in the arena of the world market (Wiktor et al., 2008). Therefore it is important, that in the case of research and development decision making is not based on more or less rigid assumptions, but is the result of a continuous process of market research. This characteristic is one of key features distinguishing the geocentric orientation from other approaches.

## VI. EVOLUTION OF THE ORIENTATION

As the process of globalization intensifies, many companies undergo evolutions and significant changes. For example, they switch from ethnocentrism, through polycentrism and regiocentrism, towards geocentrism. However, there are some exceptions from this rule.

Wiktor et al. (2008) state that ethnocentrism is a consequence of global standardization, whereas polycentrism and regiocentrism are based rather on adaptive processes. Hence, in the case of the geocentric orientation, it is necessary to develop efficient standards. Radomska (2010) emphasizes that sometimes even if a company initially moves from ethnocentrism to polycentrism or regiocentrism and further to geocentrism, it can happen that the last transition is only temporary. Indeed, due to operational problems the company can turn back to regiocentrism.

Of course, various orientations have both advantages and disadvantages. Undoubtedly, the advantages of the ethnocentric orientation are the simplicity of the organizational structure, the simplicity of the flow of the information and the simplicity in performing the internal control. On the other hand, the development of innovations usually leads to inefficient planning and low flexibility in responding to market changes (Bartlett, Beamish, 2010; Alon, Jaffe, Vianelli, 2011).

Polycentric orientation focuses on more intensive penetration of foreign markets with respect to their locality, and thus to improve sales. It is because of a better understanding of the local markets. Moreover, some support of the local government, possibility of finding managers with better qualifications, etc. are more common under polycentric approach.

Some example of an evolution of the strategy can be given by considering General Motors. This company offered more than 200 types of radio as a vehicle equipment on the Australian market. This was a consequence of its regiocentric orientation. Such an offer was consistent with the specificity of Australian region. However, as a result of the recent financial crisis, which highly affected General Motors, it became very important to quickly and seriously cut the costs. Therefore the headquarter in Detroit ordered a gradual transition from regiocentric orientation towards the geocentric one. It was decided to reduce the number of radios to 50, which resulted in nearly 40% costs reduction (Djordjevic, 2014).

The necessity for the evolution of transnational corporations to global corporations has already been recognized in 1990s. Factors such as the amount of revenue generated from sales outside the domestic country, the ratio of assets invested abroad, and the number of workers employed abroad can be the first factors determining the level of global approach. Basing on these three criteria, for example Nestle, Unilever, Royal Philips Electronics, GlaxoSmithKline and The News Corporation are global corporations. Moreover, it is worth mentioning that headquarters of these organizations are located in countries with relatively small local domestic markets (Djordjevic, 2014).

Hare (2011) draws attention to cultural problems associated with transnationalization of business and with the geocentric strategy. It is emphasized that there is also the increase of complexity and interdependence on the global scale. Both universal and local factors must be somehow implemented into the process of control in the organization. Pressure on achieving results impressive on the global scale, results in high pressure on managers. However, the development and training of human resources must be conducted in a comprehensive manner with respect to the global scale. Obviously, it is connected with greater mobility of labor force. Employees should identify themselves with the organization more than with a country or a region. Instead of high centralization of power at the highest levels of management, various kind of relations must be build with stakeholders. Managers must be more flexible and open on the environment (Lachniewicz, 2007).

Geocentric orientation results also in slightly different model of career. Successful manager can start the career in any country. Different levels of career can be realized in various countries. Moreover, the required competencies are the ones, which allow for smart and flexible adaptation in any place in the world. As a result, it is a big challenge for family and on the personal background. Further, this can make problems for children, who are forced to change the school, close friends, etc. Purgał-Popiela (2012) as an example describes some problems with expatriates. These problem arises, when worker is delegated abroad in order to carry out some specific tasks.

As a result, the adoption of geocentric orientation makes a challenge for human resources department in an organization. Nevertheless, the evolution of large corporations towards the geocentric orientation is enforced by the current processes of globalization. As Poczowski (2002) notes geocentric orientation is also enforced by the desire to reduce operating costs by corporations and by the equalization of living standards in different countries.

Moreover, tax legislations are harmonized in different countries. After all, it is worth mentioning that the five largest transnational corporations are responsible for half of the world trade. Whereas main offices of almost 430 largest transnational corporations are located in the U.S. Corporations, which adopted the geocentric orientation are more active in the society. Their actions, despite the well-known controversies, are often more acceptable for the customers (Marquardt, 1999).

Evolution towards the geocentric orientation does not necessarily mean direct actions. For example, Ford Motor Company started adaptation towards the geocentric orientation in 1980s. At the beginning, the company

tried to release some universal, global product. This was planned to be Ford Escort. However, the plans did not end successfully. Further, much stress has been put on communication. It was also realized that Ford Motor Company is absent on the Japanese market. The Japanese market entry was done indirectly, i.e. by buying large quantity of shares in Mazda (Koontz, Wehrich, 2006).

The above considerations on EPRG model can be briefly summarized in Table 1.

**Table 1. Main characteristics in EPRG model**

<b>ethnocentrism</b>	<b>polycentrism</b>	<b>regiocentrism</b>	<b>geocentrism</b>
Main decisions made in the main headquarter	Lower role of the main headquarter	Main decisions made in regional headquarters	Collaboration with local headquarters
Home standards applied on all markets	Local standards applied on local markets	Regional standards in regions	Universal standards
Focus on domestic objectives	Focus on local objectives	Focus on regional objectives	Focus on global objectives
Identification with the owner's nationality	Identification with the nationality of host country	Identification with the region	Global view
High positions taken by managers from owner's country	High positions taken by local managers	High positions taken by regional managers	Having an experience in different countries is a must to take a high position

In the view of the presented considerations it is interesting to mention the words of Keegan and Schlegelmilch (1999, p. 21) that “recent research suggests that many companies are seeking to strenghten their regional competitiveness rather than moving directly to develop global responses to changes in the competitive environment.”

Factors such as the increase in technical and managerial knowledge globally, local demand for product quality and competitive price, growth of world markets, global competition among multinational companies for scarce resources (including human resources), advances in global transport and telecommunications systems, integration of global political and economic communities, desire to use all resources (including human) optimally, evidence of increasing costs of polycentric approach, risk diversification through global production and distribution arrangements, necessity to secure services of best possible staff on a global basis, need for development of global information system, globalisation of products and services and senior management commitment to geocentrism are strong drivers towards geocentrism (Millmore et al., 2007).

On the other hand, economics nationalism, both in host and parent countries, political sensitivities involved in host-country operations, lack of international monetary system, growing differences between rich and poor countries, host country resentment of parent country tendency to get greater allocation of profits, parent-country management desire to control MNC policy, management inexperience in foreign operations, mutual distrust between host-country and parent-country senior managers, potential costs and risks, nationalistic attitudes of staff, immobility of staff and language and cultural barriers can be serious obstacles to geocentrism (Millmore et al., 2007).

**VII. GENERAL ELECTRIC CASE**

General Electric has been founded in New York in 1892. Its revenue for 2010 was more than 12 billion USD. It is listed on the New York Stock Exchange. Its activities are focused on a number of industries such as energy, measuring instruments, aerospace, space industry, household appliances, chemical industry, medical equipment, the banking industry, film production and rail transport. One can easily see that these are the sectors based on modern technology, for which the flow of know-how is crucial. As a result, the global orientation is a must, if the corporation wants to use the opportunities offered by the new emerging markets. It is also important to emphasize that General Electric is one of the few still functioning American industrial conglomerates, still present on the competitive market, where usually only more specialized corporations are present.

Moreover, General Electric is a leader in some sectors. For example, Goldstein et al. (2006) point out that General Electric is one of the few companies on the market of household appliances with a strong position on the global market, taking the geocentric orientation. General Electric tends to dominate the sector in which the company is active. Actually, the core of the strategy is to be among the top leaders in the chosen market or if for any reason that is impossible, even to leave such a market (Shapiro, 2013).

The company employs more than 300000 full-time employees in over 170 countries. Employees of General Electric are a mix of different nationalities, who use more than 130 different languages. For example, General Electric is one of the very few multinational companies, in which a Hindu took high management position (Downie, McMurray, 2012). It proves that General Electric has much wider global vision than only to seek bigger market to sell its goods and services or to seek countries where labor costs are lower.

The company's vision seems to aim on creating a global supply chain, consisting also of the research, development and design processes. Moreover, it seems even impossible to make any spectacular career at General Electric, without having a reasonably long experience in non-American markets. It might be that the lack of such requirements in other corporations causes them to stagnate in view of the global expansion (Bernardin, Russell, 2013).

General Electric seeks employees who fully accept the mission and the vision of the company. In this sense, General Electric creates a universal, global system that can be joined by representatives of any possible nationality. Moreover, this system is completely independent from national issues. Fernando (2006) noted that General Electric has a long tradition of organizing international training for its managers, in which emphasis is placed on the mission and vision of the corporation.

Such an approach seem to be the core of the difference between the true geocentrism and just polycentrism spread on numerous countries. Moreover, in such an approach dependence on global markets influences the company more than legislative and economical issues in the domestic country (Cavusgil et al., 2004).

At the beginning of the present century, the global orientation has become a necessity, because the demand on the U.S. market was not sufficient to satisfy the need of General Electric for continual development. Although, General Electric used to built all its research centers only in the United States, it was decided then, for the first time in the history, to build a research center outside the U.S. The investment has been carried out in India. Shortly thereafter, similar centers have been built in China, Germany and Brazil. Every year the company registers nearly 70000 research patents (Downie, McMurray, 2012).

The adoption of the geocentric orientation was quite rapid. As it has been shown, in case of research and development, it was a transition directly from ethnocentrism to geocentrism. The first laboratory of General Electric was opened in 1900, but in 1980s, due to the size of the American market, most important and technologically advanced researches were lead solely in the U.S. (Gassmann, Zedtwitz, 1999). Therefore the company has a very long tradition and experience in researches. It is interesting that investments for research and development were officially included in the annual financial statement for the first time a few years after the Second World War (Downie, McMurray, 2012).

Indeed, some ethnocentrism was still present at General Electric in 1990s. A dynamic expansion on the West European market was linked with stubborn implementation of the American organizational model, with ignorance towards the reluctance of European employees to such a model. For example, the internal model of accounting and management, "six sigma" model, Workouts<sup>TM</sup>, putting more emphasis on skills than on experience in the company, as in the American business culture, which are far from the European model (Taras et al., 2011).

Currently, the uniformity of corporation is often emphasized during training and daily activity in the company. For example, in everyday business e-mails, etc. It is important that such an approach is present at every level of employee's career.

A significant element distinguishing General Electric from other transnational corporations is that General Electric carries out intensive activities to become independent from the American and the European markets. Although many transnational or multinational corporations act in the global scale, the core of their business activity remains in America or Europe. The company locates its centers in different parts of the world. It is not biased by too strong orientation towards Western Europe or the U.S. solely. For example, ratio of revenues from the Asia and the Latin and the South Americas to the total revenues have increased much in recent years. Moreover, the company is clearly present on the African market.

General Electric also takes some social mission in the global scale. For example, the presence in the African market is combined with funding hospitals (Mujtaba et al., 2005). In addition, considerable emphasis is put on the "green energy" problem. This is an example of more complex role of multinational corporations in modern world.

## VIII. CONCLUSIONS

During the last 20 years, large corporations explicitly recognized the emergence of new markets. Moreover, there exist worldwide trends in unification of the law, trade liberalization, etc. which result in a strong global orientation of many companies.

However, many organizations still represents polycentric or regiocentric orientation in some sense. This is because the U.S. market still generates a very high demand on goods and services. In this case, General Electric can be an example of a truly geocentric corporation. Its geocentric orientation is manifested in various ways. Unlike other companies, General Electric do not seem to gravitate toward the U.S. or Europe solely.

Moreover, General Electric is closely linked to the energy market. The current energy, environmental and strategic issues obviously require the cooperation and consensus of different countries, nationalities and cultures. In addition with the intensification of migration processes and the mobility of labor force, General Electric seems to easily fit into these modern, global socio-economical trends.

However, geocentric orientation is also connected with stressing much attention towards the loyalty of employees. Employees should identify with the company and their vision and mission. However, this can be against national interests. In this sense the evolution of corporations towards geocentrism can be a serious threat for governments and countries. As recent financial crisis has shown, large corporations interests do not always coincide with public interest, from which they come from. As the Ukrainian crisis has shown, interest of large corporations can be against the national interest of country they are headquartered.

In this context, philanthropy of multinational corporations can be seen as a rivalry activity in domains classically restricted for governments. Private medical aid given to employees, building strong relations between workers of the same company, entering by corporations into new aspects of life of their employees might have some disadvantages. In this sense, geocentric, multinational corporations become new regulators of the economy. In some sense they can be seen as similar to oligarchs from historical times. It must be remembered that different interests of state and oligarchy always lead to the fall of empires.

It is also worth mentioning that corporations are not directly represented by particular people who could seriously respond for their actions, i.e. in majority of cases, law responsibility is hugely spread or it is a legal person, who is found guilty. In the above sense, geocentrism should be seen not only as a new form of a market strategy, but as a challenge for societies and serious influence on public governance.

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