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Wien, 2018

Anastasia Graf

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Table of contents

List of Tables	VI
List of Figures	VII
List of Abbreviations	VIII
1. Introduction	9
1.1. Structure of the Thesis	9
1.2. Methodology	10
2. Theoretical Review	13
2.1. Definition of Culture	13
2.2. Determinants of Culture Effectiveness	14
2.2.1. Hofstede's Cultural Dimensions	17
2.2.2. Integration-Responsiveness Framework	23
2.2.3. MNC's Organizational Model	27
2.2.4. Strategic Orientation of MNCs	32
2.2.5. Cross-cultural Models	35
2.2.6. Research Model	37
3. FMCG Market	39
3.1. Characteristics of the FMCG Market	39
3.2. Market Overview	41
3.2.1. Global FMCG Market	41
3.2.2. FMCG Market in Russia	43
3.3. Industry Analysis and Future Trends.	45
4. Environmental Analysis: Comparison of Swiss and Russian Cultures According to Hofstede	47
5. Case Study of Nestlé	50
5.1. Nestlé Global	50

5.2. Nestlé Russia.....	54
6. Conclusion.....	58
6.1. Discussion.....	58
6.2. Limitations.....	60
Appendix I	61
Appendix II	62
References.....	63
Abstract (English).....	72
Abstract (German)	73

List of Tables

Table 1: Stages in evolution of MNC.....	33
Table 2: Sales by geographic areas	50
Table 3: Nestlé's brands.....	51

List of Figures

Figure 1: Influence of external and internal forces on international strategy	15
Figure 2: Determinants of cultural effectiveness	16
Figure 3: Power Distance Index.....	18
Figure 4: Individualism Index	19
Figure 5: Masculinity Index	20
Figure 6: Uncertainty Avoidance Index	21
Figure 7: Long-Term Orientation Index.....	22
Figure 8: Indulgence Index.....	23
Figure 9: Unilever's Differentiated Organization	27
Figure 10: The Bartlett and Ghoshal Model	28
Figure 11: International Organizational Structure: Coordinated Federation.....	29
Figure 12: Multinational Organizational Structure: Decentralized Federation	30
Figure 13: Global Organizational Structure: Centralized Hub.....	31
Figure 14: Transnational Organizational Structure: Integrated Network.....	32
Figure 15: Research model.....	38
Figure 16: Packaged food sales worldwide from 2014 to 2019	41
Figure 17: Top 15 FMCG companies worldwide in 2017	42
Figure 18: Percentage change in volume of FMCG food retail sales in Russia in 2016	43
Figure 19: Preferences of Russian consumer regarding brand origin.....	44
Figure 20: Classification of industries according to IR framework.....	45
Figure 21: Comparison of Swiss and Russian cultures.....	47
Figure 22: Nestlé Group's sales worldwide in 2017, by product category (in million CHF)...	51
Figure 23: Nestlé's advertising spending worldwide from 2015 to 2016 (in billion U.S. dollars).....	53

List of Abbreviations

CAGR	Compound Annual Growth Rate
CHF	Swiss franc
CPG	Consumer Packaged Goods
EPRG	Ethnocentric, Polycentric, Regiocentric, Geocentric
FMCG	Fast-moving consumer goods
GDP	Gross domestic product
HR	Human Resources
IDV	Individualism Index
IR framework	Integration-responsiveness framework
MNC	Multinational company
NGO	Non-Governmental Organization
PDI	Power Distance Index
R&D	Research and development

1. Introduction

The multinational company has become major organizational form of modern capitalism, influencing economic and cultural lives of many people world-wide (Hymer, 1979).

When establishing subsidiaries internationally, multinational company is obliged to control and coordinate its activities across national boundaries and specifically to deal with different national contexts (Heidenreich, 2012; Pagano, 2009). Furthermore, in order to succeed in global marketplace multinational company must follow suitable global strategy.

According to Rozkwitalska (2009) international management faces the issues of developing an appropriate strategy of internationalization, building suitable organizational design and cross-cultural managing of people. In these conditions, cultural aspect becomes crucial determinant in doing business abroad.

Thus, the purpose of this thesis is to emphasize the importance of cultural factor and problem of cultural differences while developing and implementing global strategy. Further goal is to analyze the impact of culture on strategy of MNC in subsidiary, as well as to present the main determinants of cultural effectiveness in modern world-wide business.

1.1. Structure of the Thesis

Derived from the purpose, this thesis was organized as follows:

Theoretical Review introduces the evolutionary theories and relevant models used for analyzing global strategies of multinational companies considering cultural factor. The section is divided into two subsections “Definition of culture” and “Determinants of cultural effectiveness”. The first subsection presents notion of culture from different perspectives and its role in modern business environment, further are provided definition of such terms as national and organizational culture. The subsection “Determinants of cultural effectiveness” reviews fundamental models in the researched field - Hofstede’s models of cultural dimensions, IR framework, Bartlett and Goshal’s organizational model, Perlmutter’s EPRG concept and Adler’s models of cross-cultural management. Additionally, main determinants of the cultural effectiveness are presented.

FMCG Market section gives an overview of global FMCG market and the market in Russia. Specifically, will be presented - market features, current challenges and drivers, as well as industry analysis and future industry trends.

In the next section are compared Swiss and Russian cultures. Here are considered similarities and differences between these two countries according to Hofstede's cultural dimensions.

Case Study section provides main indicators, brand strategy and organizational structure of Nestlé Global. Furthermore, the section examines company's strategy in Russia regarding presented theoretical foundations. It includes analysis of manufacturing processes, marketing policy, management practices and corporate culture in subsidiary.

Conclusion section contains general summary and major findings of this thesis, as well as its limitations and possible direction for further research.

1.2. Methodology

This subsection considers research objectives, data collection method and research design of this thesis.

Research objectives

The starting point for this thesis is to investigate the problem of cultural differences in development of international strategy. For this purpose, the thesis presents evolutionary theories of MNCs that deal with cultural issues in international management.

Further objective of this study is to introduce a model of cultural effectiveness in a global scale. Multinational company can be defined as "culturally effective" when it reaches its business goals in culturally diversified global environment.

The last and the main objective of this thesis is to examine presented research model on case study of Nestlé. In particular, this research is focused on analyzing what strategy Nestlé follows in subsidiary.

Data Collection Method

This thesis can be divided into three major parts: theoretical overview, market analysis and case study.

- Theoretical part is based on evolutionary theories, reviewed and discussed in relevant scientific articles, journals, books, based on findings of scientific researchers;
- Valuable data for market analysis was collected from secondary data sources - industry reports, market research reports, databanks, statistical online-portals and other reliable internet sources;
- All essential quantitative and qualitative data, required for Case Study section, was gathered from primary and secondary data sources. The primary data was collected through conducting qualitative interview with representative from Nestlé Russia LLC who has firsthand knowledge in the researched field. The secondary data was collected from company's annual and financial reports, media publications and press releases, statistical online-portals and databanks.

Research Design

For deeper understanding of impact of cultural aspect on strategy development in MNC's subsidiary this thesis adopted a single case study research design.

According to Creswell (2013, p. 97) case study method investigates “a real-life, contemporary bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information... and reports a case description and case themes”. In other words, case study is an intensive study about a company, person, unit etc. (Gustafsson, 2017). Case study design implies applying theoretical concepts for analyzing organization with further explanation of phenomenon.

Researchers identify two following formats of case study methods – multiple and single. In turn, both of them have particular benefits. In order to understand differences and similarities between several studied cases multiple case study method is preferred. It enables to proof whether the findings are valuable. The outcome of multiple case studies tends to be more reliable (Eisenhardt, 1991, Baxter, 2008). Compared to the first method, single case study is

less time-consuming and less costly. It can richly describe the existence of phenomenon, because the main focus of this method is one single thing (Yin, 2003).

Thus, chosen for this thesis single case study research design was applied to describe and examine theoretical foundations on the particular case – Nestlé company. The instrument for this research approach was a qualitative interview with representative from Nestlé Russia LLC.

2. Theoretical Review

2.1. Definition of Culture

Literature analysis has led to the conclusion that there is no precise definition of culture. For this reason, it is crucial to consider and present different perspectives on the meaning of the notion.

In last decade various definitions have been introduced:

- Kroeber und Kluckhohn (1952, p. 181) stated that “culture consists of patterns, explicit and implicit, of and for behavior acquired and transmitted by symbols, constituting the distinctive achievements of human groups, including their embodiment in artefacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditional elements of future action”;
- According to Dutch anthropologist Geert Hofstede culture is “the collective programming of the mind which distinguishes the members of one group or category of people from another” (Hofstede, 1991, p.5);
- Spencer-Oatey pointed out that “culture is a fuzzy set of basic assumptions and values, orientations to life, beliefs, policies, procedures and behavioral conventions that are shared by a group of people, and that influence (but do not determine) each member’s behavior and his/her interpretations of the ‘meaning’ of other people’s behavior” (Spencer-Oatey, 2008, p. 3).

It becomes obvious that culture has significant influence on the assumptions, perceptions and value system of people (Furrer, 2006; Sanyal, 2009). With the same extent culture impacts MNC’s international activities (Thomas, 2008).

As this master thesis considers and analyzes different levels of culture, it is important to define such terms as national and organizational (or corporate) culture.

National culture

National culture includes shared values, beliefs and assumptions acquired in childhood that vary between nations. History, religion, education are the factors that shape national culture. It is entrenched in everyday life and cannot be easily changed or replaced. Differences in national cultures cause differences in managerial attitudes. It leads to a conclusion that even having standardized product, management practices should still differ from country to country and moreover, be adapted to host country environment (Newman, 1996; Ralston, 1997).

Organizational culture

The core of the organizational culture is governing assumptions referring to corporate values, norms, beliefs about the nature of the organization and its role in environment that prescribe its work. Corporate culture can be considered as organizational identity and a climate creator, and furthermore, it needs to be universal in a global company. From the other side, Alvesson (2008) stated that despite the myth that within a MNC employees follow common (organizational) culture, their way of working is foremost influenced by their national culture. In general, researchers identify three elements of corporate structure that play essential role in defining organizational culture, such as: employees-organization relationship, organization's structure - vertical or hierarchical and the way employees see company's goals and their places in it (Ralston, 1997; Alvesson, 2008; Adler, 2008).

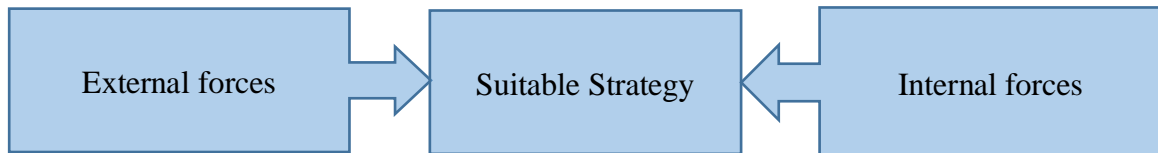
2.2. Determinants of Culture Effectiveness

When entering a global market MNC faces cross-cultural environment. Cultural differences impact various areas of global management – international strategy development, building suitable organizational design, HR management etc. Thus, a company needs to know how to deal with culturally diversified context and particularly to be “culturally effective”. As Rozkwitalska (2009) stated, cultural effectiveness means ability to reach company's goals in culturally diversified environment.

In international operations MNC faces different pressures that can be generally divided into external and internal. External forces arise from international environment and more specifically from differences in culture between home and host country, as well as from degree of internalization of industry. Internal pressures are caused by increasing scale, internal diversity and need to control international activities. As Rozkwitalska (2009) argued,

cultural effectiveness can be reached when external and internal factors are adjusted (Westney, 2003). As it is demonstrated in Figure 1, both internal and external pressures need to be considered while developing international strategy.

Figure 1. Influence of external and internal forces on international strategy



Development of international strategy starts from environmental analysis including cultural factor. Every country has its own culture – values, beliefs, norms and basic assumptions that have prior impact on human behavior. Thus, it is important to take into account attributes of host country culture. A helpful tool in this case is the Hofstede's models of cultural dimensions. The author presented six dimensions of culture, named power distance index, individualisms versus collectivism, masculinity versus femininity, uncertainty avoidance, long-term versus short-term orientation, indulgence versus restraint.

Internalization process includes solving specific multicultural issues. Moreover, operating in a host market is connected with managerial decision whether to standardize the business processes and achieve economies of scale or to adapt them to the market and so gain best fit with local environment. In this case, Integration-responsiveness framework supports managers in building international strategy that appears to be the most suitable in certain context considering forces for global integration and local responsiveness. In particular, as Rozkwitalska (2009) stated, the most culturally sensitive functions in managing international activities are human resources and marketing.

Another theory that deals with cultural aspect in international management is EPRG concept, presented by Perlmutter. According to the author, MNCs tend to follow ethnocentric, polycentric, regiocentric or geocentric strategic orientation. It can be observed in different fields of management: marketing, human resources, administration etc.

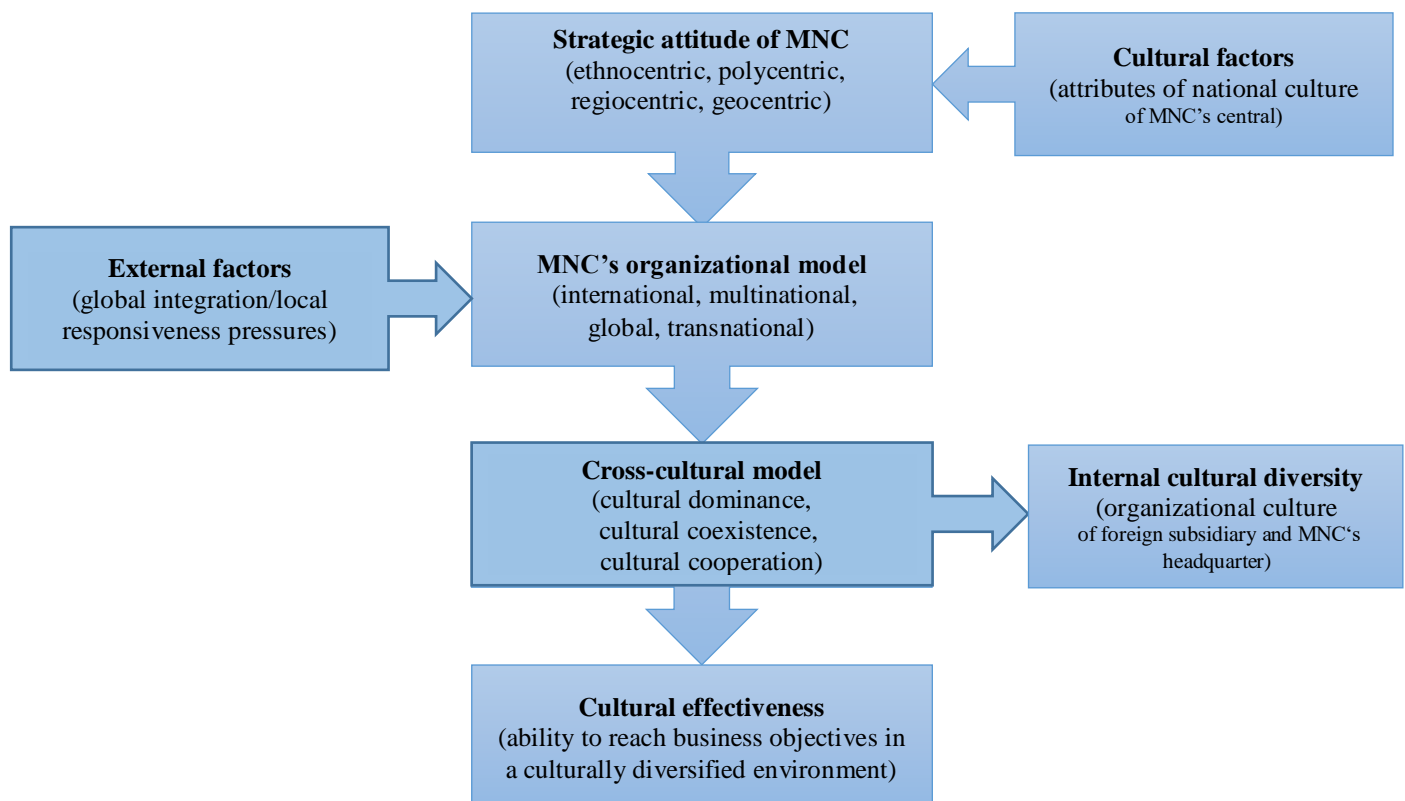
In order to effectively manage global activities and therefore, successfully implement international strategy, it is crucial to have appropriate organizational structure. For instance, multinational organization tends to execute multinational strategy, while transnational

company, as an integrated network of interdependent subsidiaries, follows transnational strategy etc. (Westney, 2003, Rozkwitalska, 2009).

Connection between national and corporate culture of MNC's foreign affiliates is described in Adler's models of cross-cultural management. Depending on the degree of dominance of corporate culture in the subsidiary, a company applies cultural dominance, cultural coexistence or cultural cooperation model (Koźmiński, 1999).

Figure 2 presents linkage between these concepts. As it is demonstrated, strategic attitude of multinational company is determined by characteristics of home country culture. Choice of certain organizational model is influenced by two factors: pressure for local responsiveness/global integration and accepted strategic attitude of MNC. Further, relying on a chosen organization design, MNC adapts model of cross-cultural management models, which, in turn, determines organizational culture in foreign subsidiary. Finally, synergy of all these determinants leads to cultural effectiveness of MNC in global arena.

Figure 2. Determinants of cultural effectiveness



Source: adapted from Rozkwitalska 2009, p. 98

Further are considered all above mentioned theoretical concepts: Hofstede's cultural dimensions, Integration-responsiveness framework, MNC's organizational model, Strategic orientation of MNCs and Adler's cross-cultural models.

2.2.1. Hofstede's Cultural Dimensions

For better understanding cultural differences, various models have been presented over the past decades. One of the most frequently used among them is Hofstede's dimensional model of national culture (De Mooij, 2010). Geert Hofstede is the primary anthropologists focused on the problem of national culture in international management field (Leung, 2008). In his first monograph (1980) was introduced a four-dimensional model of national culture based on analysis of IBM employee database in more than 70 countries. As IBM is a software development and consultancy company that operates internationally, this has allowed identifying cultural differences among its subsidiaries worldwide. Hofstede presented following four dimensions of national culture: power distance index, individualisms versus collectivism, masculinity versus femininity and uncertainty avoidance (Boeing, 2012). These dimensions are relative values and demonstrate cultural differences among countries.

Later, in 1991 the fifth dimension called long-term orientation has been added to the model. Based on research by Michael Harris Bond, Geert Hofstede conducted a study that examined students' values in 23 countries worldwide, based on Chinese Values Survey (Minkov, Hofstede, 2012). Additionally, in 2010 Michael Minkov guided next research study where he analyzed the World Values Survey data for 93 countries. In view of this the sixth cultural dimension called Indulgence versus Restraint was added to the Hofstede model of national culture (Geert Hofstede).

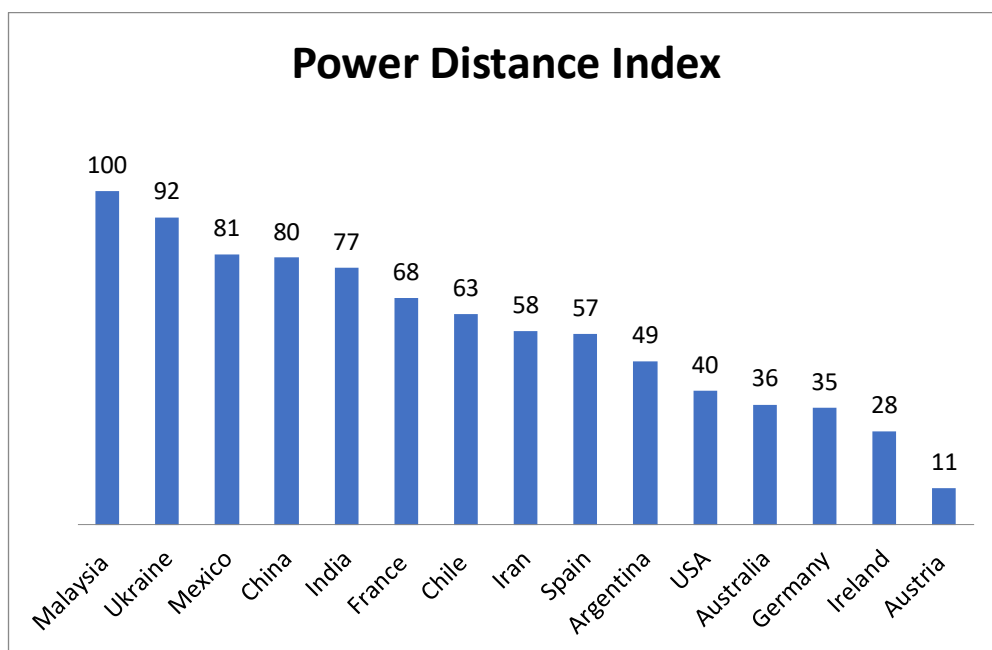
Power Distance Index

Every nation deals more or less with inequality – some people have more power, status and wealth than the others. According to Hofstede (1997, p. 28), the Power Distance Index (PDI) indicates “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally”. In other words, PDI measures the degree of inequality in society (Hofstede, 1997).

In countries with a high PDI everyone has his/her place in social hierarchy and it is common to show respect to the people with higher status. Such cultures tend to have autocratic leaders and more centralized decision-making. Global brands take an advantage of operating in high-power-distance cultures, because well-known trademarks, luxury goods, trendy items also serve as indicator of social status (De Mooij, 2010). As demonstrated in Figure 3, Power distance prevails in Malaysia, Ukraine and Mexico.

In contrast, low-power-distance societies promote autonomy, equality and teamwork in order to achieve common goals. Managers encourage employees to actively participate in discussions and to share their ideas and thoughts (Hofstede, 1984; Hofstede, 2001; Hofstede, 1997). Austria and Ireland are good examples of the counties that share low-power-distance culture.

Figure 3. Power Distance Index



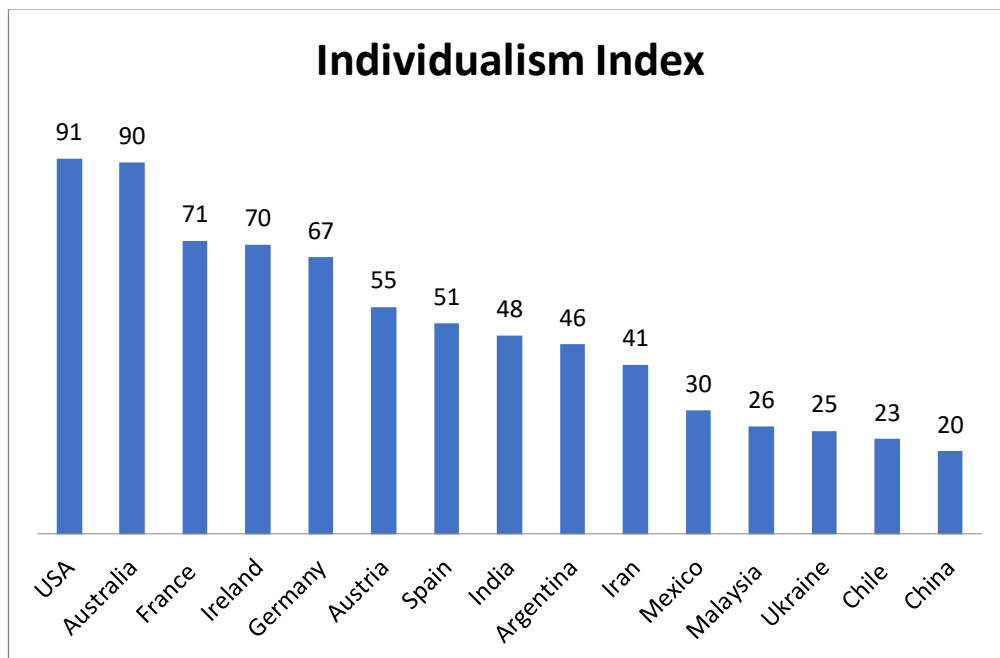
Source: adapted from Hofstede Insights, Compare countries

Individualisms versus Collectivism

The second dimension of the model defined as individualistic opposite to collectivistic national cultures. It is also considered as “I” versus “We”-conscious. Representatives of individualistic culture tend to look after themselves and their closest relatives; they respect privacy and focus more on personal needs. Oppositely, people who belong to collectivistic-oriented national culture depend more on a system with social inequality and have tight connection with other members of society. Relationship building dominates over task, harmony of a group should always be achieved. Figure 4 shows some examples of countries with relatively high score on IDV, individualistic (USA, Australia, France), and low score on IDV, collectivistic (China, Chile, Ukraine) (Hofstede Insights, National culture).

When presenting global campaign in different markets with different culture it is important to consider specific message in advertising: “persuasion” is effective for individualistic cultures and “creating trust” - for collectivistic (De Mooij, 2010; Hofstede Insights, National culture).

Figure 4. Individualism Index



Source: adapted from Hofstede Insights, Compare countries

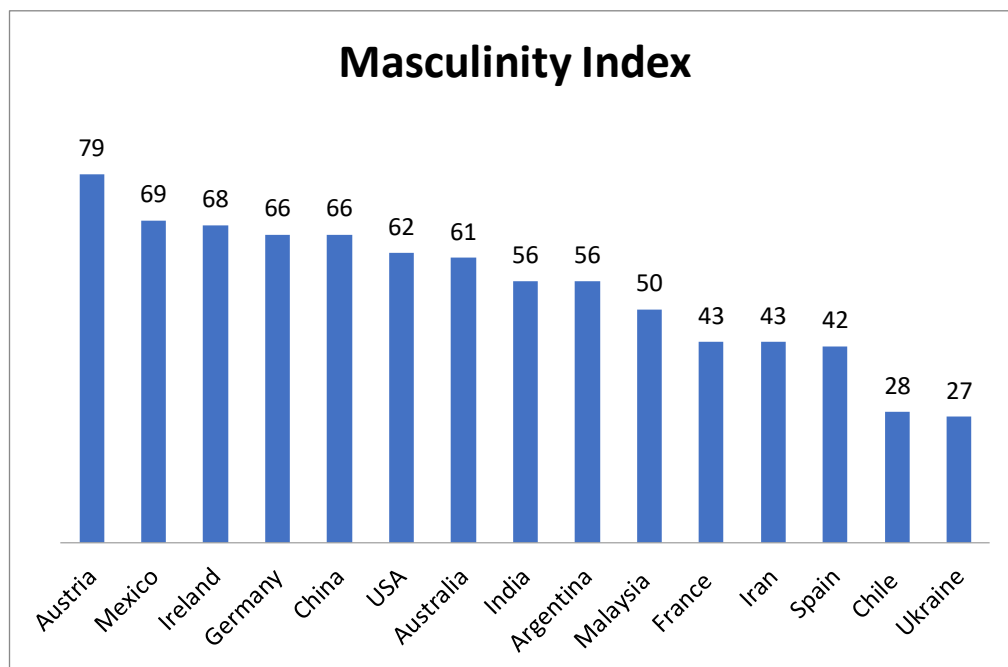
Masculinity versus Femininity

The third dimension “Masculinity vs. Femininity” characterizes whether the society is oriented on personal success and status symbols or on quality of life and taking care of others. Male characteristics are expressed by competitiveness and assertiveness (Hofstede Insights, National culture).

In cultures with masculine orientation it is common to live in order to work and to focus on achievements and performance. It is important to emphasize financial success with jewelry and famous expensive brands. As presented in the figure below Austria and Mexico are rather masculine countries (Boeing, 2012; Hofstede Insights, National culture).

In contrast, countries with a low index, such as Ukraine, Chile, Spain, show more modest and caring values, tend to cooperate and sympathize with weak. Household work is rather shared in a couple (Boeing, 2012; Hofstede Insights, National culture).

Figure 5. Masculinity Index



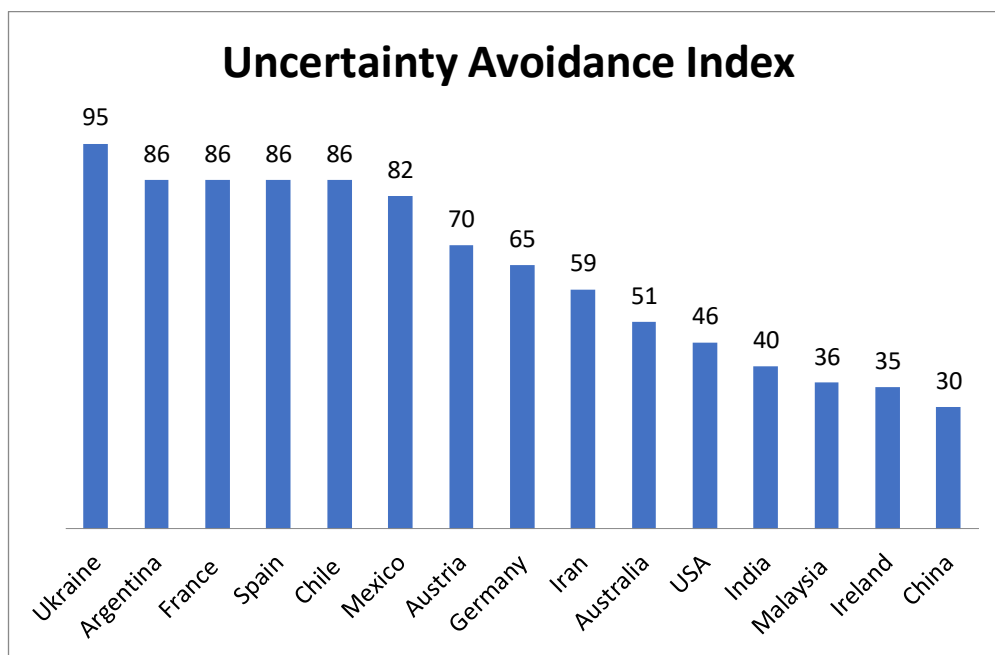
Source: adapted from Hofstede Insights, Compare countries

Uncertainty Avoidance

The fourth component of Hofstede's model describes an extent to which people tend to avoid uncertainty and ambiguity.

Ukrainians, as representatives of uncertainty avoiding countries, rather feel comfortable in structured and clarified situations. They prefer following strict rules and laws, and are less open to changes. Such people are looking for the ways to minimize risks and favor guarantees. China and Ireland are the countries that belong to the culture with low uncertainty avoidance (Figure 6). It means that in such society people have less stress in their lives, they are not afraid to change a job, dislike strict rules and more tolerant to different opinions. Managers do not avoid to risk and take decisions relatively fast (Boeing, 2012; Hofstede Insights, National culture).

Figure 6. Uncertainty Avoidance Index



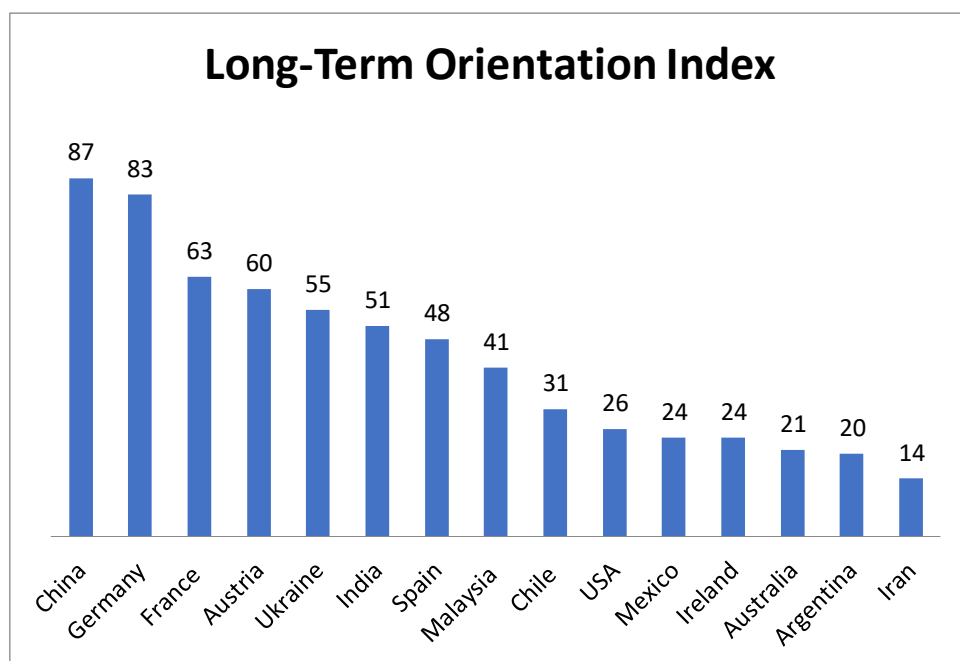
Source: adapted from Hofstede Insights, Compare countries

Long-Term Orientation

The fifth cultural dimension stands for pragmatic and/or future-oriented point of view opposite to short-term perspective related to the past and present (Hofstede, 2001).

Cultures with a high index of long-term orientation, such as China, Germany and France, expect the most important events in their lives in the future and are open to learn from other countries' experience. It is common to plan future even for decades. The opposite are cultures with a lower index, for instance Iran, Argentina and Australia. They show respect for tradition and are proud of home culture. Exact scores among fifteen countries are presented in the following figure (Boeing, 2012; Hofstede Insights, National culture).

Figure 7. Long-Term Orientation Index



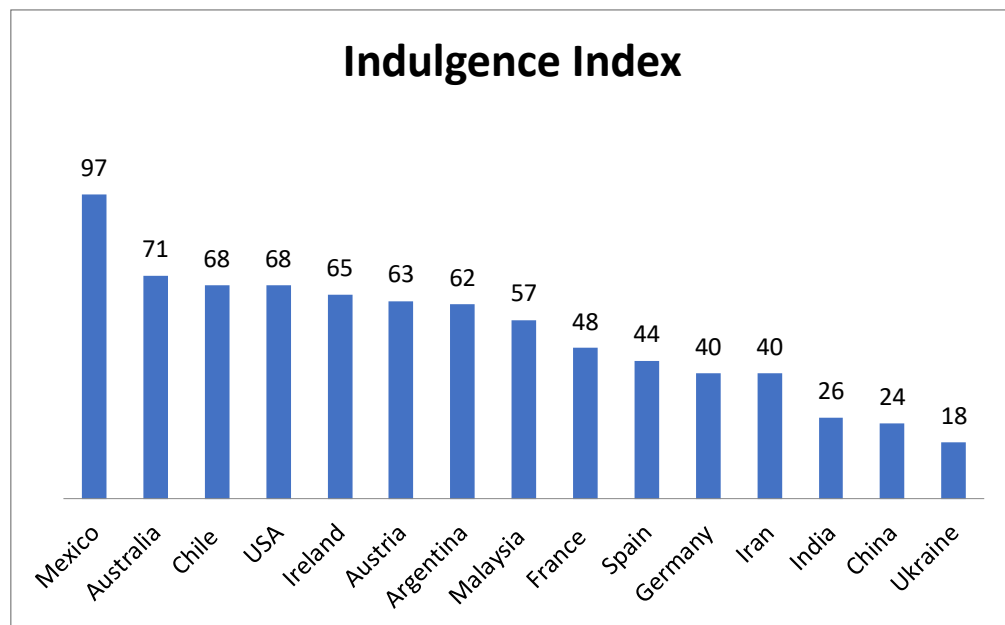
Source: adapted from Hofstede Insights, Compare countries

Indulgence versus Restraint

The last and relatively new dimension relates to the degree to which people tend to satisfy their basic human needs and impulses.

People from countries with a high score on Indulgence (e.g Mexico, Australia, Chile) demonstrate relatively weak control over their desires. They tend to feel happiness and favor sport activities. Oppositely, countries with a low score (e.g Ukraine, China) show relatively strong control over their desires and fewer can declare themselves as very happy people (Figure 8) (Boeing, 2012; Hofstede Insights, National culture).

Figure 8. Indulgence Index



Source: adapted from Hofstede Insights, Compare countries

2.2.2. Integration-Responsiveness Framework

Every company intending to expand into a new market faces global-local dilemma: whether to standardize business practices or to adapt them to the local market (De Mooij, 2010; Hofstede, 2011).

First presented in 1980 by C.K. Prahalad and Yves L. Doz Integration-responsiveness framework has been widely used in the field of international business and international management (Rugman, 2002). The prior aim of the model was to provide tools for analysis of global competition and to explain strategies of MNC while going abroad (Doerrenbaecher, 2016; Prahalad, 1987). IR framework considers such notions as global integration, global coordination and local responsiveness. While global integration and coordination allow taking advantages of centralizing and coordinating activities across markets, local responsiveness means local adaption and local manufacture in order to be competitive in a host market (Benito, 2005). As Rozkwitalska (2009) noticed, standardization versus adaptation principally refers to international marketing issue.

Global integration involves centralized management of MNC's activities across borders in order to gain cost efficiency and to realize economies of scale. Following this strategy brings certain advantages to a multinational company, such as access to required technology and skilled workers, opportunity to exploit successful idea and to implement global strategy worldwide (Doerrenbaecher, 2016; Furrer, 2006; Berry, 2009).

Global coordination refers to a strategy whereby headquarter regulates dislocated across countries and divisions assets, including coordination of R&D projects, pricing, HR practices etc. Unlike to a global integration, here MNC does not integrate company's activities but cooperates its dispersed assets (Doerrenbaecher, 2016).

Local responsiveness occurs when there are no benefits from global integration. According to this strategy, subsidiaries are responsible for decision making and headquarter monitors their activities. Local responsiveness involves high degree of adaptation of products/services and firm's practices to local environment providing an opportunity of strong host presence. It is the most appropriate strategy when a host country has specific requirements, regulations and customer preferences (Doerrenbaecher, 2016; Quelch, 2012; Rao, 2016).

According to Prahalad and Doz (1987) pressures for global integration, global coordination and local responsiveness are caused by certain reasons:

Pressures for global integration:

- Opportunity of cost reduction. For instance, location of production facilities in low-cost region or supply in large scale to several markets;
- Ongoing homogenization of customer demand. Today many products can be sold with no or little changes to different markets. It gives an opportunity to centralize manufacture and marketing;
- Particular technology related aspects. In order to protect specific technology it can be required to focus on a few integrated R&D and production sites;
- Access to specific raw materials and energy, as well as their high transportation costs.

Pressures for global coordination:

- Serving multinational customers. Managing global customers requires ability to handle them as single company worldwide. Thus, it leads to centralized coordination of purchase and supply;
- Need to monitor global competitors. International market is a competitive environment for multinational companies, thus, it is important to analyze competitor's strategy on a global scale and to respond to their moves;
- Need to protect company's reputation worldwide. It is crucial to understand, that customer compliance in one of the subsidiaries might damage company's image in general.

Pressures for local responsiveness:

- Different customer preferences. A company can face various region- or country specific customer needs and habits. Thus, in order to be competitive in a host market in some cases it is required to respond to the local customer attitudes and values. For example, taste of well-known Nestlé's coffee brand Nescafé differs from country to country representing local preferences: strong and bold coffee in Vietnam, mix of coffee beans, chicory and glucose in South Africa, coffee mix with cinnamon and panela in Mexico;

- Differences in distribution channels and marketing across countries. MNC needs to take into account that some countries might have specific distribution networks and marketing practices;
- Countries with specific culture and values. Customer attitude and habits might vary across countries. For this this reason, MNC should correspond the ways to communicate product benefits with the target group;
- Price levels of products and services. Pricing of products and services depends on local purchasing power and competitive situation on the market. In order to gain competitive advantage it is important to adapt pricing strategy locally;
- Host country government regulations and legal requirements. Trade policies, standards, product certification requirements and price control policies are among the prior issues for the company entering a new market;
- Power of local stakeholders. Financial institutions, communities, labor representatives, NGOs, consumer groups might obligate a company to “localize” its strategy.

Industries classification according to IR Framework

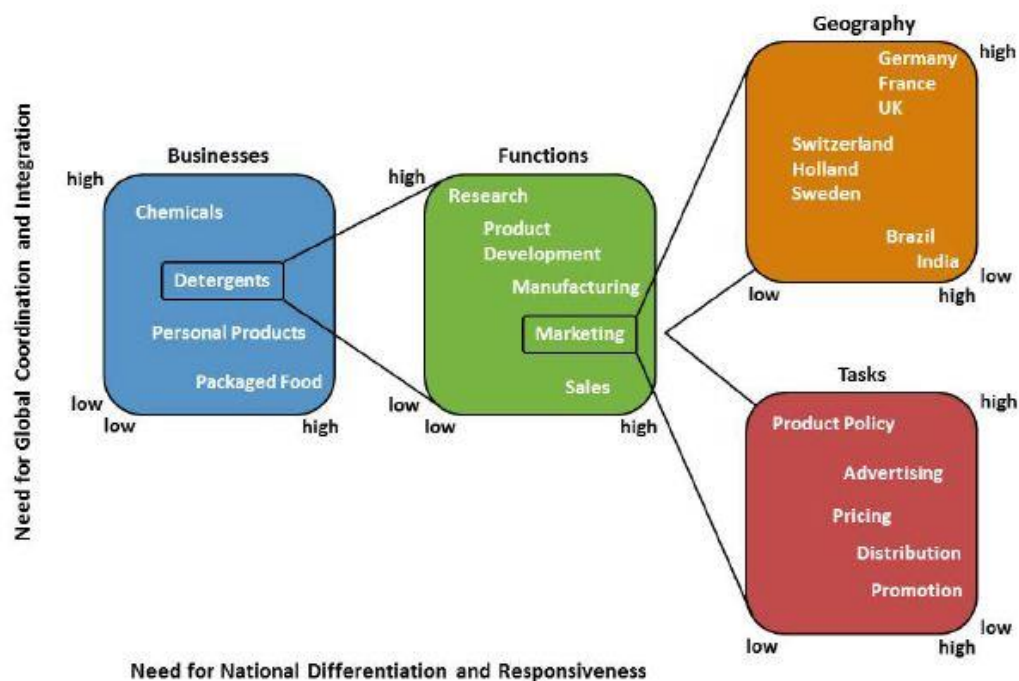
After publishing the IR framework, several researchers tried to classify industries according to the framework. In 1987 Rall presented his view of this classification. Due to relatively slow internalization of industries and protection of national market, Rall stated that only very limited number of industries, namely oil and copper, might have advantages of global integration, while many other industries (machine tools, electrical and automotive components, chemical products, food etc.) are forced to adapt to the local environment (Rall, 1986).

Later, as national industries have started to operate in foreign markets, situation has changed dramatically. In 1993 new classification of industries has been introduced by Ghoshal and Nohria. According to this classification, such businesses as food, beverages, rubber, tobacco and household products face pressures of local responsiveness, on the other side engine, scientific measuring instruments, nonferrous metals, construction and mining machinery businesses face strong forces for global integration.

There is also another view of applying IR framework. Scholars came to the conclusion that for a company with various product categories direct following either global integration or

local responsiveness strategy seem to be failing. As Prahalad and Doz (1987) noticed, even business functions within one company might be affected by different pressures and thus, might take different places in IR framework. Good example has been provided by Bartlett and Ghoshal (1987). They presented refined framework, based on in-depth case study of Unilever. Figure 9 demonstrates that some marketing functions in Unilever, e.g. product policy, might be standardized across countries, while other marketing functions, like promotion, need to be locally adapted. Furthermore, standardization of marketing practices might be attainable in some countries, e.g. Germany and France, and might not be possible in others, e.g. India and Brazil.

Figure 9. Unilever's Differentiated Organization



Source: Doerrenbaecher (2016), p. 18

2.2.3. MNC's Organizational Model

One of the major issues of MNC is to find the most efficient way of managing their activities around the world. In order to successfully operate a portfolio of multiple national markets it is important to respond to the differences between countries. From the other side, when global efficiency is crucial, centralized strategic and operational decision-making is preferred.

Finally, when it is important to transfer parent company's knowledge and capabilities to foreign markets, suitable organizational structure needs to match this goal (Leong, 1993).

In 1989 two prominent scholars Bartlett and Ghoshal presented very influential in international business literature framework regarding MNC. This framework indicated strategic options for a company going international, based on two pressures - local responsiveness and global integration. Therefore, the authors identified four generic worldwide strategies and associated organizational models: international, multinational, global and transnational (Leong, 1993, Morschett, 2015). In Figure 10 multinational companies are grouped according to their strategic orientation. As it is illustrated in the matrix below, global and international organizations face low pressure for local responsiveness, while multinational and transnational companies face high pressures for local responsiveness.

Figure 10. The Bartlett and Ghoshal Model



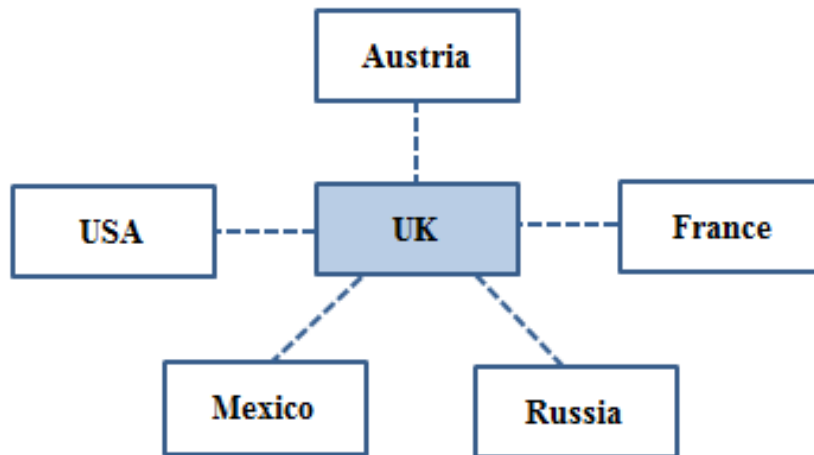
Source: Adapted from Bartlett and Ghoshal 1989, p. 438

International Organizational Model

Developed in early postwar decades, this type of organizational structure provides transferring and adapting of the home organization's expertise to environment in foreign subsidiaries. According to the model, prior company's business functions and sources of core competencies are centralized, while others are decentralized (Figure 11). A headquarter controls R&D, technological innovations, management systems in general and influences subsidiaries. Affiliates have low degree of independence and autonomy; however they might adapt new products or marketing strategies coming from a headquarter. Typically,

international structure of organization is preferred in telecommunications switching industry (Bartlett, 1998; Furrer, 2006; Ietto-Gillies, 1996). The main benefit of this model is possibility to share parent company's knowledge and innovations with subsidiaries. Nevertheless, it does not provide ability to realize location economy (Shah, 2012).

Figure 11. International Organizational Structure: Coordinated Federation

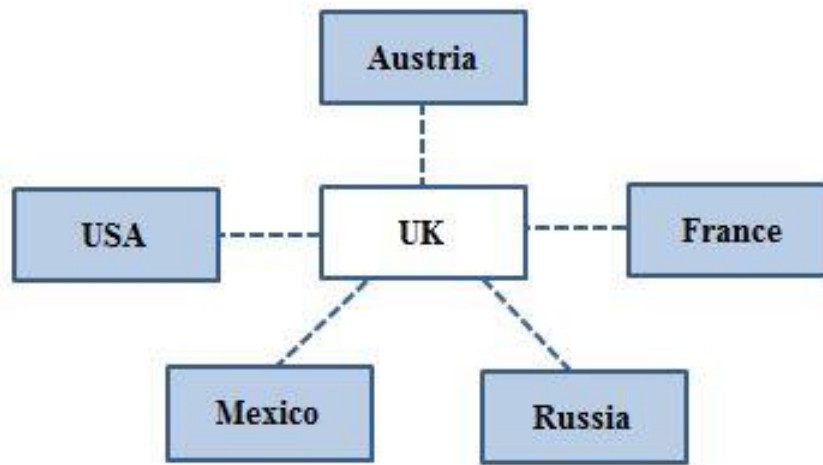


Source: adapted from Shah (2012) and Bartlett (2000)

Multinational Organizational Model

This model is typically adapted in a decentralized organization with portfolio of autonomous national companies (Figure 12). Due to economic, political and social forces MNC is driven to disperse its assets and capabilities among foreign markets. It gives an opportunity to respond to requirements of local environment and to meet local demand. Parent company controls and coordinates markets mainly through personal relationships with subsidiary managers. Thus, subsidiaries are relatively independent from a parent company. Typically, multinational organizational structure tends to be adapted in the branded packaged products industry e.g. food and laundry detergents. The main strength of this structure is that it gives high importance to local responsiveness and further allows exploiting of opportunities of local market. Oppositely, the major weakness of this model is that innovation and experience developed in one country most likely will not be exploited in other country. (Bartlett, 1998; Furrer, 2006; Ietto-Gillies, 1996; Shah, 2012).

Figure 12. Multinational Organizational Structure: Decentralized Federation

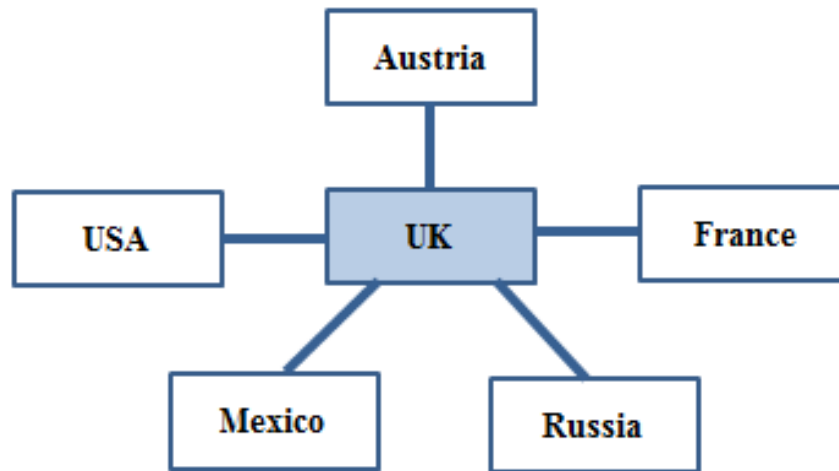


Source: adapted from Shah (2012) and Bartlett (2000)

Global Organizational Model

This organizational structure is the most suitable for highly centralized multinational companies that focus mostly on reaching scale efficiency (Figure 13). According to this model, home organization develops global strategy and creates full value chain. Headquarter is also responsible for innovations and company development. Consequently, power of subsidiaries is very limited as they rely on assets and know-how of parent company. The main function of subsidiaries here is to sell products and to implement company's policies. This type of structure can be usually found in consumer electronics industry. Prior advantage of the model is that standardization and centralization lead to economies of scale and related profits. In opposite, main disadvantage of the model is that such organizational structure does not allow learning from foreign countries (Bartlett, 1998; Ietto-Gillies, 1996; Shah, 2012).

Figure 13. Global Organizational Structure: Centralized Hub

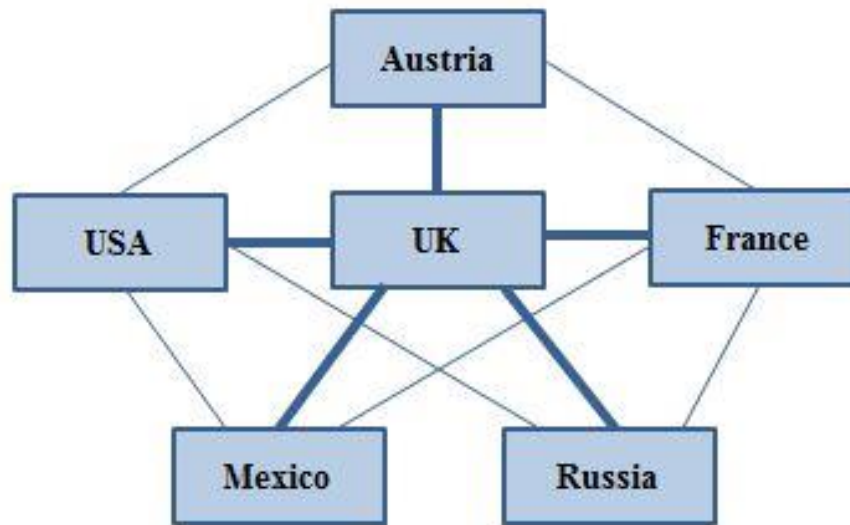


Source: adapted from Shah (2012) and Bartlett (2000)

Transnational Organizational Model

In 1980s this model has often been adopted by global industries. This type of structure pursues to maximize both integration and responsiveness in order to reach multidimensional strategic goals. MNC represents an independent network, where assets, capabilities and knowledge are dispersed across countries (Figure 14). It is relatively new and complex structure, wherein different units are responsible for different activities and have certain strategic mission. Hence, transnational organizational model has simultaneously three important strengths: efficiency, flexibility and local responsiveness. From the other side, this structure is complex and therefore its implementation might be challenging (Bartlett, 1998; Furrer, 2006; Ietto-Gillies, 1996; Shah, 2012).

Figure 14. Transnational Organizational Structure: Integrated Network



Source: adapted from Shah (2012) and Bartlett (2000)

2.2.4. Strategic Orientation of MNCs

Company's philosophy and guiding principles towards foreign markets and managing overseas customers become central issue when internalization takes place. MNC's attitude towards internalization shapes the level of involvement of headquarters in policies and strategies of affiliates (Paul, 2008; Crnjak-Karanović, 2002).

In 1969 Perlmutter introduced EPG typology of strategic attitude of MNCs: E–ethnocentric, P–polycentric, G–geocentric. Further, in 1979 Perlmutter and Heenan added the fourth orientation, named regiocentric and so completed EPRG concept. The scholars identified four distinctive management approaches, whereby MNC follows home country, host country, regional or global cultural orientation in international scale (Grachev, 2009). However, Perlmutter stated that these four strategic predispositions rarely exist in a pure form (Perlmutter, 1969; Heenan, 1979).

The EPRG typology can be considered as powerful analytical tool in making an optimal decision while going abroad and coordinating international activities. EPRG attitude can also be observed in culturally sensitive functions, such as human resources and marketing.

Moreover, this concept can assist in monitoring and evaluating competitors' behavior (Rozkwitalska, 2009).

Perlmutter argued that EPRG concept reflects evolution of MNCs through certain stages (Table 1). Thus, a company begins from ethnocentric and then follows polycentric approach. With increasing number of export markets, MNC might be more focused on regions and so become regiocentric. The last stage in the evolution of multinational company is geocentrism, where a company has global focus and considers both multiple markets and regions (Crnjak-Karanović, 2002; Perlmutter, 1969).

Table 1. Stages in evolution of MNC

Stage and Company	Strategy	View of World	Organizational Structure	Orientation
1. Domestic	Domestic	Home Country	NA	Ethnocentric
2. International	International	Extension Markets	International: Coordinated Federation	Ethnocentric
3. Multinational	Multinational	National Markets	Multinational: Decentralized Federation	Polycentric
4. Global	Global	Global Markets or Resources	Global: Centralized Hub	Regiocentric
5. Transnational	Global	Global Markets and Resources	Transnational: Integrated Network	Geocentric

Source: Adapted from Crnjak-Karanović (2002), p. 67

Ethnocentric (home-country oriented approach)

Ethnocentric orientation describes a company that in its international business activities follows domestic perspective. The main goal here is to increase sales of the domestic products by expanding into foreign markets. Decision-making is oriented towards conditions and values from home-country market and is superior to the subsidiaries. Marketing and pricing policy for overseas markets are conducted and dictated by head office. A product is standardized by the home country and supplied to the markets with similar demand. Typically, company that follows ethnocentric approach is highly centralized and prefers global organizational structure. As major decisions in personnel management are made in

headquarters, key positions in host country are held by expatriates from parent country. From the other side, disadvantage of this orientation is that behavior of the ethnocentric company is quite predictable (Ietto-Gillies, 1996; Kucza, 2011; Sanyal, 2009; Heenan, 1979; Blythe, 2005; Paul, 2008; Crnjak-Karanović, 2002; McFarlin, 2006; Rozkwitalska, 2009).

Polycentric (host-country oriented approach)

According to this strategic predisposition, in its international activities MNC adapts parent company's practices to the local environment. This approach highlights cultural differences among countries and holds the view that affiliates are quasi-independent and are permitted to take decisions in certain areas. Each market is unique and holds equal importance, therefore, should be served differently. Polycentric company realizes importance of differences between foreign markets and due to this focuses on each country separately. Also subsidiaries are responsible for marketing research, pricing, promotion and product adaptation in order to match local customer needs. Typically, key positions in foreign affiliates are held by host country nationals. However, this approach has a drawback – it does not allow taking benefits from global coordination between subsidiaries such as, for instance, economies of scale (Ietto-Gillies, 1996; Kucza, 2011; Sanyal, 2009; Heenan, 1979; Blythe, 2005; Paul, 2008; Crnjak-Karanović, 2002; McFarlin, 2006; Rozkwitalska, 2009).

Regiocentric (region-oriented approach)

The regiocentric orientation is considered as a balance between integration and differentiation strategy. It is a stage between polycentric and geocentric approach. Markets are grouped regionally on a basis of economic, political and cultural similarities. For example, Japan and China can be formed in one region group, India, Bangladesh and Pakistan in other one. As the main goal of regiocentric attitude is to serve a large group of customers with similar needs, strategy, product and marketing activities are standardized regionally. Whereas, regional office controls and coordinates these activities in order to reach business objectives. A regiocentric philosophy derives from both, geocentric and polycentric. The employees can move from one country to another in a particular region but the employment decisions are based on the skills, abilities and performance of potential staff. (Ietto-Gillies, 1996; Kucza, 2011; Heenan, 1979; Blythe, 2005; Paul, 2008; Crnjak-Karanović, 2002; McFarlin, 2006; Rozkwitalska, 2009).

Geocentric (world-oriented approach)

According to the geocentric or world-oriented approach, organization is perceived as a global entity. Geocentrism is quite similar to regiocentrism except that geocentric company deals with a whole world, not regions. MNC that follows geocentric attitude aims to achieve operational efficiency. It can be gained through offering similar products and services worldwide. Good examples of companies that are guided by geocentric approach are McDonald's, Pizza Hut and Cookie Man. These companies sell universally recognized, easy identifiable global brands worldwide and follow global marketing strategy. Geocentric firms might in some extent adapt the products but only for adding value to the customer. While selecting international personnel such companies focus on their ability and performance rather than on nationality. Behavior of geocentric companies is hard to predict as they respond to the reality, modifying existing products as it is required (Ietto-Gillies, 1996; Kucza, 2011; Sanyal, 2009; Heenan, 1979; Blythe, 2005; Paul, 2008; Crnjak-Karanović, 2002; McFarlin, 2006; Rozkwitalska, 2009).

2.2.5. Cross-cultural Models

In the late 80's Professor of Organizational Behavior and International Management at McGill University Dr. Nancy Adler presented the model of interaction between multinational's corporate, national and organizational cultures for subsidiaries, classifying three different types of behavior - cultural domination, cultural coexistence and cultural cooperation (Adler, 1986). As Rozkwitalska (2009) pointed out, typically, a multinational organization applies a cultural coexistence model, while transnational manages solve their cultural problems in synergistic manner.

Cultural domination

This is a case in which one culture clearly dominates and affects behavior of representatives of other cultures. Most often a dominant culture is a culture of a parent organization. A parent company dictates style of management, values and norms while culture of a child company is ignored. The host corporate culture is superior and prevails over national foreign subsidiary organizational culture. The cultural domination model is the easiest to be practices because it

does not require any special management skills or knowledge. The pitfall of the model is that such management behavior may complicate social acceptance of different practices. This model can be observed in Japanese companies, where exists an opinion that the use of Japanese management methods also requires the use of Japanese models of behavior (Rozkwitalska, 2009; Krasinski, 2012; Wujkowski, 2013).

Cultural coexistence

This type of cultural interaction occurs when two different cultures within one organization operate in parallel. It allows coexistence of subcultures of subsidiary interacting in a limited way. According to this model host and home organizations looking for a compromise and try to find acceptable solutions for all parties, allowing effective functioning of subsidiary. Here is very important to follow conflict-avoiding strategy, to highlight similarities in philosophy, and to share common goals and values. As a result, compromised style of management is created. (Rozkwitalska, 2009; Krasinski, 2012; Wujkowski, 2013).

Cultural cooperation

The cultural cooperation model promotes synergy of characteristics of incorporating and incorporated cultures, and as a consequence, a new organizational culture is designed. Tolerance and respect for individual cultural patterns are important and considered as positive for employees and company development. In order to provide flow of new values continuous cross-cultural interactions are desired. However, deployment of this model is not always positive from the economic point of view as it is effort, time and cost consuming.

There are two types of cultural cooperation – natural and forced. The first type means natural adaptation of both cultures to each other over the time, while forced cooperation can be considered as artificial and illusory because it accepts other culture only when it is appropriate (Rozkwitalska, 2009; Krasinski, 2012; Wujkowski, 2013).

In reality, choice of the right model of cultural interaction depends on various factors. But primarily it is a management decision, which should be carefully coordinated because it impacts successful functioning of the host company and its ability to be culturally effective (Krasinski, 2012).

2.2.6. Research Model

As it was already mentioned, development of international strategy requires considering external and internal factors. External factors involve forces for global integration and local responsiveness, as well as characteristics of company's national culture. Internal factors include strategic attitude of MNC, company's organizational model, and cross-cultural model of management.

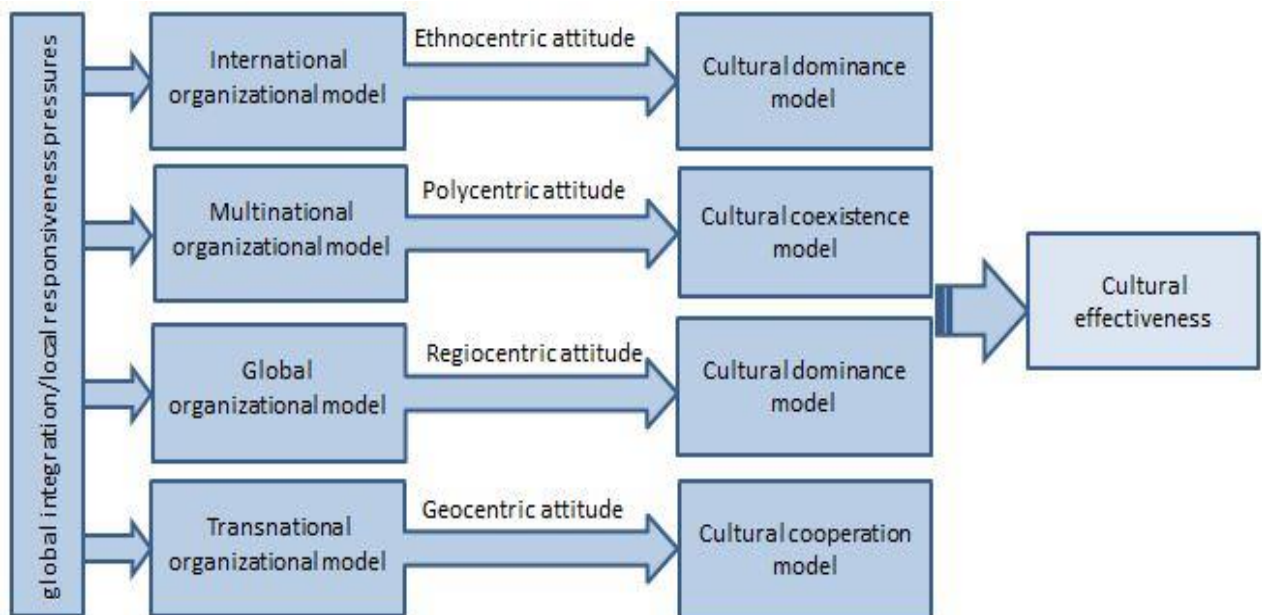
The Bartlett and Ghoshal Model presented in subsection 2.2.3 showed which strategy fits the most to a given environmental situation considering pressures for global integration and local responsiveness. For example, if the pressures for global integration and local responsiveness are high, the most appropriate organizational strategy and model is transnational etc.

According to Crnjak-Karanović (2002) evolution of MNC involves company's growth from international to transnational model of organization and from ethnocentric to geocentric approach. Consequently, a company adapted international organizational model tends to follow ethnocentric approach, multinational – polycentric, global – regiocentric and transnational – geocentric.

Cultural diversification of MNC depends on the company's approach in cross-cultural management. As an international company enters host country analogous to the home country, this type of organization is the least diversified. This means that such organization follows the model of cultural dominance. Being diversified though culturally separated foreign affiliates, multinational organization tends to follow cultural coexistence model. Both cultures host and home coexist in subsidiaries. In a global company corporate culture dominates, while importance of local cultures is reduced. This indicates implementing of cultural dominance model. As a transnational company is strongly diversified, its corporate culture naturally evolves facing pressure of the host countries environment. Thus, cultural cooperation model is the most suitable in this case (Rozkwitalska, 2009).

Based on the theoretical foundations highlighted earlier, Figure 15 presents research model of this thesis. The model extends connection between determinants of culture effectiveness, demonstrated earlier in subsection 2.2. Fit between all these elements leads to “cultural effectiveness”.

Figure 15. Research model



Source: partly based on Rozkwitalska (2007), p. 230

3. Global FMCG Market

3.1. Characteristics of the FMCG Market

Fast moving consumer goods (or consumer packaged goods) are products that are sold quickly and at relatively low cost. Though the profit margin made on FMCG products is relatively small (more so for retailers than for producers/suppliers), these products are generally sold in large quantities; thus, the cumulative profit can be substantial. This is probably the most classic case of low margin and high volume business. FMCG is a quick and agile industry with a wide range of products (Kumar, 2002). In general, this segment goes well through economic downturn, as customers are more likely to reduce spending on luxury products rather than on food (KPMG, 2016). Confederation of Indian Industry (2005) defines FMCG as one of the largest industries in the world. The product characteristics are unique because these products are non-durable, branded, packaged and consumed every month directly by the end consumer (Bala, 2011).

Main segments of the FMCG industry:

- Packaged food and beverages: health beverages, staples/cereals/bakery products, snack food, chocolates, ice cream, tea, coffee, soft drinks, processed fruits, vegetables, dairy products, soft drinks, bottled water, juices;
- Personal care: oral care, skin care, hair care, cosmetics and toiletries, deodorants, perfumes, feminine hygiene, paper products, personal wash;
- Household care: fabric wash (laundry soaps and synthetic detergents), household cleaners;
- Spirits and tobacco (Srinivasu, 2014).

However, not all FMCG organizations handle the entire range of product segments. A Deloitte (2009) report found that among the leading 250 global consumer goods firms, six of the top 20 FMCG organizations (Nestlé, Procter & Gamble, Unilever, Pepsico, Kraft Foods and Coca- Cola) – based on net sales in financial year 2007 – are involved with only two product segments in common, i.e. ‘dairy’ and ‘packaged food’. In addition, these two product segments have been identified as universal ones. Furthermore, challenges faced by these segments are independent of natural and geographic conditions (Confederation of Indian

Industry, 2005; Parthasarathy, 2009). Therefore, probability of obtaining worthwhile results when comparing supply chains of the two segments between different countries is high. In turn, agile and rapid responsiveness, highlighted by Fisher et. al (1994), are the key differentiators of FMCG industry. Cheng (2009) added that rapid response is one of the prior strengths of the industry. Thus, according to Bala (2011) efficient customer response approach is one of the main requirements for this industry.

In recent years, fast moving consumer goods sector was witnessing increased use of sales promotion activities all over the world. This sector is characterized by following: products have low unit value, frequent purchases are required, impulse buying, consumer behavior reflects less loyalty and low involvement (Kotler, 2003).

FMCG products have such distinct elements:

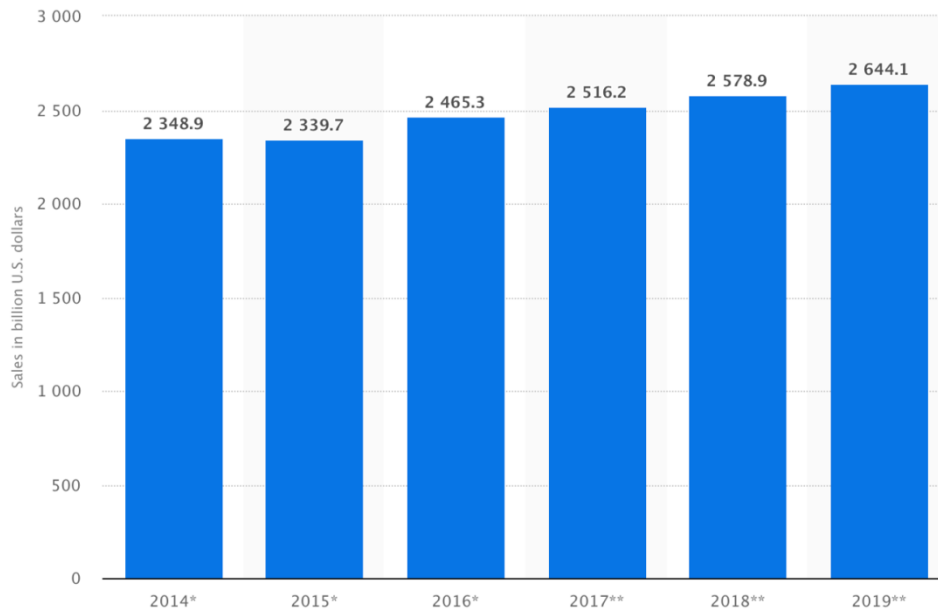
- Individual products are of small value. However, all gathered FMCG products form a significant part of an individual's monthly budget. For example, monthly expenditures for tooth paste, shampoos, food products etc. Price of each of these individual items is relatively low, but the total cost of these products might account for about 97% of a consumer's monthly budget;
- Consumer tends to purchase FMCG products extremely frequently and whenever the products are required. The reason for this is that most of the products are perishable and non-durable and hence, a consumer buys them as and when the need arises;
- Consumer does not spend too much time in making his/her decision when it comes to buying a FMCG product;
- Advertising and recommendations of friends and neighbors usually play a major role for trial of new FMCG products;
- FMCG products come in wide assortment and often cater to necessities, comfort and luxury items. Since FMCG products cover such a wide range, they often cater to the entire population. Hence, price and income elasticity of demand vary across products and consumers (Singh, 2014).

3.2. Market Overview

3.2.1. Global FMCG Market

As presented in Figure 16, starting from 2015 global FMCG market has shown growth. In 2016 global sales of FMCG products have reached 2.47 trillion U.S. dollars. Based on sales forecast, the market will gain circa 2.64 trillion U.S. dollars by 2019. The international leading food retailers Walmart and Carrefour are expected to increase global sales up to 572.51 and 143.32 billion U.S. dollars respectively by 2019 (Statista/Packaged food sales worldwide from 2014 to 2019).

Figure 16. Packaged food sales worldwide from 2014 to 2019

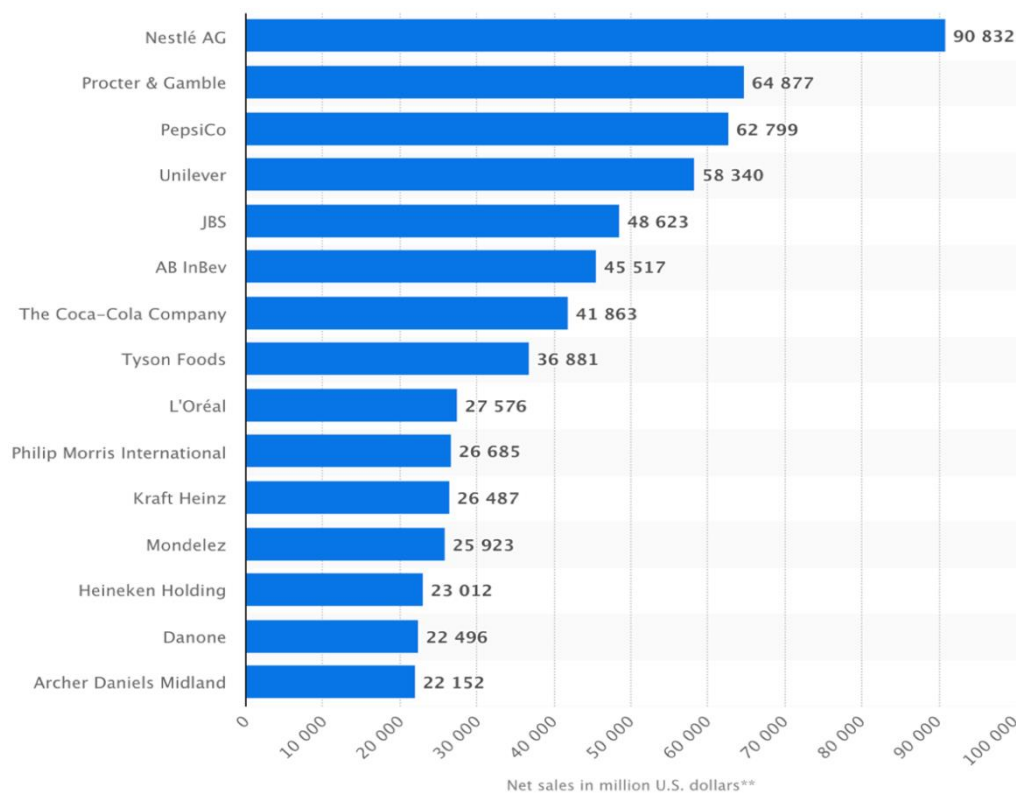


Source: Statista/Packaged food sales worldwide from 2014 to 2019

Global FMCG Market can be divided into main geographic regions: Asia-Pacific, Europe, United States, North America, South America, Middle East and Africa. According to market study “Global Fast-Moving Consumer Goods Packaging Market 2016-2020” (Technavio, 2016) Asia-Pacific region will increase market share in the next years and the most fast growing regions will be China, India and Southeast Asia. In 2015 European region was dominant and this market will retain its position growing at a CAGR of over 4% until 2020 due to customer preferences for convenient and cost-effective products. North America and especially United States also will play a crucial role in global FMCG market. Any changes in this region might influence development trend of the industry (MarketersMEDIA, 2017).

FMCG market is highly competitive, thus, in order to meet customer expectations, market players are motivated to create new innovative products and to maintain customer loyalty towards their brands. Figure 17 presents the leading key players of global FMCG market in 2017, based on generated net sales in million U.S. dollars. In that year, Nestlé AG was ranked as absolute leader with net sales of about 90,832 billion U.S. dollars. Top five FMCG companies list also entered Procter&Gamble (\$64,877B), PepsiCo (\$62,799B), Unilever (\$58,340B) and JBS (\$48,632B). All these companies operate internationally hence, they have to fulfill country-specific requirements, as well as have to adapt product formulas to local customer preferences (Statista/Top 50 FMCG companies worldwide in 2017, based on net sales).

Figure 17. Top 15 FMCG companies worldwide in 2017

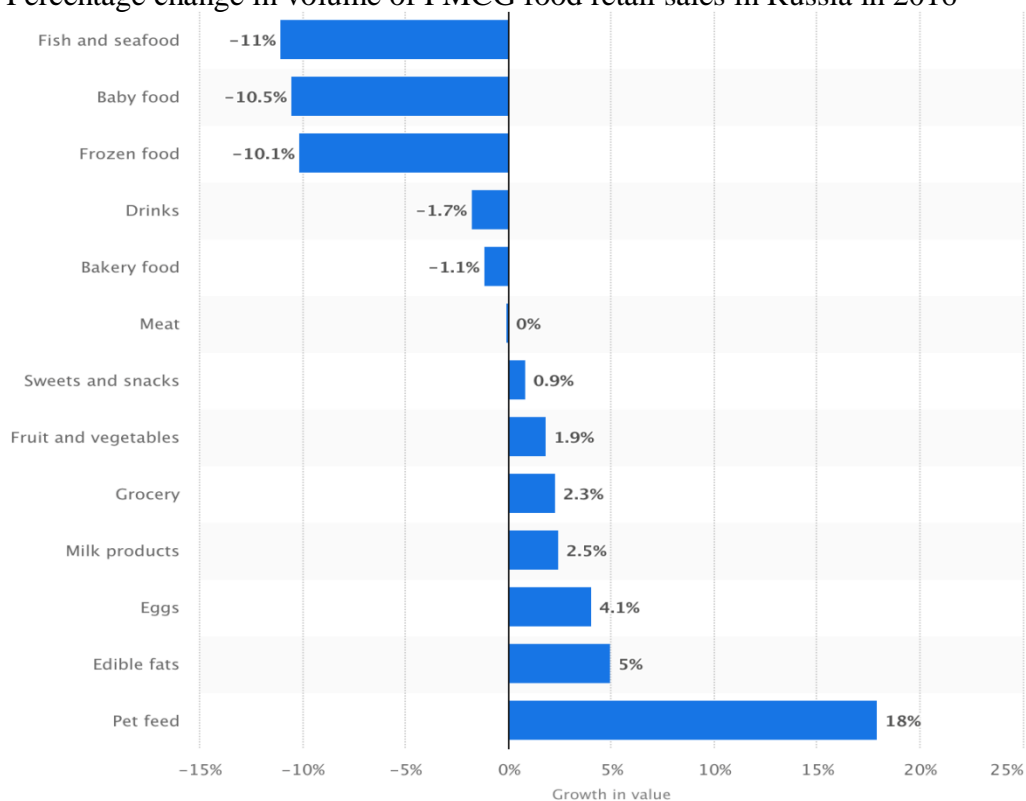


Source: Statista/Top 50 FMCG companies worldwide in 2017, based on net sales

3.2.2. FMCG Market in Russia

In 2014 Russia faced economic downturn that has led to decreased retail volume in FMCG market during 2015-2016. Furthermore, it has affected customer behavior – consumer became more price-sensitive and started to purchase more rational. Thus, price became the most important purchasing decisions driver, leaving behind health and wellness trends. Despite the food embargo enacted in 2014 and extended until 2017, global producers like Groupe Danone, PepsiCo, Mars etc. continued to dominate the FMCG market in Russia in 2017. This was achieved due to high level of localization of production facilities in Russia. During 2016, food retailers also managed to achieve an increase in sales volume of FMCG products in certain categories. The figure below shows the percentage change in volume of FMCG food retail sales in Russia in 2016. Pet feed demonstrated the highest positive change in volume (+18%), followed by edible fats (5%) and eggs (4,1%). Oppositely, among food categories that has decreased in retail sales volume are fish and seafood, baby food, frozen food, drinks and bakery food (Statista/Percentage change in volume of fast moving consumer goods (FMCG) food retail sales in Russia in 2016).

Figure 18. Percentage change in volume of FMCG food retail sales in Russia in 2016



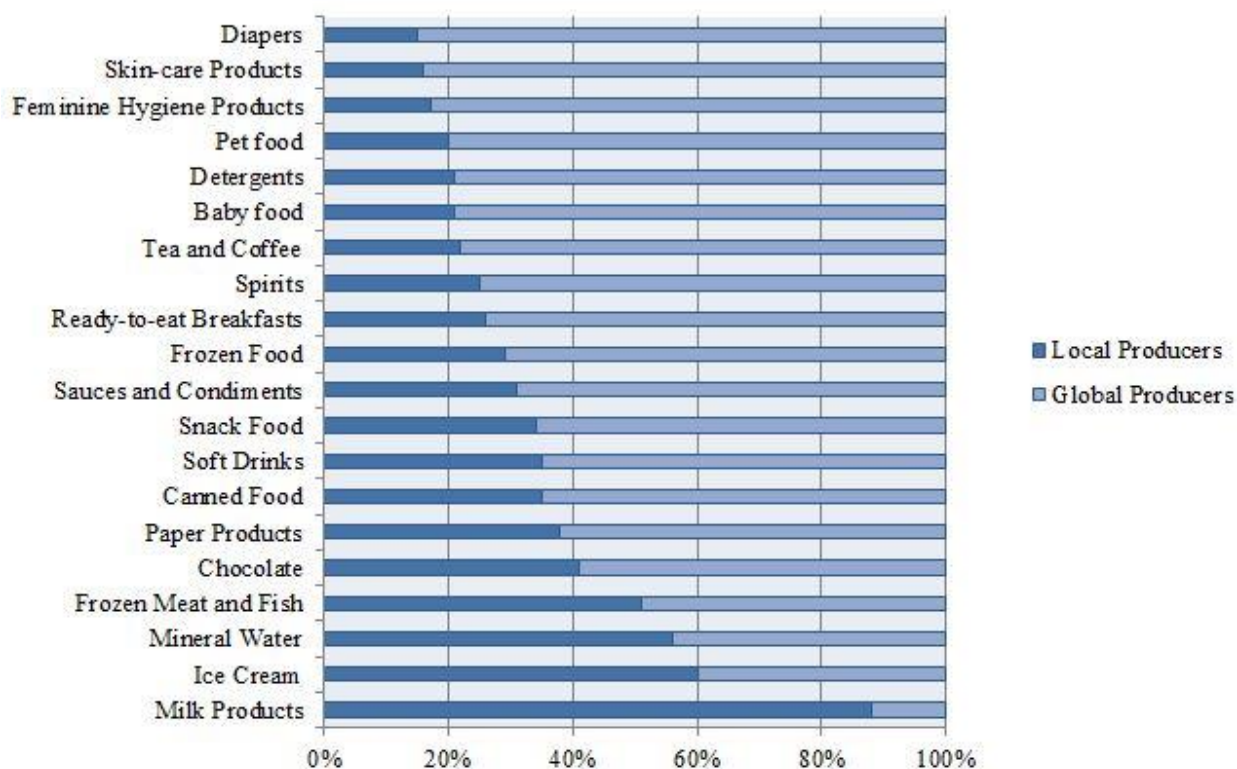
Source: Statista/Percentage change in volume of fast moving consumer goods (FMCG) food retail sales in Russia in 2016

In 2017 real GDP growth in Russia demonstrated positive changes for the first time since 2014. However, despite further forecasts of moderate economic growth and, as a result, an increase in the purchasing power of consumers, this will not be enough to facilitate the rapid growth in FMCG product sales in Russia (Statista/Percentage change in volume of fast moving consumer goods (FMCG) food retail sales in Russia in 2016; Euromonitor, 2017).

Local vs. Global Producer

According to a global survey of consumers' attitudes towards the origin of producer, Nielsen emphasized the top three FMCG categories, in which Russian consumers mostly choose domestic producers, such as: dairy products (88% prefer local producers), ice cream (60%) and mineral water (56%) (Figure 19). Making purchases in these categories Russian customers are guided not only by the price, but also by freshness of the product, and hence by the origin of production. While Russians say they tend to buy these products from local producers, real sales data shows that not only local companies but also global ones are in high demand, which indicates successful positioning of the latter. Global companies effectively use familiar to Russian consumer motives in advertising and packaging, as well as have factories in Russia, mainly using local raw materials (Nielsen, 2017).

Figure 19. Preferences of Russian consumer regarding brand origin

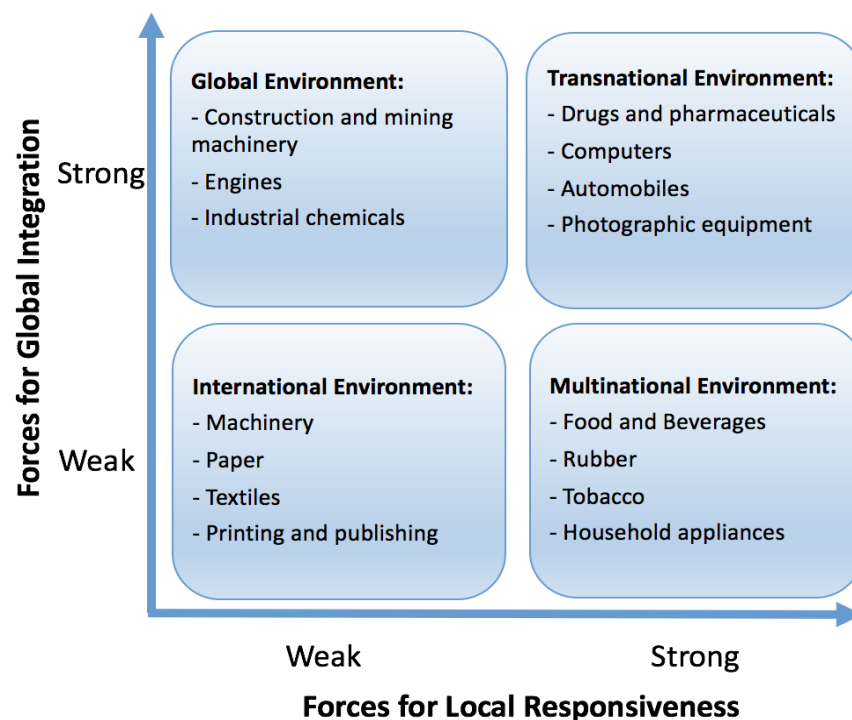


Source: adapted from Nielsen, 2017

3.3. Industry Analysis and Future Trends

According to industry classification, demonstrated in Figure 20, FMCG industry faces multinational environment with high pressures for local responsiveness and little advantages from global integration. This means that operating in FMCG market often forces international companies to adapt their marketing and management practices, as well as product formulas to the local markets.

Figure 20. Classification of industries according to IR framework



Source: adapted from Ghoshal and Nohria (1993)

As for the future forces of the FMCG industry, after detailed industry-wide analysis McKinsey&Company (2010) identified five major demand- and supply-side trends which will matter over the next decade and will influence industry profit:

- Growth of emerging markets: it is expected that global growth share of emerging countries in Asia will increase from 18 to 30 percent resulting global middle-class expansion;
- Rising importance of digital technology, including e-commerce: in order to succeed in a new digital world, it is crucial for a company to know how to exploit technology

effectively, using online channels, building online campaigns, understanding consumers better with a help of internet. Digital marketing, social media, user-generated content, e-commerce, web stores will be required tool in a struggle for the client;

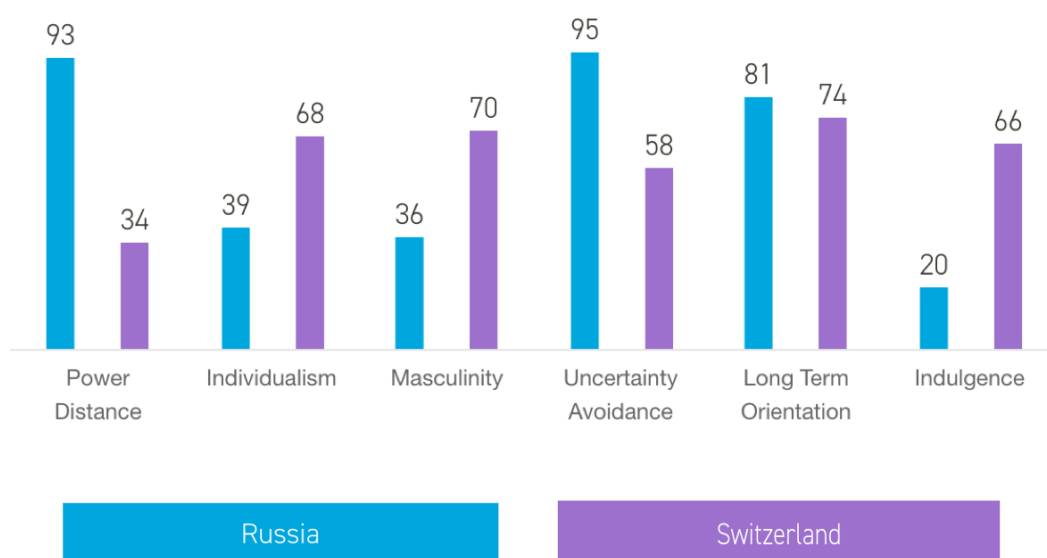
- The shift to value: leading companies of the future will have to be able to create superior value-focused brands combining great functional benefits and reasonable prices;
- Demographic changes: according to United Nations report (World Population Prospects, 2008), by 2030 total over-65 population will reach 1 billion. However, experts predict other demographic trend – by 2020 total population of people younger than 50 will increase up to 700 million;
- Rising supply chain volatility: over the coming decades FMCG companies will face new supply-side challenges, like increasing volatility of commodity input costs, caused by reduction of natural resources, and emergence of fewer but bigger vendors.

4. Environmental Analysis: Comparison of Swiss and Russian Cultures According to Hofstede

Before Swiss company considers expanding Russian market it is important to take into account existing cultural differences between these two countries, as well as to adapt products to customer needs of the host country.

The results of comprehensive Hofstede's study showed that Switzerland and Russia have many differences and very few similarities in the presented sixth dimensions of national culture (Figure 21).

Figure 21. Comparison of Swiss and Russian cultures



Source: Hofstede Insights/Country comparison

Power Distance: Russia 93, Switzerland 34

Russia's score is very high on this dimension (score of 93). This means that power holders are very distant in this society. It can be explained by the fact that Russia, being the largest country in the world, is also a very centralized country. About 2/3 of all foreign investments are directed to Moscow, concentrating 80% of the total financial potential. Since Russia has a huge power distance, this leads to importance to emphasize social status in all areas of business interactions, as well as to follow top-down approach.

On this dimension Switzerland has relatively low scores – 34 characterizing Switzerland as independent society with tendency to minimize inequalities amongst people, to decentralize power, to rely on team work and to communicate directly. Swiss follow hierarchy for convenience only and in general dislike control (Hofstede Insights/Country comparison).

Individualism: Russia 39, Switzerland 68

Having relatively low score (39) Russia is considered as a country with collectivistic culture. Support of family and friends is very important in order to resist everyday life's difficulties. In business area are extremely valuable relationships and connections.

Switzerland, with a score of 68 is an Individualist society. Swiss prefer to have a loosely-knit social framework where people usually take care of themselves and their families only. Here is common to have mutually beneficial contract between employer and employee and to be promoted after certain merits only (Hofstede Insights/Country comparison).

Masculinity: Russia 36, Switzerland 70

Scoring 36, Russia has rather feminine culture. In this society people prefer to understate their personal achievements and to talk modestly about themselves when meeting a stranger. While manager's authoritative behavior might be accepted, this will not be appreciated among peers.

In opposite to Russia, Switzerland has high score on this dimension (70). This masculine society "lives in order to work" and, consequently, is highly success oriented. Managers tend to be decisive and authoritative (Hofstede Insights/Country comparison).

Uncertainty Avoidance: Russia 95, Switzerland 58

At 95, Russians exhibit to avoid ambiguous situations, preferring detailed planning. Having context and background information is very important for decision-making. Also, such culture has an emotional need to have rules even if they do not work, as well as to have strict codes of belief and behavior. People get used to be hard-workers.

Moderate score of 58 perhaps demonstrates difference between French and German parts of Switzerland. While French speaking Switzerland tend to avoid uncertainty, German speaking Switzerland can deal with that (Hofstede Insights/Country comparison).

Long Term Orientation: Russia 81, Switzerland 74

On this dimension both countries have high scores. Switzerland and Russia have pragmatic cultures, characterized by thriftiness and willingness to invest. In pragmatic societies people are open to adapt their traditions according to new conditions. Additionally, they believe that truth is a relative term and a lot depends on situation and context (Hofstede Insights/Country comparison).

Indulgence: Russia 20, Switzerland 66

Showing very low score on Indulgence dimension indicates that Russia relates to restrained society. Representatives of such culture have tendency to be cynical and pessimistic. In Russia it is common to control desires and to act with accordance to social norms.

In contrast to Russia, Switzerland has high score of 66 on this dimension being indulgent society. Such culture demonstrates willingness to enjoy life and realize inner impulses. Swiss tend to be optimistic and consider pleasure and fun as important element of happy life (Hofstede Insights/Country comparison).

5. Case Study of Nestlé

5.1. Nestlé Global

Founded in 1866 today Nestlé is the world's largest food and beverage company with headquarter in Vevey, Switzerland. The company operates in 191 countries, having more than 2000 brands and 328 000 employees worldwide. In 2016 Nestlé's sales amounted to 89 469 Mio. CHF, that is higher than in 2015 on 684 Mio. CHF. The table below illustrates company's sales by geographic areas. Company's largest markets are the United States, China, France and Brazil. The biggest growth in 2016 compared to 2015 reached Japan (+21,3% in CHF), United States (+5,6% in CHF) and Russia (+5,2% in CHF). Additionally, organic growth of emerging markets was higher than organic growth of developed markets (Nestlé's Annual Report, 2016).

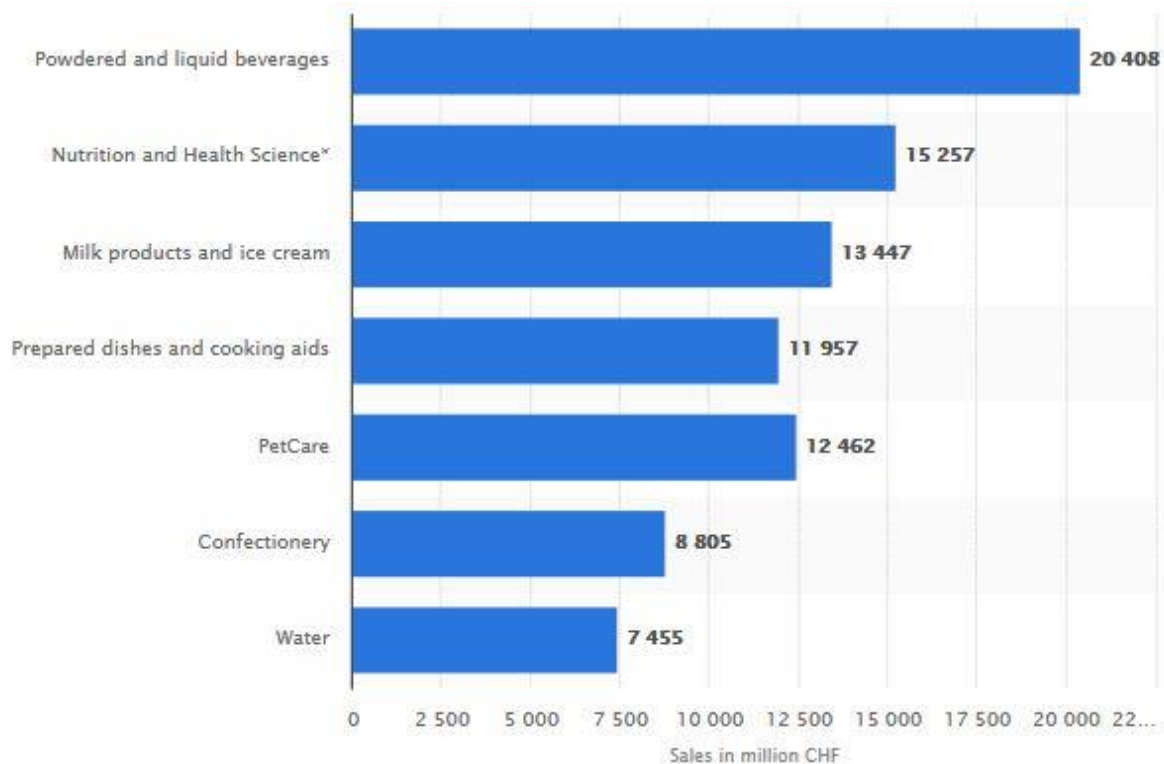
Table 2. Sales by geographic areas

	Differences 2016/2015 (in %)		in CHF millions 2016
	in CHF	in local currency	
By principal markets			
United States	+ 5.6%	+ 3.2%	26 704
Greater China Region	- 7.4%	- 4.4%	6 536
France	- 7.6%	- 9.5%	4 478
Brazil	+ 5.0%	+ 6.5%	4 120
Germany	- 1.9%	- 3.9%	2 874
Philippines	+ 3.6%	+ 5.7%	2 741
United Kingdom	- 9.3%	+ 0.4%	2 725
Mexico	- 5.6%	+ 8.7%	2 596
Canada	+ 2.5%	+ 3.5%	1 893
Italy	- 0.3%	- 2.4%	1 861
Japan	+ 21.3%	+ 6.8%	1 747
Spain	+ 1.3%	- 0.8%	1 690
Australia	+ 1.3%	- 0.8%	1 519
Switzerland	- 4.8%	- 4.8%	1 475
Russia	+ 5.2%	+ 11.9%	1 400
Rest of the world	- 0.1%	(a)	25 110
Total	+ 0.8%	(a)	89 469

Source: Nestlé's Annual Report, 2016

The figure below demonstrates Nestlé Group's global sales by product category in 2017. In that year, leading product category was powdered and liquid beverages generated approximately 20.41 billion CHF in global sales.

Figure 22. Nestlé Group's sales worldwide in 2017, by product category (in million CHF)



Source: Statista/ Global sales of Nestlé 2017, by product category

Nestlé's Brand Strategy

The decision to promote global brand or to create local is strategic one. In order to get benefits from both global and local branding, large number of multinational companies establishes hierarchy of global, regional and local brands (Kotabe, 2004).

Nestlé follows the same brand strategy, having in portfolio 10 global corporate brands, such as Nescafé, Perrier, Carnation etc.; 45 global strategic brands - Kit Kat, After Eight, Polo, Smarties; 140 regional strategic brands like Vittel, Contadina, Macintosh; and 7500 local brands like Rocky, Ninho, Texicana etc. (Furrer, 2006). The company has wide range of brands and covers almost every food and beverage category, including health care nutrition. Some of the company's brands are presented in the following table.

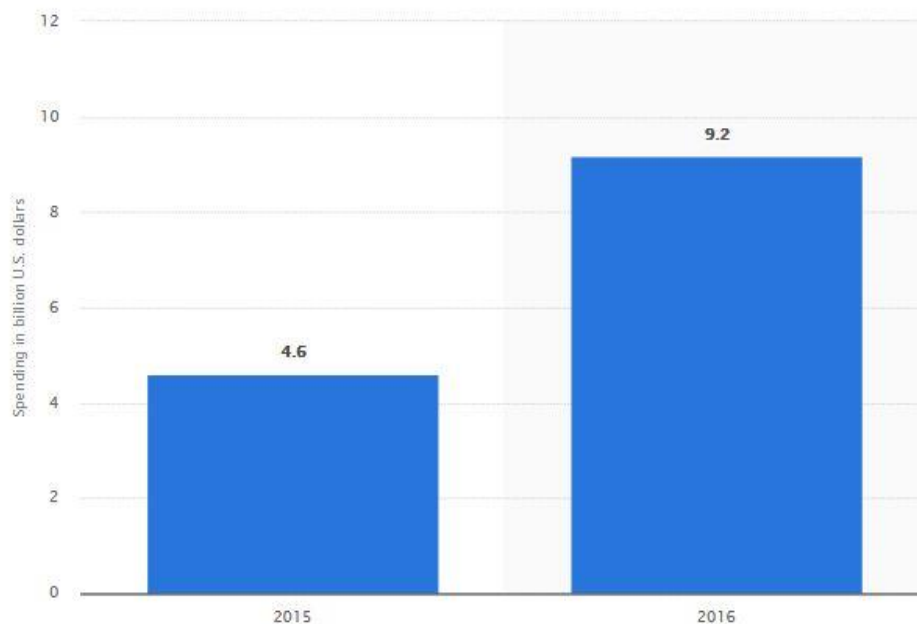
Table 3. Nestlé's brands

Baby foods	Cerelac, Gerber, Gerber Graduates, NaturNes, Nestum
Bottled water	Nestlé Pure Life, Perrier, Poland Spring, S.Pellegrino
Cereals	Chocapic, Cini Minis, Cookie Crisp, Estrelitas, Fitness, Nesquik Cereal
Chocolate & confectionery	Aero, Butterfinger, Cailler, Crunch, KitKat, Orion, Smarties, Wonka
Coffee	Nescafé, Nescafé 3 in 1, Nescafé Cappuccino, Nescafé Classic, Nescafé Decaff, Nescafé Dolce Gusto, Nescafé Gold, Nespresso
Culinary, chilled and frozen food	Buitoni, Herta, Hot Pockets, Lean Cuisine, Maggi, Stouffer's, Thomy
Dairy	Carnation, Coffee-Mate, La Laitière, Nido
Drinks	Milo, Nesquik, Nestea
Food service	Chef, Chef-Mate, Maggi, Milo, Minor's, Nescafé, Nestea, Sjora, Lean Cuisine, Stouffer's
Healthcare nutrition	Boost, Nutren Junior, Peptamen, Resource
Ice cream	Dreyer's, Extrême, Häagen-Dazs, Mövenpick, Nestlé Ice Cream
Petcare	Alpo, Bakers Complete, Beneful, Cat Chow, Chef Michael's Canine Creations, Dog Chow, Fancy Feast, Felix, Friskies, Gourmet, Purina, Purina ONE, Pro Plan

Source: Nestlé's corporate website/Our Brands

The figure below illustrates Nestlé's global expenses on advertising from 2015 to 2016. In 2016, the company spent 9.2 billion U.S. dollars on advertising. The advertising expenses in the United States came out at 2.75 billion U.S. dollars. In 2016 Nestlé's revenue was approximately 89.47 billion CHF.

Figure 23. Nestlé's advertising spending worldwide from 2015 to 2016 (in billion U.S. dollars)



Source: Statista/ Nestlé: advertising spending worldwide 2015-2016

Organizational Structure

Nestlé's approach has been developed historically. In order to prevent distribution disruptions during the wars in Europe, to expand globally and to meet the expectations of local consumers, Nestlé initially provided its local managers with considerable autonomy. While local managers still have enough power to make decisions, Nestlé's headquarters in Vevey has become more important. Many successful local managers have been transferred to Nestlé's central marketing staff to impact country executive to adopt standard new product and marketing concepts. This can imply a trend towards tighter marketing coordination (Furrer, 2006).

As demonstrated in Appendix I, Nestlé has multinational organizational structure that bundles functions, products and geographic elements for managing foreign subsidiaries all over the world. The company has a Board of Directors, led by Chairman Paul Bulcke. The everyday management is controlled by Executive Board, while the Board members are responsible for different directions of the global business. Nestlé Group is divided and managed by separate business units, corporate functions and regions - Zones EMENA (Europe, Middle East and North Africa), Zone AMS: Americas and Zone AOA: Asia/Oceania/sub-Saharan Africa. Nestlé Waters, Nestlé Nutrition, Nespresso, Nestlé Health Science and Nestlé Skin Health are

managed globally. Each business unit has own structure of marketing, analytics, trade-marketing, finance and other functions. For example, a business controller from finance department reports to director of business and financial director. Such structure gives sufficiently large autonomy, as well as allows quickly adjusting to the changes.

5.2. Nestlé Russia

Entering Russia Nestlé faced market that has been already mature in certain categories such as, for example, confectionery. There were also other categories with higher potential. Thus, the main strategy of the company was to invest in brands that were generating growth, as well as to invest in innovation in such categories, like coffee, confectionery, and ice-cream. Nestlé was also aimed to become a big player; otherwise it would not be possible to succeed in country like Russia (The CEO Magazine, 2016). In order to overcome challenges, Nestlé was focused on bringing new technology into the market and becoming a company that is both international and local.

Today, Nestlé Russia has more than 50 brands and 600 different products such as:

- Instant drinks: NESCAFÉ, NESQUIK and others;
- Ice cream: BON PARI, EXTREME, MAXIBON, MÖVENPICK and others;
- Baby food: NESTLÉ, GERBER, NAN, NESTOGEN;
- Chocolate and confectionery products: BON PARI, NUTS, NESTLÉ, KIT KAT, NESQUIK and others;
- Culinary products: MAGGI;
- Breakfast cereals: NESTLÉ FITNESS, GOLD FLAKES, MUESLI, NESQUIK, KOSMOSTARS;
- Infant cereals: BISTROFF;
- Bottled and mineral water: NESTLÉ PURE LIFE, PERRIER, VITTEL, S. PELLEGRINO;
- Pet food: PURINA, FRISKIES, DARLING, GOURMET, FELIX, PURINA ONE;
- Catering: NESTLÉ, NESCAFE, NESTEA, NESQUIK, MAGGI (Nestle's corporate website/Brands).

Manufacture

For the last 20 years Nestlé Russia has invested ca. 2 billion dollars into local production development. About 70% of raw materials and 90% of packaging used for products are of local origin. Nestlé Russia is able to manufacture locally nearly 90% of the products sold at the regional market. This gives the company ability to adapt to the local sales and to be more competitive in comparison to companies that import their products (Nestle's corporate website/Investments; The CEO Magazine, 2016). Nestlé owns 8 factories in Russia: two factories in Vologda (production of infant cereals), one factory in Vorsino (production of dry and wet pet food), two factories in Perm (production of breakfast cereals and confectionary products), one factory in Samara (production of chocolate, chocolate bars and chocolate drinks), one factory in Timashevsk (production of instant coffee and ice cream), one factory in Vyazniki (production of culinary products) (Nestle's corporate website/Facts and figures). In October 2017 Nestlé has started construction of the new infant formula factory in Vologda investing CHF 30 million (\$30.8 million) in the project (FOODBEV MEDIA, 2017).

As a market-oriented company, Nestlé attaches great importance to satisfaction of needs and requirements of local customers, therefore the company tailors its product to the tastes and preferences of domestic consumers. Nestlé does not believe in global consumer, but states that each consumer is local. For example, Italy is the market of roasted ground coffee, while Russia is one of the largest markets of instant coffee in the world. Share of roasted ground coffee in Russia is very small. Therefore, every time it is required to adapt product and strategy to a specific market (The DairyNews, 2016).

For a deeper understanding of consumer preferences and customer behavior, the company opened the Nestlé Innovation Center "Consumer and Customer" in Moscow office in August 2010 investing about 1 million rubles. In the center are located: zone for simulation of trading space; culinary studio for recipes development using Nestlé products; professional kitchen for preparing degustation samples; special room for professional degustation of coffee and other drinks of Nestlé. The company is aimed not only to study consumers' needs, but also to keep implementing new technologies into production. Nestlé seeks to be a high-performance producer with low production costs (Nestle's corporate website/Investments).

Nestlé invests heavily in training and staff development, transferring company's international experience and technical knowledge. The company established Nestlé Continuous Excellence

Program for staff development in factories (Nestle's corporate website/Investments; The CEO Magazine, 2016).

Nestlé successfully manages local and international brands. On the one hand, on Russian market are presented such local brands as «Rossiya – Shchedraya Dusha!», «Kamil'fo» or ice cream brand «48 kopeyek». On the other hand, there are known global brands, like Nescafé, Nespresso, Purina, NAN. But, unlike local brands, which are initially developed based on preferences of the domestic customer, global brands require adaptation to the tastes of Russian consumers. For instance, formulas of Maggi or NESCAFÉ products differ among countries. Nestlé has a program named "60/40", according to which firm's products should be chosen by 60% of consumers in the test of taste preferences in comparison with the products of competitors (Sostav.ru, 2016).

Marketing

Today Nestlé is a market leader in Russia in such categories as: coffee, culinary, breakfast and infant cereals, ice cream, baby food. One of the most important categories of the business is instant coffee - for example, Nescafe brand, as well as capsule coffee brands Nespresso, Nescafe Dolce Gusto and Nescafe 3 in 1. The company also holds a strong position in confectionery and pet food markets. This became possible due to attention to the consumer needs, as well as through effective marketing support of the company's strategic brands (Nestle's corporate website/Investments; Sostav.ru, 2016).

Nestlé Russia builds its marketing strategy separately for global and local brands. For global brands Nestlé provides one common advertising strategy around the world, cooperating with international agencies, like, for example, Publicis Holding. The company works with local agencies mainly to promote through digital channels, as they are well aware of the local consumer preferences and also respond quickly to the firm's requests (Sostav.ru, 2016).

Nestlé considers TV advertising as the most effective promotion channel. However, from one year to another the company increases a share of a digital channel in an advertising budget by reducing a share of TV advertising. For example, four years ago digital share in an advertising budget was 10%, today it is already about 20-25%. Thus, Nestlé uses traditional media to increase brand value and to reach audience with a message about a product, and digital

channels to personalize messages and to communicate directly with each consumer (Sostav.ru, 2016; Adindex, 2017).

Management and corporate culture

Nestlé effectively provides staff rotation policy, whereby employees are moved to other Nestlé's subsidiaries to develop knowledge, new skills and to discover new career opportunities. For example, HR director Nestlé Russia was promoted to position of HR director of Nespresso globally then returned to Russia and became director of Nespresso business in Russia.

The company has no strict rules according to which management positions should be held only by expatriates with international expertise. However, CEO position in Nestlé Russia for the last 10 years was held only by expanders that had already experience on the similar positions in Nestlé Group. For instance, position of Market Head of Nestlé Russia and Eurasia Region from 2008 till 2011 was held by Stefan De Loecker, former Member of the Executive Board at Nestlé Germany AG. From June 2011 till January 2012 in this position served Stuart Irvine, former CEO of Nestlé Poland & Baltics; From October 2012 till December 2016 this position was headed by Maurizio Patarnello, former Market Head of Nestlé Ukraine and Moldova. Starting from January 2017 Martial Rolland, former Chief Executive Officer of Nestlé France, is a current Market Head of Nestlé Russia and Eurasia Region (Nestlé's corporate website).

In general, it seems that corporate culture of Nestlé prior to subsidiary in Russia. For example, primordially Russian companies are characterized by little autonomy at the work and total control. In turn, job climate in Nestlé Russia is defined by culture of the west, which is characterized by great autonomy at the work, encouragement of initiative and culture of openness. But at the same time each region has its features and certain differences in the processes, as well as differences in culture of communication between employees. It leads to a conclusion that Nestlé rather follows cultural coexistence model than cultural dominance model.

6. Conclusion

According to theories of internationalization, internationalization is a gradual process. Starting its activity in the global market a company changes its business strategy over the time. These changes are caused by internal and external pressures. Internal pressures are caused by increasing scale, internal diversity and need to control international activities. External pressures arise from international environment and more specifically from differences between home and host cultures, as well as from degree of industry internationalization. In order to be competitive in international market, multinational company needs to adapt to these forces.

The main purpose of this thesis was to investigate an impact of the cultural diversity on MNC's strategy in subsidiary. In the thesis were reviewed fundamental theories that refer to cultural dilemmas - Hofstede's models of cultural dimensions, IR framework, Bartlett and Goshal's organizational model, Perlmutter's EPRG concept and Adler's models of cross-cultural management. Derived from the purpose, the thesis focuses on FMCG industry and in particular, on the market leader – Nestlé company. The case study of Nestlé demonstrates that national and corporate cultures are essential contextual factors which impact the company's strategy.

6.1. Discussion

Operating in FMCG market, Nestlé faces environment with high pressure for local responsiveness and low pressure for global integration. FMCG is a low margin and high volume business. In order to succeed in this market it is extremely important to be agile and to rapidly response to the market changes.

In order to effectively deal with local market conditions, Nestlé follows appropriate multinational strategy and has suitable organizational structure for managing subsidiaries all over the world. According to this strategy the company maximizes advantages of product customizing meeting local customer needs. For this reason, Nestlé heavily invests in local production, stating that each customer is local. Thereby, Nestlé Russia produces locally nearly 90% of the products. Furthermore, for a deeper understanding of local consumer preferences

and customer behavior, the company opened in Moscow the Nestlé Innovation Center “Consumer and Customer”.

Nestlé develops strategies for each geographic area and further for each country, and manage local businesses as separate entities. Moreover, multinational organizational structure gives sufficiently large autonomy to local managers what is crucial in FMCG market. Nestlé effectively provides staff rotation policy, whereby employees are moved to other Nestlé’s subsidiaries to develop knowledge and new skills.

Generally, in its international business practices Nestlé’s approach can be defined as a host country orientation. According to Bartlett et al. (2008) this approach is the most suitable for consumer goods market. It has certain advantages – meeting local customer preferences, more initiative for local production, local government support, and well-informed host management. Nestlé, being a market oriented company, adapts business and marketing practices, product formulas to a host market. In general, management positions in Nestlé Russia are held to a greater extent by local employees. However, CEO position is usually held by expatriates. The main drawback of the polycentric approach is that a firm is not able to take benefits of economies of scale. In turn, Nestlé provides one common advertising strategy for global brands around the world, cooperating with international agencies. It can be explained by the fact that four strategic predispositions (ethnocentric, polycentric, regiocentric, geocentric) rarely exist in a pure form (Perlmutter, 1969; Heenan, 1979). Moreover, MNCs are often diversified to a degree, at which one single strategy is no longer effective. Thus, mainly following polycentric approach at the same time Nestlé has features of regiocentric orientation.

Comparison of home (Swiss) and host (Russian) cultures demonstrated more differences than similarities between these countries. This means, that dominant corporate culture of the west has to face existing Russian mentality. Thus, Nestlé implies cultural coexistence model, whereby organizational and national cultures operate in parallel. From the one side, corporate culture motivates to share company’s values and to follow common goals in subsidiaries. From the other side, this type of cultural interaction allows to find acceptable solutions for all, taking into account features of the host culture.

In view of this it can be summed up that Nestlé operating on the global FMCG market takes into account local responsiveness pressures and thus follows appropriate international

strategy. The company has multinational structure, applies polycentric approach and cultural coexistence model, and consequently reaches its business objectives in culturally diversified environment, being “culturally effective”.

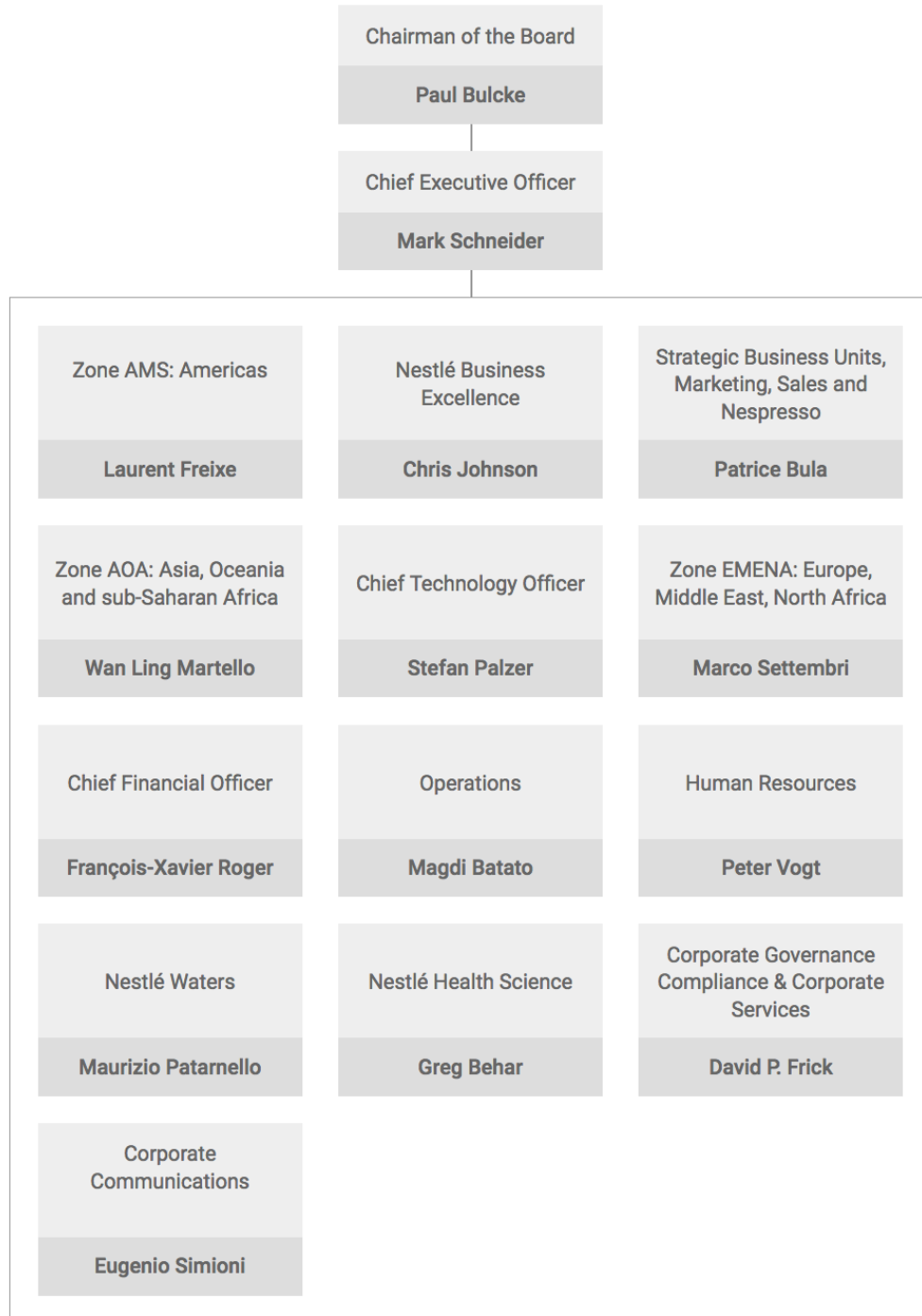
6.2. Limitations

Although the research purposes were achieved, there are several limitations of this thesis:

- The first is a study design limitation. Single case study is a good method for in-depth, context-specific interpretation of theoretical foundations on an example of one single organization or single process. Nevertheless, this research design has certain pitfalls, such as researcher subjectivity and external validity. Thus, multiple case study is required;
- Secondly, this study was conducted on one industry type and one multinational company. The research results confirmed presented research model. However, in order to generalize these findings, further research should involve other types of MNCs – international, global and transnational companies. Also, it would be interesting to examine correlation between all elements - IR pressures, type of organizational structure, EPRG approach and model of cultural interaction – based on other industry types;
- Another issue of this research is that the thesis focused only on one subsidiary. Therefore it would be important to analyze company’s strategy in other subsidiaries. Further studies are needed to investigate whether Nestlé has the same strategy in affiliates with the similar to Swiss national culture, for example;
- Lastly, this study also contains data limitations. Further qualitative interviews with each department of the company will lead to more reliable output. Moreover, as this study exploit qualitative research methods, in order to bring objectivity and reliability, quantitative research methods are required.

Appendix I

Nestlé's Organizational Structure



Source: Nestlé's corporate website/Management

Appendix II

Interview questions

1. What organizational structure does Nestlé Group have?
2. In your opinion, how does this organizational structure provide effective subsidiaries management?
3. Are the key management positions in Nestlé Russia filled by internal or external (from other headquarters) employees?
4. What general approach does Nestlé Group follow: Ethnocentric (Headquarter/home-country oriented), Polycentric (subsidiary/host country oriented), Regiocentric (region-oriented) or Geocentric (geographic/world oriented)? Why?
5. What business functions in Nestlé Russia are standardized and what are localized? Why? (Business functions: management, finance, marketing, production, R&D, sales, human resources)
6. What is the role of corporate headquarters in developing marketing practices for Nestlé Russia? In which cases does Nestlé Russia implement global marketing strategy and when it is reasonable to carry out local marketing activities (e.g. product policy, promotion, advertising etc.)?
7. How does Nestlé Russia respond to the needs and requirements of local customers? Does Nestlé Russia have local brands?
8. In your opinion, does Russian culture have impact on organizational culture of Nestlé Russia or the general corporate culture of Nestlé Group is dominant?
9. What were/are the main challenges for a Swiss company to establish in Russia?

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Abstract (English)

In condition of globalized world in order to be competitive and to reach business objectives in international markets, multinational companies need to internationalize their activities considering culturally diversified global environment.

Today's international business defines new approaches in managing company's activities worldwide. Due to this fact, it becomes important to understand how an international company can effectively respond to the challenges caused by cross-cultural external environment as well as fully utilize capabilities of its foreign subsidiaries. Thus, taking into account pressures of external and internal forces this thesis considers the main determinants of cultural effectiveness. In particular, will be presented evolutionary theories of multinational companies focused on cultural issues - Hofstede's models of cultural dimensions, Integration-responsiveness framework, Bartlett and Goshal's organizational models, Perlmutter's EPRG concept and Adler's models of cross-cultural management.

Another aim of this thesis was to analyze what role plays cultural factor in strategy development of MNC in subsidiary. For this purpose research was focused on the FMCG industry and specifically on the market leader – Nestlé Company.

Keywords: International strategy, cultural effectiveness, multinational company, FMCG market, Nestlé

Abstract (German)

In einer globalisierten Welt müssen multinationale Unternehmen ihre Aktivitäten unter Berücksichtigung eines kulturell diversifizierten globalen Umfelds internationalisieren um wettbewerbsfähig zu sein und um Geschäftsziele auf internationalen Märkten zu erreichen.

Heutzutage definiert internationales Business neue Ansätze zur weltweiten Steuerung der Aktivitäten des Unternehmens. Aus diesem Grund ist es wichtig zu verstehen wie ein internationales Unternehmen effektiv auf die Herausforderungen reagieren kann, die durch das interkulturelle Umfeld verursacht werden. Des Weiteren sollte versucht werden, die Fähigkeiten seiner ausländischen Tochtergesellschaften voll auszunutzen. Unter Berücksichtigung der Belastungen durch äußere und innere Kräfte werden in dieser Arbeit die wichtigsten Determinanten kultureller Wirksamkeit veranschaulicht. Insbesondere werden Evolutionstheorien multinationaler Unternehmen vorgestellt, die sich auf kulturelle Fragen konzentrieren - Hofstede's Modelle kultureller Dimensionen, Integration/Responsiveness-Modell, Bartlett und Ghoshal's Organisationsmodelle, Perlmutter's EPRG-Konzept und Adlers Modelle des interkulturellen Managements.

Ein weiteres Ziel dieser Masterarbeit ist es, zu analysieren, welche Rolle der kulturelle Faktor bei der Strategieentwicklung von MNC in einem Tochterunternehmen spielt. Zu diesem Zweck wird sich die Forschung auf die FMCG-Industrie und insbesondere auf den Marktführer - Nestlé Company - konzentrieren.

Schlüsselwörter: Internationale Strategie, kulturelle Effektivität, multinationales Unternehmen, FMCG Markt, Nestlé