Socio-political structures as determinants of global success The case of Enron Corporation

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ABSTRACT

Especially over the past decade, there have been numerous changes in the global marketplace which indicate that change is the only constant fact of life. These changes have increased not only opportunities but also uncertainty for organizations. The dynamic environment provides organizations with continuous feedback, to which they need to adapt. Past success masks the multinational corporation's ability to perceive and respond to these changes. The key to survival in such a setting is culturally sensitive organizational learning. Strategic planning is necessary to cope with different levels of uncertainty encountered in foreign markets and to fully tap the new resources. Organizational effectiveness is directly influenced by the firm's ability to achieve a "close-fit" between the internal dynamics and the socio-political structures. This, in turn, is possible through management practices sensitive to the local core cultural values. The Enron Power Project at Dabhol (Maharashtra, India) brings to light various socio-political factors that have a direct impact on the organizational effectiveness, its survival and its long-term success.

FULL TEXT

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Introduction

Success in an industry depends on the firm's ability to match the aggressiveness of its operations and its strategy with the rapidly changing demands and opportunities in the marketplace. Survival in such a turbulent environment depends on the way managers react to "change", their personal flexibility and resistance, their preparedness to defend (or adapt) themselves and their predisposition to learn and change. This is the ability to translate the environmental threats into opportunities.

Over the past decade, the global environment of business has undergone major changes that have no precedent in the historical business climate. Changes have become more frequent and faster developing, increasing the complexity of the business arena. Most commonly, organizations seem to focus on the quantitative aspects of an investment (like size of the market, labor cost, production costs, etc.) and adopt a cost-benefit approach in evaluating the risks involved. This approach is valid to determine the technical feasibility of an investment; however, there are some intangible parameters that gradually increase the risks of an investment, as the project progresses through different stages. These parameters are mostly cultural in nature and difficult to quantify. Therefore, while numbers convey the returns from an investment, culture determines the long-term success of an investment and thus assures sustained returns from the investment.

This paper attempts to bring to light some of the strategic issues in cross-cultural management, from a theoretical perspective, to understand their implications on business organizations. It will first consider the rapidly changing global dynamics and their impact on the competitive environment in which the multinational companies must operate. The paper then reveals some of the reasons for the failure of some international companies to extrapolate their successes to the global arena. In this process, it attempts to outline the organizational dynamics and effectiveness by employing some of the models proposed by organizational theorists. The major focus is on understanding the applicability of these models in the wake of the current environment. The final section of the paper conceives a model, which has relevance in the current global environment and enables globalizing companies to scan the environment better (to identify the threats and opportunities). In turn, firms formulate a fitting strategy which will enhance organizational effectiveness. Finally, a real-world example is considered to verify the applicability of the model.

The need for a new paradigm

The onset of financial globalization, the liberalization of economies through market deregulation, and the diffusion of the new information technologies constitute the three important factors that have played a central role in spurring a deep change in the dynamics of global competition. They have combined to accelerate integration of the world markets. Competition comes from every corner of the globe in today's marketplace and is forcing each business to look at new ways of improving its competitiveness - cutting down costs while maintaining market share and quality norms:"Economists view "globalization" as a way to free the forces of competition that help to channel the energies of people and resources of nations into activities that are likely to be most productive (Oman, 1994, p. 9)."

Organizations operating in the global marketplace are forced to operate in a "high perceived uncertainty" quadrant: globalization has increased the complexity and the pace of "change" to which organizations must adapt and over which they have no control (Robbins, 1983). With "constant change" as the backdrop, organizations need to realize that their competitive strategy, which was successful domestically, will not be adequate to manage global competition. Apart from the resource-related factors, the risk factors (Tayeb, 1992) strongly tempt companies to go global. Investing in two or more nations enables companies to offset the economic troughs in one against the peaks in the others, thereby earning a net benefit.

Child (1981, cited in Ronen, 1986) concluded that, while macro-level variables (organizational structure, technology, etc.) tend to become more and more similar across nations, micro-level variables tend to maintain their cultural distinctiveness. Thus, ceteris paribus, the cultural dimension forms the backbone of organizations' strategies in their global balancing endeavors (Ronen, 1986). Therefore, organizations need to understand the cross-cultural issues which directly influence management practices. This necessitates maximizing peripheral vision and surpassing management biases which will facilitate continuous strategic redesign. It is important to note that globalization and regionalization (cultural literacy) are mutually reinforcing and complementary and help organizations improve their effectiveness.

It is evident that organizations venturing into global markets face political risk as one of the most devastating threats. It is well-known that host governments may indulge in discriminatory tax regulations and exchange controls, prescribe stipulations about local production, sourcing or hiring practices, impose restrictions and in the extreme case may even resort to expropriation without adequate compensation. Hence, organizations must develop pre-investment as well as operating strategies for effectively maneuvering the risk and for converting the threats into opportunities.

One of the biggest threats that global companies face is political risk. Governments may take various actions against foreign firms (for political or economic reasons) ranging from interfering in the firm's managerial policies to outright nationalization and confiscation of its assets. Political instability and corrupt and incompetent administrative machinery enhance the political risk. The overriding question that firms must ask is: How can organizations absorb the political risk into their system?

Companies that wish to go global need to take their blinkers off and maximize their peripheral vision. Continued reliance on conventional wisdom will lead to paradigm paralysis. Paradigm paralysis is, unfortunately, an easy disease to get and is often fatal. More than a few organizations which were dominant in their prime have succumbed to and died of it. The bottom-line on competing successfully in the global arena, depends on making the critical link between domestic experience and global strategy. Since organizational culture is composed of practices more than values, it is somewhat manageable: they can be managed by changing the practices. However, the same principle does not hold true for a national culture.

Model development

The increase in the number of corporations becoming multinational (subsidiaries under the parent's control, independent national markets) and global (one single market, autonomous subsidiaries and pressures for cost competitiveness and local responsiveness) operating over wider geographical areas and under more diverse socioeconomic and cultural conditions has resulted in greater uncertainty for managers. Uncertainty means that decision-makers do not have information about environmental factors, which increases the risk of failure for organizational actions. Information gathering is the first step in the decision-making process. Failure is often due to incomplete or superficial research by organizations, or delayed inflow of information. Based on this information, decision-makers make choices about goals, budget allocations, personnel, and the ways in which work is to be done to improve the effectiveness. This necessitates the allocation of weights, development of alternatives, evaluating the alternatives and selecting the best option. Decision failure, in most cases, is because of organizational myopia and the thrust for short-term monetary gains.

The environment is complex, with a large number of diverse elements that interact with and influence the organization. The organizational environment refers to all the elements existing outside the boundary of the organization which have the potential to affect all or part of the organization. If there is one certainty in modern business, it is that companies will have to build-in the ability to adapt to change into the very structure of their organizations. It is not merely the pace of change that has increased, it is also the status of change. Instead of being seen as a threat, change must be considered the fundamental condition on which the organization's strategy is based.

Organizations, as open systems suggest, are never in complete equilibrium with their environment. Any view of absolute stability or full compatibility is just a mirage. Depending on the organization's pace of adaptability, it may be in a state that is close to or far from equilibrium. Essentially, the external environment comprises socio-cultural, economic, legal, political and technological variables, of which the socio-cultural and the political are the controlling parameters. The factors in the social environment like structure, social values and expectations, often influence the social matrix. Similarly, governments at both national and local levels can affect companies, not only on a day-to-day basis through laws, policies and its authority, but also at a strategic level by creating opportunities and threats. Often political analysis is necessary in managing change: finding who is antagonistic, who is supportive, and what avenues need to be pursued for implementation.

The dynamic model, which is presented later in this section, is the amalgamation of several other models. The remainder of this section will outline the development of our model.

Cultural values and organizational effectiveness

Parsons (1960) suggests that values, as the evaluative aspect of culture, constitute the core of the stabilizing mechanisms of the social system. They maintain continuity because they tend to be more stable and resistant to change. Thus, rather than searching for "common" cultural values, cross-cultural management strategy should be based on the culture-specific core values.

Jackson (1995) posits that cultural values permeate organizations by defining organizational processes, the use of rules, regulations, and roles that are culturally acceptable (Figure 1). Ranson et al. (1980) suggest that, while the economic, legal and technological dimensions influence the structural configurations, the cultural values determine the range of organizational responses to such constraints: they serve to provide meaning. Thus effectiveness varies directly with the degree of adaptation to the core cultural values, which, in turn, controls the resource availability.

The key element for our model is the effectiveness dimension. We will argue that for MNCs to be truly effective they must understand and adapt to the core cultural values of the host country. By ignoring these values, they risk not being able to secure the necessary resources for their organization. Thereby they put the organization at risk of failure in the foreign venture. We will see that one such MNC, Enron, was almost locked out of obtaining critical resources due to their underestimation of the host country's culture-specific core values.

Situational factors. The global manager is constantly involved in situations in which there is a necessity to reconcile several factors that are not favorable. It is obvious that the manager is located within the framework of several situational factors and has to react to them accordingly. Since businesses operate in a rapidly changing environment, it is important for top management to ensure that they do not get trapped by inflexible plans but should complement them by adaptable and ad hoc strategies.

Market deregulation, economic liberalization, and rapid advancement of information technology have facilitated the convergence of technical, legal and educational factors; differences have been, more or less, eliminated. Nevertheless, the political and social structures still remain culture-specific and unique. Thus, managerial actions (Figure 2) should be directed towards amalgamating the organization with the local cultural and ideological structure to reap rich benefits from the synergy. This is represented by the central overlapping rectangle in Figure 2.

As there is an interdependency between the organization and its environment, any changes in the environment or the system affect the other. There is a constant pressure on the organization to respond to the stimulus and take timely corrective action to survive. It has to be realized that there can never be a steady state or an equilibrium between the organization and its environment.

Organizations, to start with, have to identify those elements of the environment that threaten their existence most. This approach enables the firm to ensure short-term "proximity to steady state" and engage in long-term strategic planning. Since risk is all-pervasive in a turbulent environment, organizations should seek to develop flexibility to attain stability. Organizations grow strong by developing an ability to convert threatening demands to opportunities and being prepared to absorb the shock.

The key element for our model is the importance of political and social structures as situational factors. Organizations expend an enormous amount of resources attempting to control or adapt to situational factors. We will argue that focusing on political and social structures is paramount for global strategizing. These two factors can quickly derail a company's global strategy. We will see that Enron spent time and money attending to the org-economic and technical structures, but to its detriment almost totally ignored the political and social structures (Figure 2). MNCs must be aware of and analyze the impact of all situational factors in order to remain flexible in the ever turbulent global environment.

Organizational strategy: cultural congruence

Global companies, in general, face challenges in three broad areas: the strategic planning aspects of their business, internal organization, and the interface between internal and external aspects of their activities (boundary management) (Tayeb, 1992). Interface activities require not only business competence and negotiating skills but also the ability to cope with the national and cultural diversities of the context. International firms have to adapt to their hosts' way of doing business early on in negotiations to ensure success. Adler (1981, cited in Jackson, 1995) suggests that management should strive for a cultural synergy of the company's own culture with the desirable aspects of the national culture.

Environmental requirements are not disembodied factors imposed on the organization by impersonal or automatic mechanisms - it is up to the people to take into consideration and incorporate them into the organizational strategies; the focus is not determinism but political and cultural factors that have to be appreciated.

Lachman (1983) argues that only those adaptations that are consistent with and legitimized by the core values will be more effective. Thus, if an organization engages in activities that oppose (or challenge) the local cultural values, culturally based resistance may impede the inflow of resources that are required for effective organizational functioning. Careful preliminary assessment of compatibility between local core values and those underlying organizational structures may prevent costly and sometimes irreversible mistakes of implementation of structures and practices that do not match the local environments. Cultural congruence is the adaptation of the corporate culture of the firm to the local culture of the host country and is imperative for global success.

The key element of Lachman's work, for the purposes of our model, is the boundary management dimension. This element is the key to cultural congruence. It is the "place" in the organization where the internal (home country) strategies and structures come in contact with the host country core cultural values. We will show that this interface is where cultural congruence will occur.

The dynamic model

No organization is self-sufficient; its survival depends on the type of relations it establishes with the larger system of which they are a part. Organizations not only are influenced by but also are affected by their environments. Galbraith (1974, cited in Grandori, 1987) suggests that the presence of free resources (inventory, spare HR, etc.) in the organization is critical to its survival under conditions of uncertainty. Organizational effectiveness in these turbulent environments is very difficult to measure. Ashby (1968, cited in Scott, 1987) regards organizational effectiveness as follows:"There is no such thing as "good organization" in any absolute sense. Always it is relative; and an organization that is good in one context or under one criterion may be bad under another (p. 200)."

Further, Hofstede (1980) argues for the non-universality of theory and thinking. Specifically he posits that organizational design and management practices are bound by cultural conditioning. While organizational effectiveness, in its broad sense, is often seen as being relative to the organization and its environment, it is never truer than in an international context. This forms the basis for the development of the dynamic model.

The underlying logic behind representing the organization as the core of the model, as seen in Figure 3, is that congruence of the core values of the organization and the local culture is a necessary condition, but not sufficient. Every relationship with another person is strategic and involves a component of power, however repressed or sublimated. This means power and politics permeate the relationship. By understanding their social roles, human beings gain the capacity to deal effectively with others. Environmental factors greatly influence local cultures and make them more or less open to cooperation or conflict.

We can see that at the center of the model lies the organization. The organization's strategy surrounds the organization and acts as the medium for the boundary interactions. Thus, an organization's survival is a function of the degree of flexibility/rigidity of this strategic framework. If the buffer, the strategy, is truly effective, it will insulate the firm from local conditions. At the same time it works as a conductor of local socio-cultural and political issues into the firm. The strategy must work with and within the local culture to guide the firm effectively. Separating the organizational strategy from the external environment is a semi-permeable interface. It is through this interface that the culture-specific core values are absorbed or repelled by the organization. These core values exist in each of the four structures in the external environment. Since there is a constant overlap of the different constituents of the cultural environment, they are separated by dotted lines in Figure 3. However, the political environment constitutes the most threatening factor; all the factors have been represented as equal risk factors for generalization of the model. This model serves as a useful guide not only to analyze and understand the challenges facing the global companies but also to formulate an appropriate strategy for success and survival.

Organizational culture may be learned and improved by people in order to increase their relational potential. The role of culture may be positive or negative in relation to organizational effectiveness, commitment of people to organization, individual and group role and so on. The role of power in organizations is also partly conditioned by the culture that surrounds them and provides inspiration, sanctions the set of rules, makes people more or less dependent upon each other. The technical, educational, legal, economic and political factors are enmeshed in the broader cultural matrix. Thus, it becomes imperative for global organizations to focus on the cultural values (soft skills) which would facilitate the adaptation to the hard competencies.

While this model is developed for multinational corporations (MNCs) of all sizes, a note of caution is given to large MNCs. Pfeffer and Salancik (1978) summarized the advantages of size :"Organizations that are large have more power and leverage over their environments. They are more able to resist immediate pressures for change and, moreover, have more time to recognize external threats and adapt to them. Growth enhances the organization's survival value, then, by providing a cushion, or slack, against organizational failures (p. 185)."

Thus large multinational companies sometimes become complacent, and tend to overlook the critical cultural barriers in the global strategy. This model reiterates the need to pay strict attention to local conditions when working in the global marketplace.

Role of government. Host government's role, in international business, is essentially that of a catalyst - to facilitate organizational goals by way of encouraging policies that would create more demand in the long run. Organizations sometimes ignore the legitimate role that governments play in shaping the context and the structure surrounding them that stimulate (or subdue) their competitive advantage. Host governments especially can quite easily nullify an MNC's source of competitive advantage. Governments at all levels (local, state and national) affect the resource transactions of organizations in two general capacities. First, as a source of authority specifying what types of negotiations and exchanges can legally occur among organizations. Second, as parties that directly engage in transactions with organizations, exacting resources from some and providing them to the others. Therefore, in international dealings it is essential to take account of governments' special powers and the unique role a government plays as an organization among organizations. It is obvious that foreign organizations requesting special treatment from governmental agencies must justify their claims on the grounds that they may serve the public interest.

Modern societies face the dominating feeling of entitlement, the erosion of consent and the growing dissatisfaction of employees with how they are treated. There is also a general decline in confidence in organizations, which is due to a general notion that the economic enterprise, the government agency, the trade union, the political party, the church, are essentially undemocratic in their decision-making practices.

One may have to accept the fact that full stability and security are never attainable and that progress towards common wellbeing offers more problems than ready solutions. In the present world, the revolution of rising aspirations is challenging the political, religious and economic establishments virtually everywhere and the problem of human alienation has assumed greater importance. The contingency approach is a necessity under all organizational circumstances; universal principles may serve only as guidelines to formulate a good organizational prescription for a given set of circumstances. As was stated previously, the notion of "perfect" fit is a myth and in many organizations there is probably too much striving within the framework of managerial thinking to look for certainty instead of accepting the unavoidable limits of our knowledge and ability to control events. Failure to achieve congruence with the local cultural values may not be contextual but may, possibly, be a deliberate organizational strategy.

Therefore, instead of dreaming about complete elimination of uncertainty, it seems more pragmatic to reinforce elements of mutual trust and base the process of guessing on a firm socio-organizational platform that will encourage organizational wisdom and cooperation. This implies that organizational strategy should be reactive, that is, not as a formal plan of action rigidly formulated and implemented but as a flexible process of decision making responding to changing situations, which in turn is based on the experience actually gained in the process of change. Decision making should focus on the basic contradictions appearing in any decisional activity.

The misfit between the organization and the local government causes a continuous power struggle which, obviously, involves a moral and social cost. Hence the organization should work for the transformation of those power relationships into mutual trust and cooperation; that means flexibility and inventiveness become a necessity. Thus, organizational models have to be continuously confronted with reality. Organizations should learn from observation and practice but have to admit their cognitive limitations because of the rapidly changing environmental dynamics (time and space). Quantity of knowledge does not automatically transform into quality of knowledge; organizations need to shift continuously between the general and the specific to enhance their learning. When organizations are faced with numerous external constraints like entry and exit barriers, limitations on information flow, the difficulty of securing the political and social support needed to legitimize their activities, organizational inertia becomes the critical parameter for environmental selection. Organizations, oblivious of these constraints, may become the scapegoats of the local political and economic policies.

Implications: the Enron case

The case of the Enron Power Project at Dabhol, in Maharashtra (India) is being studied to understand the various strategic and cross-cultural management issues in a dynamic environment. Since 1991, many interesting developments have taken place in the industrial landscape of India. The transformation from a protected dispensation to a liberalized or a partially liberalized set-up has brought radical changes in the general working of industry and, importantly, in the mindset of the industrialists and the so-called regulators. The thrust of the entire structural reforms program has been to improve the climate for investment, thereby promoting opportunities for growth and international competitiveness of Indian industry.

In India, energy prices continue to be administered and are used mainly as social policy instruments. Electricity prices are heavily subsidized for some classes of users, especially small farmers and households, while industrial electricity prices generally more than cover costs. Analysis of the consumption pattern (Pillai, 1995) of electricity in various categories indicates that, while the consumption of electricity in domestic as well as agricultural sectors has constantly increased, the share of the industrial sector has declined over the years. Thus, even higher prices for industry would not fully match the subsidies of domestic and agricultural consumption. The growth in power consumption is estimated at around 9 percent per annum and the installed capacity had reached about 80,000MW by December 1994 (Ramachandran, 1995). To cater for this growing demand, an additional capacity of 131,000MW will have to be created by 2007. Thus, while the Indian power sector needs huge capacity additions to meet the growing demand, the State Electricity Boards (SEBs) have such credibility problems today that not even the Indian financial institutions are willing to lend to the SEBs as they are perceived as poor credit risks. It is in the background of this looming power shortage (and shortfall in resources) that the Ministry sought to introduce private participation in the power sector and offered incentives to lure foreign investment.

The events leading to the problem

The story of Dabhol began in Houston, Texas in late 1991, with a visiting delegation from the Indian Ministry of Power (Edwards and Shukla, 1995). The Houston-based firm had quickly cut a $2.8 billion deal that enabled then Prime Minister P.V. Narasimha Rao to boast of a big name foreign investor, in return for which India gave the company enviable contract terms. Fully backed by the political masters in Delhi, the Congress party's Chief Minister in Maharashtra, Sudhakar Rao Naik signed the Memorandum of Understanding (MOU) on June 30, 1992.

The Dabhol project was a joint venture of Enron, which owns 80 percent of the project, and General Electric Capital Corporation and Betchel Enterprises, Inc., which each own 10 percent. Enron was to develop a 2,015MW gas-fired power plant at an estimated cost of $2.8billion, which was to be the largest single foreign investment ever committed in India, and the biggest independent power project in the world. Unfortunately, the fast-growing liquefied natural gas (LNG) specialist did not have the most gracious of welcomes in India. Besides the state government's political gymnastics, the project has been battered by bomb blasts, riots and has been through 30 government agencies, 170 formal approvals, nine court cases and 39 months of grueling negotiations.

Financial pressures

The Ministry of Power and the government-run Central Electricity Authority (CEA) did much of the decision making in negotiating the deal with Enron. After getting the approval from the central government for foreign investment proposals, Rebecca Mark (CEO of Enron Corporation) and the rest of the Enron team returned to Bombay to negotiate a Power Purchase Agreement (PPA) with the state government and local electricity board. Meanwhile, the World Bank's confidential report (Edwards and Shukla, 1995) to the central government on the feasibility of Dabhol inferred that an LNG-based project was not economically viable and the project therefore would not be financed by the Bank. The report not only inflicted a big blow on the future of the project, but also provided the much-needed substantiated research for the political opponents of the project. The World Bank economists argued that coal and domestic oil are cheaper alternatives and that the SEB would be forced to substitute expensive

Dabhol power for cheaper existing supplies during periods of low demand. This controversy led to the project being split into two phases; Phase I to be financed independently of World Bank support and Phase II to be financed conditional on World Bank reporting.

On average, transmission and distribution losses run at 25 percent (Mathew, 1996) of all power generated in India. To circumvent the poor creditworthiness of the Electricity Board, the Finance Ministry suggested a counter-guarantee of payment for the power, from the central government.

Political pressures

A series of vicious ethnic riots, fueled by a local militant nationalist party (Shiv Sena, which is the present ruling government), swept the city. The party used the local suspicion and fear of the project as a political campaign platform for the ensuing elections, which attracted publicity and criticism to the Dabhol project.

There was a cultural problem too, creeping into the case. Popular belief in India is that any dealings with foreigners are bound to be either unfair or disadvantageous to India. Enron became the victim of a heady mix of politics and business when the militant party used Dabhol to smear the previous government's reputation. The new government (Shiv Sena-BJP alliance) set itself the mission to prove that the Enron deal was crooked on technical, social and environmental grounds, since legally the project was on solid ground (Maniyal, 1995).

The state government scrapped the 2,015MW project as being "anti-people"; it also alleged that:

- the contract was awarded without competitive bidding;

- the power plant threatened to damage the coastal environment;

- the company padded project costs and extracted outrageously profitable terms by bribing the earlier government (Enron Power Project in India Steams Ahead, 1996-97).

The state government also claimed that the state did not need 2,000MW of additional power and that the Enron deal would impose an additional burden (Kanavi, 1996) on Maharashtra State Electricity Board (MSEB), leading to closure of its plants. Despite making such strong allegations, the review committee, headed by the Deputy Chief Minister, has never made the contents of the report public.

On January 8, 1996, the Maharashtra government reversed its August 3 1995 decision to scrap the entire project and cleared the controversial project at a tariff of Rs 1.86 per unit (kWh) instead of Rs 2.40 as agreed initially. Dabhol Power Corporation (DPC) would use naphtha as fuel instead of imported distillate in Phase I of the project. A 35 percent reduction in per megawatt cost in rupee terms and a 29 percent reduction in total project cost have been reached. The state Electricity Board or nominee would have a 30 percent equity stake and there would be additional safeguards for environmental protection. The Chief Minister justified that the re-worked proposal would result in a gain of Rs 25,000 crores (1 crore = 10 million) due to the lowered tariff. The total capacity has been revised from 2,015MW to 2,450MW and it was decided that Enron would not stop after the first phase but would continue until the end of the entire project. The agreement reached by the committee with Enron on the future of the Dabhol project is unique because both sides seem to have emerged winners. However, surprisingly, Enron was included on Multinational Monitor's "10 Worst Corporations of 1995" list for its role in the Dabhol project (Controversies, December 19, 1996).

Analysis of the Enron case

The environment poses challenges to organizations and managers need to understand and interpret these challenges in order to determine an appropriate response. This is critical for the organization under conditions of both stability and change, since their initial and continued existence depends, to a great degree, on its response to those contexts. Pressures from various sectors of the environment forced the Dabhol Company to redesign and restructure the entire project in order to cling to it. The Dabhol power project's collapse came at an acutely embarrassing time for the Indian government. Internationally, India had been carefully building the confidence and trust of the foreign financiers and companies, as it needs to secure long-term economic growth.

The Enron case proves, to the international investor community, that there are uncertainties in the whole system. This is a case of a contained change (Stacey, 1993) rather than an open-ended change which involved a lot of risk and very little uncertainty. The ripples in the environment (caused by political, economic and social forces predominantly) caused fissures at the organization-environment interface (Figure 3). As is evident, the problem was the myopic stance of Enron towards an obvious change in the environment. The outcomes are predictable but the inability of the managers to foresee and adapt to the change led to the collapse of the original structure of the project. There have been classic cases of MNCs in India (like Coca-Cola's departure) from which new entrants can learn. Thus, the argument boils down to the fact that the change could have been intelligently maneuvered to Enron's favor.

Turning again to Figure 3, we can see how this model represents the Enron case. Enron sits at the very center of its environment. The environment here is the global environment. Enron's strategy, structure and organizational control are all influenced by the global environment it competes in. It is surrounded by its global strategy which works like a buffer/conductor between the organization and its environment. The strategy is the mechanism which allows the organization to fit with its environment. In this case, Enron's strategy was to enter into a joint venture arrangement with the Indian government. The choice of a joint venture was the result of the Indian government's refusal to let Enron have a wholly owned subsidiary. Often in joint ventures the choice of partner is made using a variety of criteria: local market knowledge, access to capital, proprietary technology, etc. In the case of Enron, the joint venture partner (the Indian government) was chosen to gain access to India's market.

The partner in this case was not only party to the joint venture, but also a vital part of the environment. On the surface, it would appear that Enron would have the upper hand. In order to gain access to the Indian market, they included the government in the deal, thereby keeping a potential threat close to them. Now that the government had a stake in the venture, they should do everything to keep it afloat. Unfortunately for Enron, their partner's other interests got in the way.

We can see from Figure 3 that there is a semi-permeable interface located between Enron's strategy and the external environment. This interface allows the local culture to "seep" into Enron's strategy. Just outside the strategy lie the local culture-specific core values. These are the values which define the local culture and should be the most salient to the organization. These core values are found in each of the structures of the culture: social, political, economic, and legal-technical. While each of these structures is important to Enron, the social and political were most important to their effectiveness in the Indian environment. Enron ran into difficulties when the interface between their strategy to build the Dabhol facility became non-permeable especially in terms of political and social structures. They did not allow the core cultural values in these two structures to intermix with their organizational strategy. In fact they ignored them, and in doing so risked losing the entire project.

By all accounts, Enron was in an enviable position. Their joint venture partners should have given them the insider's view of India. With the government a part of the new organization, DPC, the company should have been the perfect blend of Enron's technology and Indian market know-how. The interface between the organization and the environment should have been semi-permeable. In that way, signals from the environmental structures could pass through to the organization to be "de-coded", analyzed, and changes made to the strategy if necessary. Therefore, when signals such as the World Bank report reach the organization appropriate steps could be taken. Enron, it seems, was simply not receiving any of these signals. Alternatively, if they were receiving them, they were simply ignoring them.

The dynamic model works only when the interface is semi-permeable. When this is true, the organization at the center is able to continually adjust itself (and its environment) so that there is a fit between the firm and the environment. Successful global firms know that, if they do not adapt themselves to the specific environmental structures (socio-political especially) and cultures they operate in, they will fail. The interface is the communication point between the company and its environment. It must remain open if organizations are to succeed. For Enron, they began with a semi-permeable membrane allowing signals from the environment to reach the organization. Nevertheless, once the $2.8billion MOU was signed, they sealed the interface. Thus, the non-permeability of the interface "sealed" Enron's fate.

Lessons learned by Enron

At first glance, the Enron case seems fairly clear cut. The Dabhol Company had an MOU, backed by a number of clearances, which was a legally binding. Indian officials admitted that the Rao administration bent various investment rules to woo Enron since it was the first major foreign investor to come into the country. Further, the central government had given the counter-guarantee in favor of the company, though in reality behind this strategy lurked India's power shortage. In addition was the fact that India desperately needed foreign investment. India's social situation is very volatile and, reflecting this risk, interest rates for Indian ventures have risen. Three critical factors arise here with the first being whether Enron was fully aware of the financial credibility of India in the international market. Second, a shocking report from the World Bank revealed another doubt about the feasibility report Enron originally used. Finally, one must wonder if Enron had considered alternative sources of financing.

Enron took an unwavering stance that the Dabhol documents were to be reviewed and cleared by more than 27 Maharashtra and central government agencies. Venturing into foreign markets is a risky business fraught with uncertainty. Enron's decision to continue with the project work was legally valid and, in essence, it had nothing to do with politics. However, the critical factor was that Enron had to give due consideration to the state government, who was its primary customer. The company had to negotiate the Power Purchase Agreement (PPA) with its customer and also maintain relations and build its image for its future deals in the country. Enron overlooked the fact that power and politics permeate deals with governments. India is known for its political instability, which is a strong environmental force that induced a sweeping change across the future of the project.

Enron's construction plans incorporated environmental concerns and the proposal received environmental clearance from India's Ministry of Environment and Forests in November 1994. Nevertheless, the company failed to gauge the gravity of the situation and adapt to the circumstances. There was more of a social concern from the local villagers, which, in turn, raised the fundamental rule of globalization: focus on the cultural differences. Enron should have learned to expect the unexpected.

Enron's most important gain has been the restoration of its reputation. MSEB's commitment to buy 90 percent of the available power meant that Enron's profit has been untouched. Further, the fact that the re-negotiated agreement did not change Phase I of the original project amounts to an admission by the state government that

Enron did not significantly pad its costs.

Lessons learned by the state government

Enron served the state government with legal notice that it would pursue arbitration in London to seek compensation for the costs incurred, the remobilization of the contracts and the banks, and the interest on the bank debt already disbursed. Faced with a bill of at least $300M, the state's bureaucratic machinery was left with no other alternative but to re-negotiate the deal. The state government kept on firing despite running out of ammunition. In addition, this stance boomeranged. India will, over time, lose many billions of dollars of potential foreign investment for the luxury of playing domestic politics with the national economy.

The Enron controversy has brought out several issues, related to strategic management, which pose a threat to the very existence of the Dabhol Company. There are many more projects that are in the pipeline with the Indian government at different stages of finalization. If the present situation were to continue, there could be utter chaos on the policy front. On the one hand, government agencies will try to push forward every single project without any set standards and criteria essential to carry out rigorous and honest appraisal of projects. On the other hand, with no basis for carrying out a fruitful dialogue, the increasingly suspicious people's organizations will continue to resist each and every project, on every single ground, and with all possible might. In the ensuing confusion people and their interests will be the ultimate sufferers.

The dramatic growth in demand for power in India has placed tremendous pressure on the central government to search for quick solutions to this snowballing problem. The inherent capacity limitations have led to the introduction of private participation (by inviting MNCs) in the power sector. MNCs have been in the eye of many a storm in developing countries (for example, the Bhopal disaster in 1984). However, in the new era of structural adjustments and liberalization, privatization and globalization of developing economies, a new positive image of MNCs is being gradually cultivated.

Linda Powers (Vice President, Global Finance, Enron Development Corporation) claims that the MNCs provide vital development assistance to developing countries. This claim of MNCs of being the development messiahs and the misinterpretations that are put forth to support this claim may create entry barriers and even threaten their expansion programs. This stance of Enron led to complacency, inflexibility and their Indian debacle.

Constant reliance on rules would lead to the rules becoming ends in themselves instead of means to ends. As a consequence of being compelled to obey rules they did not originate, employees lose the capacity for independent thought. The result is trained incapacity. Every industry has an underlying structure or a set of fundamental economic and technical characteristics which gives rise to various forces in the environment. Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action. The strategist, wanting to position his/her company to cope best with its industry environment or to influence that environment in the company's favor, must learn what makes the environment tick.

The responsibility for the Dabhol debacle rests squarely with the CEO and the top management team of Enron Corporation. At every stage, they had an opportunity to shatter their existing paradigm and make the deal a smooth execution. Unfortunately, there were clashes of ego, beliefs and avoidance of the apparent truth. There are substantial gains for the rest of India too. The resumption of the project could restore confidence for the international investor as well as other foreign companies.

The most important question that pops out of the case is "Who won ultimately?" The answer is no one really. The net result was a loss of precious time for both sides as a result of political posturing, the worth of which will be extremely difficult to estimate. Environmental dynamics is not just a game of checkers; it is much more complicated than that sort of game. The Enron case could serve as a very important model for the central government, other state governments, and for other global companies venturing into India.

Deficiencies of the model

The model clearly illustrates the various constraints that organizations confront when they go global. Though the model is seasoned, in the sense that it is developed based on the experiences of the MNCs that had globalized, it fails to address some issues that concern the success of global companies.

The first deficiency lies in the timeframe the model addresses. It does portray the long-term perspective of the companies since their relationship with the environment is very fluid. The problems discussed focus more on the entry stage and there is not much emphasis on companies that are already in the global area. This is addressed by the fact that the model is a dynamic one which stresses ongoing interaction between the organization and its environment.

Second, we argue that, though culture, in general, and politics, in particular, are the critical environmental variables that determine the company's survival, our model does not assign weights to the other variables (economic, legal, technological, and educational). These variables are country-specific and have to be identified through elaborate research. It is suggested that each variable needs to be studied in light of the country in which the organization is seeking to enter. At that time weights can be assigned based on the relative importance each of the variables has to the organization.

Finally, though the model raises the intangible costs attached to these cultural variables, it provides a qualitative treatment of the problems. "Profit" (and thus sustainable competitiveness) being the long-term goal of global companies, firms planning to enter a market need to conduct ethnographic studies, long interviews, several visits to the host nation, and also identify similar case studies to complement the model.

Future research

Looking to the future, there are several avenues to further this research. The first avenue will be to empirically test the model. This will likely occur using a qualitatively based method such as in-depth interviews and case studies. These methodologies are preferred, as they will bring out the nuances of the model. In addition to this research stream, it is also possible to begin to understand the various cross-cultural management issues that organizations face in entering new markets.

This model also suggests that we should start at the interface between the organization's strategy and the core values of the culture. This interface needs to be understood in more depth. We also need to glean the cross-cultural management issues derived from its permeability.

A third area of future study involves a further investigation of the capabilities that would enable a global company to achieve cultural value congruence and hence succeed in the pursuit of its corporate goals. This model suggests that cultural congruence is essential for a firm's global strategy to be effective. It does not, however, give prescriptions on achieving that congruence. Further research is needed to explore the various options open to firms as they attempt to find harmony between their corporate culture and the local culture.

In addition to these main areas of future research a number of interesting research questions have come from this model. We have simply listed them here for the reader's interest:

- What are the criteria for designing actions in conditions far from certainty?

- What should be the agenda for sustaining future competitive advantage?

- What determines success or failure in global competition?

- What management (or leadership) style fits the model?

- How can individuals, groups and the organization as a whole work with the paradoxes of environment?

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Illustration

Caption: Figure 1.; Cultural values and organizational effectiveness; Figure 2.; Situational factors; Figure 3.; The dynamic model

DETAILS

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