# Speed Kills: Why Some MNCs Fail to Pay Attention to Quality

By Quy Huy , INSEAD

**When managers are too fixated on quick financial results, ethics and service tend to take a backseat.**

Last month, Boeing agreed to **pay US$200 million** over charges that it misled investors about **two crashes** of its 737 Max aircraft that killed 346 people. The penalty imposed by the US Securities and Exchange Commission is small change compared to the US$2.5 billion shelled out by the plane maker last year to settle a criminal fraud suit filed by the US Department of Justice.

Sadly, Boeing is just one of many MNCs to fall foul of the authorities or public opinion over subpar products in recent years. In 2016, Samsung had to **recall** its flagship smartphone globally at a cost of US$5.3 billion over complaints of exploding batteries. Meanwhile in China, **Heinz** has been embroiled in at least two damaging recalls since the 2000s.

The common thread is an obsession with speed to get ahead of the competition. Samsung's Galaxy Note 7 was touted as a rival to Apple's iPhone; Boeing pushed out the 737 MAX in three months to **beat Airbus** to the order book of American Airlines; Heinz was trying to capture a bigger share of China's crowded baby food market, then worth an estimated 8 billion yuan.

In a forthcoming paper*, **Sam Park**, Professor of Strategy and International Business at Nanyang Technological University, shed light on why MNCs often pay insufficient attention to quality while focusing on business expansion. Park and his colleagues found that the kind of attention MNCs pay to their operations is as important as how much, especially in emerging, fast-evolving markets like China.

## Toxic chilli sauce and other crises

Contrary to previous research that treated MNC's attention as a monolithic whole, Park et al argued that it could be differentiated between *expansion attention*, which focuses on growing revenue, and *stakeholder attention*, which focuses on the welfare and ethical behaviour of employees, suppliers and dealers – the primary stakeholders that have a direct impact on product quality. They hypothesised that the risk of an MNC experiencing a consumer crisis is greater when expansion attention is higher and lower when stakeholder attention is higher.

The researchers interviewed senior managers of five large MNCs in China and analysed 92 consumer crises involving 68 Fortune Global 500 companies in the country from 2000 to 2013. Heinz, for instance, suffered reputational damage in 2005 after its chilli sauce was found to contain a cancer-causing food dye. Dell was slapped with lawsuits from an online anti-Dell consumer alliance in the early 2000s for using a quota model that encouraged salespeople at local retailers to prioritise sales over consumer experience.

Park et al measured expansion attention by how quickly the MNCs set up local subsidiaries. Stakeholder attention was assessed by the number of unique practices firm put in place to train or engage with employees, suppliers and dealers. Nestlé, for example, had a mandatory training programme that "teaches employees the right nutrition skills and knowledge"; Ford China worked with cash-strapped suppliers to ensure that their activities "followed the legal framework".

The researchers' analysis turned out remarkable – and rather sobering – findings. For the average firm in their sample, expansion attention increased the likelihood of experiencing consumer crises by 98.1 percent whereas stakeholder attention slashed the risk by 81.5 percent.

### Continuous two-way educating and adapting

Managers under pressure to expand business operations typically fail to pay appropriate attention to the welfare and ethics of their primary stakeholders. In emerging markets like China, changing stakeholders' entrenched but ethically controversial practices may even slow business growth in the short term.

An MNC executive told Park et al: "Fast expansion requires us to be more flexible [on quality requirements] about what we offer to our clients … We are loosening the global HQ's standard on raw materials, and we are making a compromise to local suppliers."

The researchers highlight the potentially hazardous consequences of this obsession in a country evolving at lightspeed, but their findings are just as relevant to MNCs everywhere, as consumers in general become more informed and sophisticated. The bottom line: MNCs need to *coevolve* with their operating environment. On the one hand, they should keep up with society's and consumers' expectations; on the other, they ought to demonstrate leadership and vision – particularly in relatively unregulated markets – by proactively educating employees, suppliers and other stakeholders on ethical behaviour and service quality as spelled out by their global HQ.

To do so, as Park et al suggest, MNCs could empower subsidiary managers to develop **"cognitive division of labour"**, with different managers attending to distinct stakeholders. This will help firms explore risks and opportunities in the behaviour of a wide range of stakeholders. It will also prevent decision makers in subsidiaries from being fixated on expansion.

Ultimately, global HQs need to press home the significance of stakeholder attention by incorporating stakeholder engagement as a critical component of MNCs' foreign operations.

***Attention-based constraint to MNC coevolution in China's changing stakeholder environment** will be published in the *Journal of Business Ethics*.

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## About the research

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