Managerial Issues In The Global Business Environment

K. Asoka Gunaratne

Senior Lecturer
UNITEC Institute of Technology

Abstract

It is becoming passé to say business world is going global. Globalisation is wide spread and is an ongoing phenomenon. The key factors driving the globalisation process are Foreign Direct Investment, falling international trade barriers, revolutions of information technology, joint ventures and mergers and acquisitions. Even though there is a tendency to assume globalisation is confined to large companies it is not only for the big and mighty.

The managerial process in companies is changing to achieve global efficiency of the assets and resources employed by meeting the new demands of this global business environment. However, one hundred percent globalisation is a myth (Kapferer, 1992b). There is no such thing as global management approach that is conceptually different to a domestic management approach in an absolute sense. This paper supports this view and seeks to discuss some of the dimensions such as knowledge element, leadership that are relevant to shaping the global management strategies, and the demands of cultural foundations on the globalisation process. It concludes with a discussion on ethical and moral issues of globalisation.

What Is Globalisation?

It is becoming passé to say that the business world is going global. According to many authors and practitioners in the field, "globalisation" is so widespread that the question is not whether a firm is going to go global, but rather how it's going to deal with the effects of globalisation. So what is globalisation? Some leading academics have attempted to sum up globalisation in a few words. Professor Paul Danos of the University of Michigan has characterised globalisation as "the process by which markets expand to include competitors for customers and productive inputs without regard to national boundaries" (Cited by Barnett, 1993). The trends that lie at the core of this development are: (a) An ever-increasing number of countries embracing the free market ideology; (b) The economic center of gravity shifting from the developed to the developing world; (c) Technological advances constantly improving communications; and (d) The opening of borders to trade, investment and technology transfers (Mesdag, 2000).

Accelerators Of Globalisation Process

Given this background of a shrinking and borderless world, it is timely to discuss the underlying causes of acceleration of globalisation. One of the key economic factors that is driving globalisation is Foreign Direct Investment (FDI) on a global scale. The rate at which capital is crossing borders is reaching extraordinary levels. Mergers and acquisitions have reached record levels, and steady increases in cross-border strategic alliances and joint ventures show that national boundaries are becoming meaningless in the business world. On a more fundamental scale, the emerging economies of Eastern Europe and Southeast Asia have undergone economic liberalisation due to changes in ideology – be it political or economic. The dissolution of the Soviet Union has created autonomous economic regions, each competing for investment and trade with the Western world. The tigers of Asia, although hitting hard economic times in 1997 and 1998, have attracted great amounts of investment in the 1990s by laying out the "Welcome Mat" to foreign investors.

Another ongoing dynamic phenomenon that accelerates this process is technological change. The most prominent example of this is the Internet. It allows managers to contact their customers, suppliers, distributors, partners and subsidiaries around the world immediately online. Information technology (IT) is revolutionising the way cross-border business is being conducted. One of the greatest advantages IT has to offer is its flexibility to expedite the transfer of information and knowledge to any business unit or subsidiary throughout the world (Huff, 1991). Firms are now able to more flexibly transfer large amounts of data – including text, audio and video files – to anywhere in the world. The worldwide infrastructure of fibre optic cables and satellites has made this information revolution possible. Video-conferencing and globally networked computer-aided design (CAD) have decreased the distance between displaced business units. For example, design engineers from plants in

North America, Europe and Japan can work on the same CAD document in real-time (Valenti, 1997). Firms who have implemented vast information technological changes have seen gains in efficiency and productivity.

Lastly, multinational corporations (MNCs) are changing their strategies to compete globally. Sometimes firms will enter new markets because they know competitors are doing business there. This effect of "keeping up with the Jones's" has led to greater involvement in cross-border transactions. The new markets of Asia, for example, offer MNCs new customers, and a chance to diversify a company's portfolio. A good example of this is the new wealth that China has to offer – companies like Sony and Microsoft are reaping the benefit of its growing middle class. As MNCs expand their presence overseas, so do the support mechanisms for the MNCs, that is the manufacturing and service firms that are related to MNCs end products.

The Current Trend

The current trend in globalisation is to create fewer but larger oligopolies as seen in, accounting firms, advertising firms, banks, financial institutions, manufacturers, retailers and wholesalers that face each other around the world. However globalisation is not only for the big and mighty even though there is a tendency to assume that it is confined to large companies like IBM, Coca-Cola or Ford. Smaller companies like Iona Technology (software company with 60% share of the world market) and Ferrero (an Italian company with sales approximately £ 1 billion sterling in 1994) has proved this not to be the case (Mesdag, 2000).

It is argued that firms that globalise reap real competitive advantage over competitors that do not. According to some surveys, sales by firms with foreign activities grow at twice the rate of firms without any international operations (Weidenbaum, 1996). Some well known American companies have over half of their assets locked into global FDI – Citicorp, Chevron, Exxon, Digital Equipment and Gillette to name a few. This is especially significant given the enormous size of the American market. It is thus apparent that corporations can no longer afford to just concentrate on their domestic market. Those firms that try to ignore the effects of globalisation by simply concentrating on the domestic market, will inevitably meet the international players at their doorstep.

Dimensions That Shape The Success Of Global Management

The above explains the state of the world but what are the dimensions that shape the strategies for global management. Extension of a firm's operations into different countries is also a distinct feature of globalisation and creates challenges for the manager (OECD, 1996). The manager in addition to the domestic market must also account for trans-border operations. This, it would seem, is what "going global" refers to. There is no distinct boundary that dictates where the firm must be located or do business. At the higher levels of multinational companies, decision-makers have for some time seen the world in this light. Rather than formulating strategy based on domestic concerns, they view the world as one marketplace – from production to distribution to consumption.

Taking lead from the multinationals the other firms are now exploiting the global marketplace – partly to reap rewards from falling international barriers and increase in global wealth, and partly due to cautious assessment of the economic climate. While this increase in opportunity looks like a panacea for expanding a firm's coffers, it can only be beneficial to a firm if its managers understand the playing field. The global climate is complex, and in order to succeed, the organisations must be able to manoeuvre through the murky waters of the global economic environment.

Perhaps the best illustration of the complexities of the global environment was brought to bear by Bartlett and Ghoshal (1995). They described three areas in which a global organisation needs to focus to sustain competitiveness. They are: (a) To achieve global efficiency, assets and resources must be widely dispersed (b) Business sub-units should be differentiated, yet interdependent to maximise responsiveness (c) Learning must be on a global scale to ensure efficient development of human resources.

Thus, managers must run an efficient and well co-ordinated operation using well-trained staff while simultaneously responding to customer demands at a global level. Achieving all of these objectives will not be easy for a manager who is normally accustomed to serving his or her domestic market.

The Knowledge Element

In order to survive the complexities of the global environment, managers must now cope with a myriad of new problems. Changes in interest rates, governmental regulations and regional economic and political disturbances are all part of a global manager's day-to-day agenda (Greenbaum, 1992). This can create complications for the manager who is only trained in domestic affairs. In order to understand the global environment, managers must scan or monitor the economic and political situations, which confront them. By scanning the playing field for technological change, he or she must be ready to implement change in the firm when the situation warrants it. The fast pace of technological change is exacerbated by the convergence of global economies. Much of the literature suggests that managers at all levels must either have close connections with IT-savvy people or be IT-savvy themselves. Secondly, the manager must be aware of global economic changes and pinpoint financial trends when necessary (Despres, 1996). This requires a firm understanding of international finance. Thirdly, the global manager must be extremely aware of political changes happening in countries where the company either does business or one in which a presence is maintained.

Subtle Differences

There is a strong desire on the part of businesses to maximise the benefits of globalisation through standardisation. There is however a great divergence of the suitability of this approach to global markets which are significantly different. Besides obvious differences such as language, ethnicity, climate or the stage of evolution of managerial expertise there are other subtle differences in host country markets. Ignorance of the differences in these subtler aspects can spell failure. Some countries have natural afflictions. Germans for example never think about their livers. For this reason a French pharmaceutical company that attempted to sell its cure for liver disorders failed in the German market (Giordan, 1994). French and Flemish are two languages in Belgium and the people speaking the two languages loath each other. They tend not to buy products labelled in each other's language (Mesdag, 2000). Therefore companies that sell product in Belgium use both languages in printed matter and labels. In the alternative they use a neutral language such as English. These explain the need to understand the subtle differences in foreign markets in the formulation of global strategies.

Standardisation

Danish toy maker Lego who used their successful US promotional format in Japan failed in the Japanese market. They got the first lesson on the limitation of the transferability of global strategy (Kashani, 1989). This suggests that it is difficult even to have an imperfect standardization strategy in the global market place to build a lasting and growing commercial presence.

Staffing The Subsidiaries

Perlmutter and Heenan (1974) proposed that headquarters of global companies could use one of the four approaches to staffing the subsidiaries. They are: ethnocentric, polycentric, regiocentric, and geocentric. There are advantages and disadvantages of each approach. Most prefer the geocentric approach where the best people in the world are developed for positions in any part of the world. Yet it is important they are sufficiently orientated to be responsive to local interests to maintain the balance and momentum of globalisation.

On the other hand managers of global companies must have ultimate control of the operations and must be able to enforce strategy in the host country. Globalisation does not imply that the employees and customers will abandon the long held social and cultural values in favour of a single ideal defined by western prerogatives. In operational terms this means to ensure a global strategy it will be advantageous to have people familiar with the language and culture of the host country (ethnocentric approach). This suggests that they should be nationals of the host country. A vital requirement in them is that they should be adequately aware of the culture, aims, policy, strategy, resources and the interrelations of the parent company. Managers who manage them should have learned the differences arising from differences in geographical and cultural dimensions. Deciding on the correct approach for staffing subsidiaries is not an easy task and needs careful consideration of the pros and cons each time when a decision is to be made.

Diversity

The most successful companies in the world have significantly more diverse top management than their less successful counterparts. A recent study of CEOs found that some 20 - 25% of top 100 management positions are held by foreign nationals in companies that consider themselves the most successful and most global (Ettorre, 1997). These CEOs have stressed the absolute need for a globally experienced cadre of executives from different parts of the world to really understand and seize the opportunities (Ettorre, 1997).

Cultural Issues

There is a significant convergence in management practices in different countries and the degree of convergence varies enormously in different countries. The stimulus for this convergence comes from the advances in mass media, quick and cheap means of communication between people, internationalised peer group behaviour, the increasing wealth of people and their increasing mobility. An observable fact of these changes is the resonance of western consumer values and icons in many other parts of the world. Particularly revealing is the flashing of western advertisements in the viscinity of communist monuments in Moscow or Beijing. However, one hundred percent globalisation is a myth (Kapferer, 1992b). There is no such thing as global management approach that is conceptually different to a domestic management approach in an absolute sense.

Resistance to global management initiatives may stem both from cross-cultural and cross-national differences. A new initiative in a global company may clash with the deeply held values of some of its employees. It may even affect their benefits. When North American companies used participative management practices to motivate Russian workers the response was a performance decrease rather than an increase (Kirkman & Shapiro, 1997). In addition to the cultural differences, this has also been attributed to the long history of ignoring of employee ideas by Russian management.

Globalisation of food is difficult as people eat what they know. If people are prepared to eat food they have never seen before then there will be less starvation in the world. The starving people in Africa will eat the food they recognise. Each country or at least each culture has her own diets, which would take a long time to change. The delayed convergence that takes place will be associated with some cultural adaptations as seen in western countries adapting Asian foods with lower levels of spices. Companies selecting products for global markets should do so with complete awareness of the need to satisfy these cultural requirements.

Ethical And Moral Issues

Deregulation of markets and increasing global competition are two factors that are associated with global restructuring of companies (Peel, 1995). A major issue for most of these companies is the innovation and creation of better ways of doing business. Reengineering is one tactic used to achieve this objective. Sadly, however, many executives equate this to slash and burn downsizing and savage cost cutting (DeMott, 1996).

Those executives who misuse this concept seem to move away from the basic but essential business values of service to customers and fairness to employees to increase their personal wealth by boosting corporate profits and maximising returns to shareholders. In such companies, where downsizing and termination of hundreds of employees' jobs occur, simultaneous announcements of salary awards to key executives and CEOs are not uncommon.

When downsizing is done to raise earnings per share to shareholders and to achieve personal salary gains and additional fringe benefits for the key executives, it will cause turmoil in an organisation. Employees of such organisations will find the CEOs guilty of corporate indecency.

CEOs on the other hand are responsible for taking expeditious action in their companies to take advantage of modern technology, research and innovative management techniques to remain cost competitive in the global markets. Failure to achieve this will lead to loss of profits, a drop in share prices and even changes at the top.

To manage effectively "megasized" companies such as AT&T, General Motors and many others have either sold parts of their businesses or have broken them into better managed smaller parts. Mobil slashed layers of management, shortened the lines of communication, reduced the number of employees from 75,000 to 50,000 and increased their revenues from $54 billion in 1985 to $75 billion in 1996 (DeMott, 1996). What are the social costs of these developments and who bears these costs?

The big corporations who are feeling the pressure of increased competition brought on by globalisation often have looked to cut costs and bolster profits wherever possible. This is often done at the expense of the worker and comes in a variety of forms. The creative euphemisms for this downsizing are: Career Alternative Enhancement Program, Centralise, Change Management, Decentralise, Consolidate, Decruiting, Delayering, Demassing, Outsourcing, Organisational Transformation, Readjustment, Reengineering, Reinventing, Restructuring, Rightsizing, Rationalise Operations, Streamline, Synergy, Transition (Gordon, 1996). All these virtues become a sin when they are extended too far.

A record 600,000 layoffs occurred in the U.S. in 1993 alone, and the pace did not diminish in the following year (Greenwald, 1994). It is argued by some that corporations are now performing downsizing almost as a matter of habit rather than as a strategic tool (Stamps, 1996). Analogies are everywhere that describe this phenomenon. A common metaphor is the knife or axe. In an attempt to cut costs or boost profits, so say the pundits, companies' executives get out the *knife* and remove what they think is excess *fat*. But many companies do not think about where to cut or they cut too close to the bone. Much of downsizing is done without a long-term goal in mind: it is often short-term bean counting to boost "this quarter's profits" or cut overhead costs. However, what usually suffers is the long-term outlook of the company (Stamps, 1996). Critics argue that downsizing has not solved the company's problems. The company may be smaller but does that mean it is healthier? The answer is usually a resounding no; the downsizing does nothing to heal a company's problems and often times does more harm than good.

Conclusions

National boundaries have become meaningless in the business world due to globalisation and the managerial process in global companies has changed to reap the rewards of this new climate. Firms in industrial nations taking advantage of the new environment pursue the increasingly universal objective of wealth generation through globalisation. They create distinct hybrids operating in particular cultural contexts that respond to demands of globalisation. In the creation of these hybrids the social, cultural, political and economic foundations of different countries filter the pressures of globalisation.

Globalisation creates vast new opportunities for the firm. With the increase in potential markets, however, comes new challenges to the manager whose aim is to advance a firm's position. The advent of the new competitors with globalisation makes it difficult for managers to rest on their laurels and wait for their competitors to meet them halfway. This is especially important for managers in smaller firms who are now facing competition from larger firms endowed with economies of scale. One thing managers need to start doing in global companies is establishing an element of trust in the company. While the customer is the most important part of any business, the employee should be viewed as the second most important part. Companies are in a sense a family – as the Japanese have shown – and can have the same problems of dysfunctional families. For long-term benefit of global companies the changes implemented to gain competitive advantage must be carried out creating a sense of family and establishing trust within the company.

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