Importance of International Management

by Sophia

WHAT'S COVERED

In this lesson, you will learn why it is important to understand and appreciate the importance of international management in today's world. Specifically, this lesson will cover:

1. The Forces of Globalization

No company is immune to the forces of globalization. Whether you run a small company based in Wisconsin or manage a Fortune 500 company, you are affected by global forces. You may compete with firms from China or India, have coworkers from Egypt, Brazil, or Germany, or have to negotiate with someone from Russia. This challenge will prepare you for the complexities of international management by discussing some of the crucial issues faced by managers of international companies today. The challenge begins by discussing some of the key factors in making the business world global today and why an understanding of international management is so critical. The challenge then explores the importance of national cultures because cross-cultural conflicts can make an international business difficult to navigate and manage. By understanding the countries and the cultures they find themselves in, international managers can better prepare to deal with such differences including appropriate preparation for cross-cultural assignments, preferred leadership styles around the world, and the potential for stereotyping.

IN CONTEXT

Mike Schlater, Domino's Pizza

Domino's Pizza has more than 14,000 stores worldwide. As executive vice president of Domino's Pizza's international division, Mike Schlater is president of Domino's Canada with more than 440 stores. Originally from Ohio, Schlater started his career with Domino's as a pizza delivery driver and worked his way up into management. Schlater saved his earnings, and with some help from his brother, he was able to accept the opportunity to have the first international Domino's franchise in Winnipeg, Manitoba, in 1983. Within weeks, Schlater's store in Canada reached higher sales than his previous store in Ohio had ever attained. However, it was not an easy start. Schlater faced a number of challenges going international. First, he had to identify the international suppliers and get them approved to sell their products to Domino's. This shows one of the challenges that organizations face when entering new global markets. To meet quality standards designed to protect a brand, companies must undertake an extensive review of potential new suppliers to ensure consistent product quality.

Second, a major challenge when opening a business on foreign soil is negotiating the political, cultural, and economic differences of that country. Domino's relies on local master franchisees to take advantage of their local expertise in dealing with marketing strategies, political and regulatory issues, and the local labor market. The master franchisees of Domino's Pizza's international business are individuals or entities who, under a specific licensing agreement with Domino's, control all operations within a specific country. Such master franchisees have deep local knowledge that helped Domino's succeed. For example, it takes local experience to know that only 30 percent of the people in Poland have phones, so carryout needs to be the focus of the business; that Turkey has changed its street names three times in the past 30 years, so delivery is much more challenging; or that, in Japanese, there is no word for pepperoni, the most popular topping worldwide. These are just a few of the challenges that Domino's has had to overcome on the road to becoming the worldwide leader in the pizza delivery business. Under the leadership of people like Schlater, and with the help of dedicated, local master franchisees, Domino's has been able to not only compete in, but lead the global pizza delivery market.

Such an impressive career path might seem like luck to some, but Schlater achieved his success due to determination and attention to detail. Additionally, despite such success, Schlater has been socially responsible. Consider that Schlater recently won $250,000 in a lottery. Since Schlater believes in philanthropy, he donated the entire amount to Cardinal Carter High School in his hometown. Over the years, Schlater has donated millions of dollars to foundations and charities, such as the London Health Sciences Foundation, because he now has the ability to indulge after spending decades climbing the corporate ladder at Domino's Pizza. Such charitable focus has also shone light on his socially responsible tendencies, another critical aspect of success.

Schlater is now president of Domino's of Canada, Ltd., which operates more than 440 stores located in every province, as well as the Yukon and Northwest Territories.

Sources: "Domino's Pizza Corporate Facts," http://phx.corporate-ir.net, accessed June 20, 2017; Domino's Canada website, https://www.dominos.ca, accessed June 20, 2017; Trevor Wilhelm, "Domino's CEO, who lives in Leamington, will donate $250K lotto winnings to high school," Windsor Star, February 27, 2015.

The above example shows that Domino's has successfully managed global challenges to become successful internationally. For many business leaders over the past few decades, the business world was becoming "flat" because barriers to trade were slowly disappearing. The expectation was that soon global companies would operate unconstrained by national borders. However, recent trends suggest that the business world is now seeing a barrage of protectionism and nationalism as many countries and their leaders emphasize the negatives of globalization. At the same time, rhetoric about policies and practices to protect local industries against global competition and to protect local jobs is increasing. But does this mean globalization is dead? Far from it—experts have analyzed recent trade data and shown that globalization is actually strengthening. The **DHL Global Connected Index**, which tracks the flow of capital, information, trade, and human resources, indicates that the degree of globalization continues to rise (Ghemawat, 2017).

BIG IDEA

This finding suggests that any serious management scholar will need to be aware of the importance of international management and the need to be able to adapt practices to ensure that management of global operations goes smoothly.

This challenge concludes with coverage about the various approaches to taking a company international, the advantages and disadvantages of each approach, and the types of business strategies available to companies in the international arena.

TERM TO KNOW

DHL Global Connected Index

Index tracking the flow of capital, information, trade, and human resources and representing the degree of globalization.

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2. Factors That Facilitate Globalization

International management is a critical area for any serious student of management because of **globalization**—the worldwide phenomenon whereby the countries of the world are becoming more interconnected and where trade barriers among nations are disappearing. Companies of all kinds are no longer limited to producing and selling their goods and services in domestic markets. In fact, companies are encouraged to explore global markets to stay competitive and are thus likely to have business activity anywhere in the world. Globalization is being facilitated by several key factors, and companies that want to succeed in this environment must understand the key factors that are making the business world more globally connected.

TERM TO KNOW

Globalization

Worldwide phenomenon whereby the countries of the world are becoming more interconnected and where trade barriers are disappearing.

2a. Globalization Factor 1: Lowering Trade Barriers

The first critical factor is the lowering of trade barriers through **trade agreements**, government policies through which countries agree to eliminate cross-border barriers to trade and to promote global integration. To understand the importance of trade agreements, it is necessary to note that countries have long used tariffs to protect local industries and companies.

KEY CONCEPT

Tariffs are taxes that are added to the price of imported international products. Because these tariffs are usually passed along to the consumer in the form of higher prices, imposing tariffs on imported goods gives domestic companies a price advantage and protects them from foreign competition (Kaul, 2018). The goal of most trade agreements has been to reduce or eliminate tariffs and other barriers to make cross-border trade easier.

One of the more significant worldwide trade agreements are the rules members in the World Trade Organization (WTO) agree to (World Trade Organization, 2021). The WTO is the only truly global organization that deals with the rules of trade around the world. It was established January 1, 1995, and had 164 country members as of July 2016. The WTO serves many functions, but the four most important are: 1) providing the mechanism for countries to negotiate trade agreements; 2) monitoring such agreements; 3) providing the means to handle trade disputes; and 4) providing training to less-developed countries to implement agreements.

TERMS TO KNOW

Trade Agreements

Popular policy instruments that countries agree on to eliminate cross-border barriers to trade and to promote global integration.

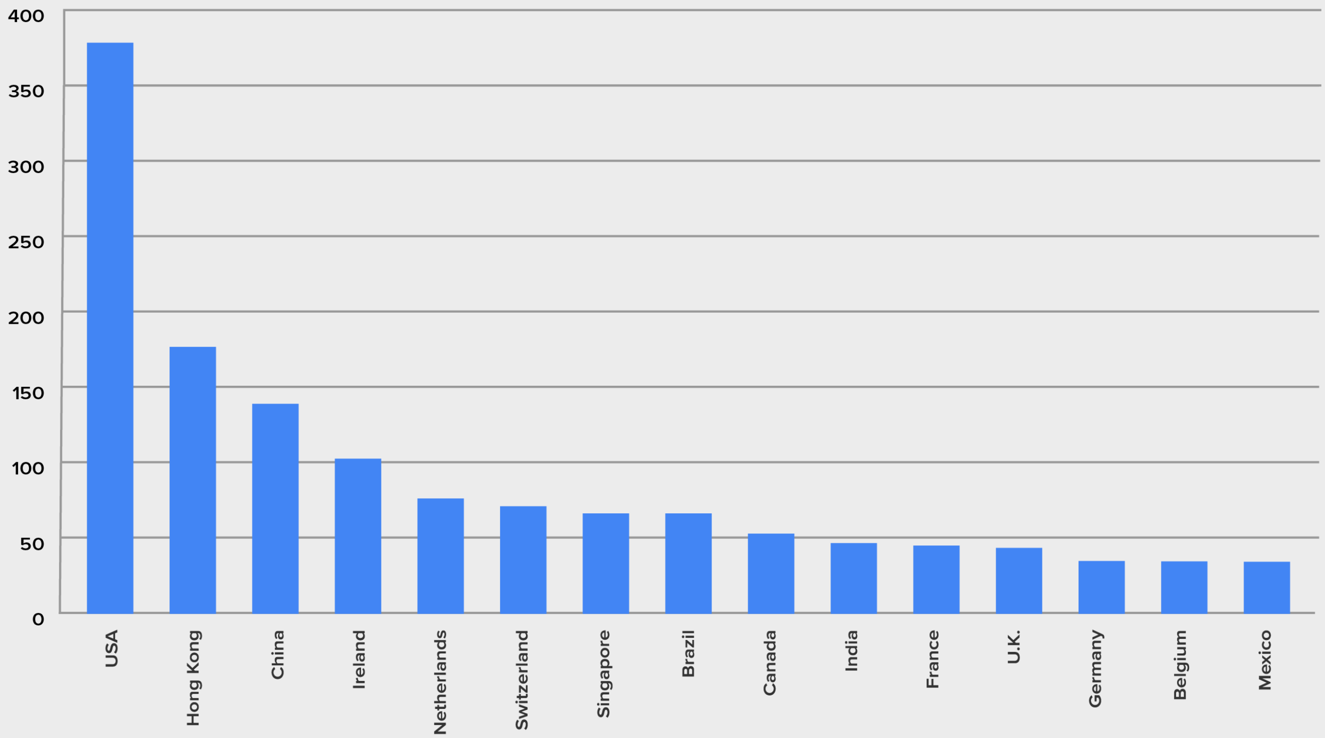
Tariffs

Extra charges that are added to the price of international products in the form of additional taxes or higher prices as a way to give domestic companies a price advantage while also protecting these companies from foreign competition.

2b. Globalization Factor 2: Foreign Direct Investment

Foreign direct investment (FDI) refers to deliberate efforts of a country or company to invest in another country through the form of ownership positions in companies in another country. In 2017, global FDI flows amounted to USD $1.52 trillion.

The graph below shows the top 15 recipients of FDI in 2016. As you can see, many of the world's developed economies, such as the U.S., Germany, Canada, and France, are among the top recipients of FDI. However, it is also important to note that many emerging markets, such as China, Brazil, Mexico, and India, figure prominently on this list. **Emerging markets**, defined as those markets in non-developed countries that present tremendous potential for multinationals, have played a critical role in the global business environment for the last decade. Countries such as Brazil, India, China, and South Africa have all experienced tremendous growth and are driving business trends.



Foreign Direct Investment Inflows from Other Countries

Source: Based on: UNCTAD, 2016, World Investment Report, 2016.

An important consequence of the rise of emerging markets has been the growing importance of emerging market multinationals. **Emerging market multinationals** are influential companies from emerging markets that compete head-on with established multinationals and rewrite the rules of competition by using new business models. Consider the case of CEMEX, the Mexican cement manufacturer; Shoprite, the South African retailer; and WIPRO and Infosys, India's leading software companies. These emerging market multinationals are industry leaders in their fields and are pushing more established multinationals to the competitive edge.

The lowering of trade barriers and the increase in foreign direct investment indicate that global trade will continue to stay strong and contribute to globalization. Such trends suggest that companies will need to continue to contend with and take advantage of global opportunities.

BIG IDEA

The rising competition from emerging markets and emerging market multinationals means that companies will need to continue to understand and manage the global environment to compete.

TERMS TO KNOW

Foreign Direct Investment (FDI)

Refers to deliberate efforts of a country or company to invest in another country through the form of ownership positions in companies in another country.

Emerging Markets

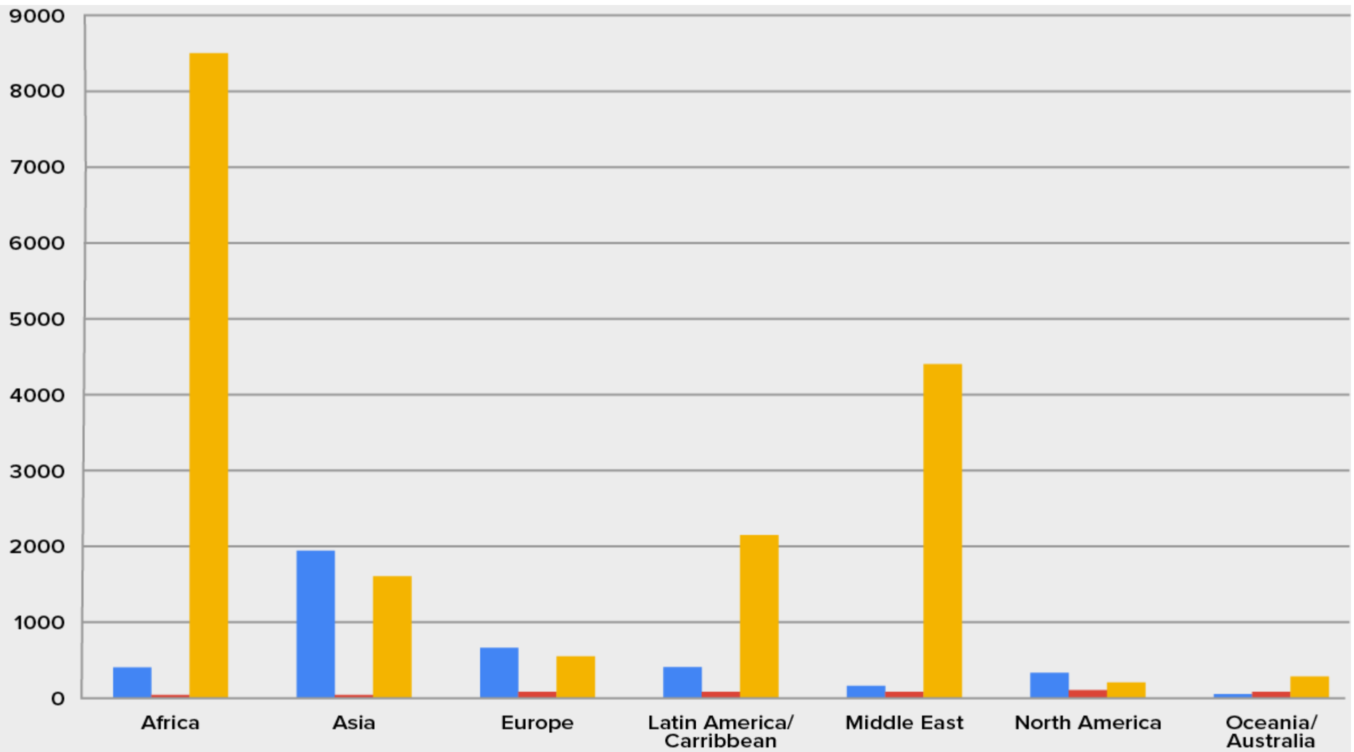
Those markets in countries that present tremendous potential for multinationals.

Emerging Market Multinationals

Influential companies from emerging markets that are competing head-on with established multinationals and rewriting the rules of competition by using new business models.

2c. Globalization Factor 3: The Internet

Thanks to the pervasiveness of the Internet today, any company in the world can sell its products to anyone in the world. In fact, the developments in information technology and the reduction in costs of technological equipment mean that any multinational can reach anyone in the world. Social media, such as Twitter and Facebook, also provide a means for multinationals to build relationships with customers worldwide. Data also suggests that even countries that previously had little access to the Internet are now experiencing tremendous growth. To give you more insights on Internet growth, consider the following graph.



Internet Growth and Penetration Rates (% of population with access to Internet)

Source: Based on www.Internetworldstats.com

As the graph shows, the pervasiveness of the Internet cannot be ignored. Collectively, Internet users amount to 3.8 billion individuals, representing half of the world's population. Additionally, while the penetration rates in some regions such as Europe and North America are high, the rates of penetration in regions in Asia (46.7%) and Africa (31.2%) suggest that these countries have great potential. When coupled with the dizzying growth rates of the Internet in regions such as Africa (more than 8000% increase from 2000 to 2017), Latin America (2137%), and the Middle East (4374%), any multinationals have to appreciate the importance of the growth of the Internet.

What are the implications of this factor for international management? As mentioned earlier, companies located anywhere in the world will be able to find new markets and new ways to reach new customers. Consider the case of Russian entrepreneur Dmitrii Dvornikov, who was selling jewelry and table clocks made from Russian semiprecious stones (Bloomberg, 2017). Until 2013, Dvornikov was not able to expand beyond local markets. However, he decided to list his products on eBay. This has allowed his business sales to grow by 30%. Such success was spurred by the implementation of software by eBay's operators in Russia. This software enabled smaller companies to sell anywhere in the world. Such factors have greatly expanded **e-commerce**, the buying and selling of products using the Internet.

E-commerce doesn't necessarily have to be between companies and individual customers. In fact, there are many other forms of e-commerce, such as business-to-consumer (e.g., eBay), business-to-business (B2B, where companies sell to each other), consumer-to-business (C2B, where consumers can sell to businesses), and consumer-to-consumer (C2C, where consumers can sell to other consumers). These forms of e-commerce are all contributing to making the global business world more interconnected.

BIG IDEA

It is critical for multinationals to appreciate the importance of the Internet. Not only can companies reach new consumers, but they can also improve their business models. Additionally, the Internet provides the opportunity to companies to build relationships with consumers worldwide.

REFLECT

1. Describe the lowering of trade barriers and its impact on international business.
2. What is foreign direct investment?
3. What has the role of the Internet had on international business?

TERM TO KNOW

E-commerce

Buying and selling of products using the Internet.

SUMMARY

In this lesson, you learned why it is important to understand and appreciate the importance of international management in today's world. At the beginning of the lesson, you learned that no company—whether large or small—is immune to **the forces of globalization**, the worldwide phenomenon whereby the countries of the world are becoming more interconnected and where trade barriers among nations are disappearing. You learned that companies that want to succeed in this environment must understand the key **factors that facilitate globalization**, such as **lowering trade barriers** through trade agreements, **foreign direct investment**—including in emerging markets—and **the Internet**, which enables any company in the world to sell its products to anyone in the world via e-commerce.

Best of luck in your learning!

Source: Access for free at https://openstax.org/books/principles-management/pages/1-introduction

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TERMS TO KNOW

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Index tracking the flow of capital, information, trade, and human resources and representing the degree of globalization.

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