**ГОСУДАРСТВЕННЫЙ УНИВЕРСИТЕТ УПРАВЛЕНИЯ**



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**Part I**

**CASE IN POINT**: **Ford’s Edsel Flops**

During the late 1940s, managers at Ford realized that they had a problem. Ac­cording to studies, 1 out of 5 car buyers each year was moving from a low-priced to a medium-priced car. Furthermore, among the owners of General Motors (GM) cars, about 87 percent of those trading up stayed with GM, choosing either a Pontiac, Oldsmobile, or Buick. Almost 47 percent of the Plymouth owners moving to a medium-priced car picked a Dodge or DeSoto—which, like the Plymouth, were within the Chrysler family. Ford, however, had only one me­dium-priced car, the Mercury, and only 26 percent of the Ford owners trading up selected a Mercury. Accordingly, the company began a decade of elaborate planning and preparation aimed at creating a successful new mid-priced car geared to young executives and professionals.

The endeavor proved to be quite a challenge. For one thing, finding the right name turned out to be difficult. After extensive marketing research, 10 names were sent to the executive committee; but the committee chose a name that was not on the list—Edsel, the name of Henry Ford's only son. The name "Edsel" was picked despite the fact that market research had shown that it engendered mixed customer reactions. Furthermore, Edsel's three sons in active management at the company (Henry II, Benson, and William Clay) were not particularly happy about their father's name turning "on a million hubcaps."

Another major issue was styling. The search for a distinctive, yet discreet, style involved 800 stylists, all of whom finally agreed on a vertical front grille shaped like a horse collar. Other features of the car included a body that was 2 inches longer than the largest Oldsmobile, extensive use of push buttons (in­cluding the transmission), and an extremely powerful engine—all characteristics determined by market research in the early 1950s to appeal to midrange car buyers.

To build and distribute the car, Ford set up a separate division at headquar­ters and separate Edsel dealers, rather than selling the car through one of the established Ford, Mercury, Lincoln, and Continental divisions and chains of experienced dealerships. While it was felt that this would allow the division and dealers to concentrate totally on the Edsel, the system also added greatly to the overhead associated with the car. This meant that it was necessary to sell large numbers of cars in order to make a profit. The executives felt that they were being conservative in estimating that 200,000 cars (or about 650 per day) would be sold the first year.

Although advertising was launched on July 22, 1957, the actual style of the car was kept a closely guarded secret until introduction day on September 4, about a month before competitors would be introducing their 1958 models. Sales of the Edsel on the first day were somewhat promising, but they quickly dwin­dled. In 1958, only about 35,000 Edsels were sold, far short of the conservative target. The 1959 Edsel models were shorter, lighter, less powerful, and less costly, and they were handled through a merged Lincoln-Mercury-Edsel divi­sion. Sales that year were about double those of the rust year. When the I960 models failed to generate additional excitement after they were introduced in the fall of 1959, production of the Edsel was scrapped. Losses reached about S20G million.

What went wrong? First, there was a stock market collapse in August that had a severe negative impact on purchases of medium-sized cars that year.

Second, Ford relied heavily on initial marketing data to plan the car and failed to alter the plans in the face of the growing impact of smaller, more fuel-efficient foreign cars, which were beginning to capture portions of the U.S. car market.

Third, the first Edsels were prone to oil leaks, mysterious rattles, faulty brakes, and starting difficulties-problems that should have been detected before they reached the newspapers and national visibility. Because of these malodies the car was quickly labeled a "lemon" and became the source of jokes.

Fourth, Ford relied on a network of inexperienced new dealers to woo prospective customers.

Fifth, the car was introduced while other carmakers were offering discounts on their previous year's models, making the new Edsel seem expensive.

Finally, top management ignored negative marketing information from potential cus­tomers when it selected the name "Edsel."

Perhaps the Edsel could have survived one of these difficulties, but in com­bination, the problems were lethal. The situation illustrates the need to pay close attention to things going on outside that can affect system functioning and success.

**TASK: Answer the question:**

**What lessons can be taught from this case?**

**What measures would you take and how would you act?**

**Give a list of difficulties the company faced and fill in the table.**

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| --- | --- | --- | --- | --- |
| **Problems raised** | **Main objectives** | **Techniques used** | **Recommendations made** | **Takeaways** |
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**CASE STUDY**

FORD MOTOR CHARGES AHEAD AND INTO GLOBALIZATION

Amidst the auto industry turn­down of the early 1980s, Henry Ford's motor company was hemor­rhaging. Henry Ford П had just re­tired from his position as chairman of the company that his grand­father had built. Between 1979 and 1982, the company lost $3 billion. The company was plagued by a reputation for producing cars de­signed for yesterday's consumers, and—worse—quality was poor. Wall Street analysts predicted that the car company was forever doomed to be an "also-ran" in world car competition.

Faced with a dire situation, the new leaders, Philip Caldwell as chairman and Donald Petersen as president, began a corporate soul- searching that covered everything from how cars were designed and produced to whether so many fi­nance staffers were needed at headquarters. By the time that Pe­tersen took over as chairman and CEO in 1985, massive changes were under way.

Cutting costs and raising qual­ity were clear priorities. By the mid- 1980s, the company had reduced its hourly work force from 190,000 to 110,000, cut back on white-collar workers by 30 percent, and shut down 8 U.S. plants. The remaining 81 plants were revamped and up­graded technologically to make the work as efficient as possible. Com­puterized robots and upgraded in­ventory control were part of the massive changes. At the same time, Ford tied its efficiency and cost­cutting efforts to its quality quest. It has adopted the Japanese manage­ment view that higher quality ulti­mately means lower costs. Accord­ing to one manufacturing manager, "If you don't make bad parts, you won't have bad parts—and if you do, you have to scrap them. This is how cost-conscious plant managers become quality conscious." Such changes reduced costs by $5 billion by the mid-1980s, with another $5 billion in savings expected by the early 1990s.

Then there was the issue of the style of Ford cars, which even Cold­well had characterized as looking like "cold, alligator-shoe cars." To change the approach to design, Petersen, who was president at the time, gave Ford's design head for North America the now-famous order to "design the kind of cars you would like to drive." The re­sulting Taurus and Sable, both in­troduced in December 1985, have been runaway successes. In fact, customer orders for the cars had topped 100,000 by the time the cars reached the showrooms. The dras­tically redesigned Lincoln Conti­nental, introduced in December 1988 as the first big U.S. luxury car with soft lines, has been a sellout. The 1989 Thunderbird, redesigned with a new aerodynamic look, made the July cover of Car and Driver and won the coveted Motor Trend magazine's "Car of the Year" designation. The Thunderbird also was introduced in December, a tra­dition since the Taurus and Sable debut. Petersen recently recalled, "We had made so many mistakes in the past by following this or that trend, this or that competitor. Fi­nally, we realized that we should not be driven by other people's choices, but by our customers. We've been going our own way ever since."

These successes have taxed the capacity of Ford plants in their at­tempt to keep up with the demand and have caused customers to wait months for their cars, but Petersen has resisted building new plants. Instead, some 18 to 20 percent of Ford's cars are built on overtime, a situation that has made it more dif­ficult to keep up the massive im­provements aimed at equaling the quality of Japanese cars. Petersen was reluctant to add capacity be­cause he believes that various auto­motive companies are expanding at a rate that will cause a 9 million unit overcapacity worldwide by the early 1990s. As he sees it, for dec­ades Ford was an erratic company with a banner year one year and a disaster the next. He wants to keep the company on a more even keel so that it is better able to deal with the future. "It's a new world with an overtone of uncertainty," he says.

Some of the less visible changes at Ford relate to the new approach to internal management. Once considered to have the most autocratic managers in the U.S. auto industry, the company launched a program called Em­ployee Involvement that is aimed at pushing decision making to lower levels, including the assembly line. For example, assembly-line work­ers now are authorized to stop the line if they see a problem. The com­pany emphasizes teamwork and uses the team concept to involve individuals from various parts of the company, such as design, engi­neering, and manufacturing, in the development of new models. Peter­sen noted that ideas come from the bottom of the company as well as from the top. "Changing how peo­ple work together is the be-all and end-all of my time with Ford Motor Company, my contribution," he says. In 1989 Petersen was ranked number one in a Fortune magazine survey that asked America's top business leaders whom they con­sider the most effective leader in U.S. business. Petersen retired in 1990 and was replaced by Harold Poling, who had been responsible for much of the cost cutting dis­cussed previously.

Ford still has its work cut out for it. It faces a major problem re­vamping its "power trains," the engines and transmissions in its automobiles. Ford is considered to be behind in the latest technology to simultaneously improve perfor­mance and gasoline mileage. Ford also has to become more competi­tive in other parts of the world.

Currently, Ford has more than 14 percent of the worldwide auto­mobile market, compared with General Motor's 17 percent share. Ford produces cars, trucks, and accessories in Canada, the Federal Republic of Germany, Great Brit­ain, Spain, Australia, Taiwan, Mex­ico, Greece, Argentina, Brazil, Ven­ezuela, and the United States.

In one of its most significant moves toward operating on a worldwide basis, Ford established Ford of Europe, Inc., in 1968 as a major subsidiary. Ford of Europe's 22 plants are located all over Eu­rope, from Wales to southern Spain. The major approach in Eu­rope has been to have sales offices in each country and customize au­tomobile designs and marketing campaigns to local conditions. With about 11 percent of the European market, the company is positioned to capture even more of the market when trade barriers come down in the European Economic Commu­nity countries in 1992. Ford is hop­ing that the creation of a single Eu­ropean market will eliminate some of the local requirements, such as yellow headlights in France, that have made it difficult to standard­ize components and lower produc­tion costs. The purchase of Jaguar PLC in 1989 increased Ford's influ­ence and visibility in Europe.

In a further bid toward true globalization, considering the whole world as a single market, Ford recently made a structural change at its world headquarters by unifying all foreign and domestic auto operations (the parts of the company that actually design and produce the automobiles) under Philip Benton, head of international auto operations, giving him the title "president of the Ford Automotive Group." The major impact of the change will be in the method of developing products.

The attempt will be to develop a car with a design that can be man­ufactured and sold in both the United States and Europe. The car, currently called CDW27, will be a follow-up to the Tempo-Topaz- Sierra line of cars. The notion of a commonly designed car was at­tempted a decade ago when Euro­pean designers produced the Es­cort. By the time U.S. designers adapted the European-designed version to their own tastes, the two versions had very little in common except the name. Although Ford of Europe again has the major respon­sibility for the design, this time Ford will attempt to have designers on both sides of the Atlantic coordi­nating their efforts through new communications technology, such as conferences using closed-circuit television and computer links, as well as frequent travel back and forth.

Ford also continues to reach toward the Pacific. Ford owns 25 percent of Mazda, which is devel­oping the next-generation Ford Escort. The Tracer, sold by Mer­cury, also is based on a Mazda de­sign. The Ford Fiesta is made by Kia in Korea, and Ford is in the pro­cess of building a new plant in Ohio to produce Nissan-designed mini- vans that will be sold by both Ford and Nissan. Benton looks forward to the day when the company can produce an automobile that is a joint effort of European, North American, and Japanese design­ers.

**QUESTIONS FOR THE CASE**

Identify influences from the classical, behavioral, and quanti­tative viewpoints in the way that the Ford Motor Company is managed today.

Use systems theory to contrast the way in which the Ford Motor Company operated at the time the Edsel was introduced with the way in which the company is currently operating, including its worldwide emphasis.

Explain the influence of Japa­nese management on current management at the Ford Motor Company

**TASK: Answer the question:**

**What lessons can be taught from this case?**

**What measures would you take and how would you act?**

**Give a list of difficulties the company faced and fill in the table.**

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| **Problems raised** | **Main objectives** | **Techniques used** | **Recommendations made** | **Takeaways** |
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**TASK: express your view on the statement below with arguments in favor or against**.

Although multinational companies tend to be rather large and to engaged in a substantial amount of business transactions across borders, international busi­ness also is conducted by a number of midsize companies. For example, mem­bers of the American Business Conference (ABC), a coalition of 100 high-growth midsize companies (average sales of $360 million), constitute one particular successful group in foreign markets.' According to a McKinsey and Compaq study, group members have expanded their world trade primarily by emphasiz­ing innovation, providing good value rather than necessarily the lowest price and maintaining good communication with customers. Members of the group include the Millipore Corporation, a worldwide manufacturer of advanced products for fluid analysis and purification; Hasbro, Inc., the toy maker; and Dunkin’ Donats, the donut chain found throughout most of the United States.

Even fairly small companies may engage in international business if they offer a unique product and/or good value. Thorneburg Hosiery, a $10 million company based in Statesville, North Carolina, found that its line of athletic socks, designed and padded for specific sports such as tennis and jogging, quickly appealed to the Japanese attendees at a trade show, leading to a $300,000 initial order.

Regardless of their size, companies may decide to expand internationally for a number of different reasons. Some organizations may become involved through unsolicited orders from foreign customers. Others may initiate interna­tional efforts in order to open new markets or to preclude foreign companies from entering specific foreign markets and eventually becoming domestic com­petitors. Still others may be motivated by the need to develop sources of sup­plies, possibilities of acquiring needed technology, or prospects for reducing costs by operating in foreign countries. Whatever the reason, managers need to think through their basic orientation toward international management.

**Orientations toward International Management**

Top-level managers in companies that are expanding internationally (particularly those in multinational corporations) tend to subscribe to one of three basic orientations or philosophies, regarding the degree to which methods of operating are influenced by headquarters or by company members in other parts of the world. The three orientations are ethnocentric (home-country oriented), poly­centric (host-country oriented), and geocentric (world oriented). A home country is the country in which an organization's headquarters is located, whereas a host country is a foreign country in which an organization is conducting business.

**TASK: give the definitions of three basic orientations and talk about their advantages or disadvantages. Give examples.**

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| **philosophies** | **definitions** |
| An ethnocentric (or home-country) **orientation** |  |
| A **polycentric** (or host-country) **orientation** |  |
| The **geocentric** (or world) **orientation** |  |

An ethnocentric (or home-country) orientation is an approach to interna­tional management whereby executives assume that practices which work in the headquarters or home country must necessarily work elsewhere. For example, during the period 1973 to 1986, Procter & Gamble lost an estimated quarter of a billion dollars of business in Japan partially because of an ethnocentric orienta­tion. As one former Japanese employee stated, "They did not listen to anybody." One of the most serious blunders, was a commercial for Camay soap that was used in the late 1970s. The commercial showed a Japanese man meeting a Japanese woman for the first time and immediately comparing her skin to that of a fine porcelain doll. Although this commercial had worked well in the Philip­pines, South America, and Europe, it was a disaster in Japan. A Japanese adver­tising specialist who worked on the commercial had warned Procter & Gamble that only an unsophisticated or rude man would say something like that to a Japanese woman, but company representatives would not listen. As the vice- chairman of Procter & Gamble later noted, "We learned a lesson here [in Japan] about tailoring your products and marketing to the market." Today Procter & Gamble is doing somewhat better in Japan. Although an ethnocentric orienta­tion often is a phase that organizations go through when they enter the interna­tional arena, it can prove extremely difficult to eradicate.

A polycentric (or host-country) orientation is an approach to international management whereby executives view host-country cultures and foreigners as difficult to fathom and, therefore, believe that the parts of the organization lo­cated in a given host country should be staffed by local individuals to the fullest extent possible. Locals—or nationals, as they are sometimes called—are thought to know their own culture, mores, work ethics, and markets best. As a result, subsidiaries in various countries operate almost independently under the direc­tion of local individuals and are tied to the parent company mainly through financial controls.

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The parent company may maintain a very low public profile relative to the subsidiary, as was the case until recently with Unilever and its U.S. subsidiary, Lever Brothers. It is very possible that you only discovered that Lever Brothers was owned by a foreign company when you read the introduc­tory case to this chapter. Although with a polycentric orientation local individu­als run operations in the host countries, they have little prospect of holding senior executive positions at headquarters, largely because they are perceived as having only a local perspective and expertise. Still, a polycentric approach may be successful when decision making is largely decentralized to host-country per­sonnel.

The geocentric (or world) orientation is an approach to international man­agement whereby executives believe that a global view is needed in both the headquarters of the parent company and its various subsidiaries and that the best individuals, regardless of home- or host-country origin, should be utilized to solve company problems anywhere in the world. Major issues are viewed from a global perspective at both headquarters and subsidiaries, which consider questions such as "Where in the world shall we raise money, build our plant, conduct R&D, develop and launch new ideas to serve our present and future customers?" The geocentric approach is the most difficult to achieve because it requires that managers acquire both local and global knowledge.

A geocentric approach helped Boeing save its 737 airplane. Introduced more than 20 years ago to compete with McDonnell Douglas's DC-9, the 737 received a number of initial orders before sales began to slow in the early 1970s. Because the competitor's DC-9 had a somewhat faster speed and a few other superior features, Boeing was ready to scrap its 737 program.

When a group of Boeing engineers was given, the task of making one final effort to salvage the plane, the engineers began to recognize that they had not given enough attention to a major potential market, the developing regions of the world-mainly the Middle East, Africa, and South America. While developing countries wouldn't buy a large number of planes at once, over a period of time their purchases could be substantial.

The engineers decided not to follow the common procedure of de­veloping specifications according to their own ideas of what was needed, using U.S., requirements as the standard; instead, they visited the various countries and got firsthand information. They found that runways in developing countries generally were too short for the 737 and were mainly asphalt, a softer material than concrete. So, they redesigned the wings to allow shorter landings on soft pavement and changed the engine so that takeoffs would be quicker.

When they went to Africa, they found that the pilots tended to bounce planes when landing, which meant the brakes couldn't work properly and the arriving planes would run out of runway. So, they redesigned the landing gear and installed: low-pressure tires. Boeing soon began to get small orders for the 737 from a number of developing countries, which later bought larger Boeing planes be­cause of their satisfaction with the 737. Recently, the 737 has become the best­selling commercial jet in aviation history. The Boeing situation helps illustrate, the importance of understanding the international environment within which one is attempting to conduct business.

**ASSESSING THE INTERNATIONAL ENVIRONMENT**

**TASK:** after running through the text fill in the table with key words and brief summary from each of the passages.

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|  | **KEY WORDS** | **SUMMARY** |
| **Environmental Elements** |  |  |
| **The Economic Element** |  |  |
| **The Legal-Political** **Element** |  |  |
| **The Sociocultural Element** |  |  |
| **The Technological Element** |  |  |

While international management opens up vast opportunities, it also presents the challenge of attempting to understand a much broader set of environmental factors than those typically encountered in managing a strictly domestic busi­ness. In this section, we explore the effects of various elements of the interna­tional environment and also consider a relatively new concept, the competitive advantage of nations.

**Environmental Elements**

The nation of the general environment, or mega-environment, can be helpful in exploring the nature of international management. The general environment is the segment of. the external environment that reflects broad conditions and trends in the societies within which an organization operates. Major elements of the general environment, such as economic, legal-political, sociocultural, and technological, can be used to explore the international realm more thoroughly.

**The Economic Element.** Different types of economic systems of countries are discussed above. Additional important economic factors that influence the ability of organizations to conduct international business successfully are the levels of economic-development in various countries, the presence of adequate infrastructures, a country's balance of payments, and monetary exchange rates.

Countries, other than the communist ones, fall into two major classifications based on the economic or industrial level of development. The first group, known as developed countries, is characterized by a high level of economic or industrial development and includes the United States, western Europe, Canada, Australia, New Zealand, and Japan. The other noncommunist countries fit into the second group, known as less developed countries (LDCs) or developing countries. The LDC category, often called the "third world," consists primarily of relatively poor nations characterized by low per capita income, little industry, and high birthrates. Within the LDCs, countries that are emerging as major exporters of manufactured goods are often referred to as newly industrialized countries (NICs), a designation that covers such countries as Hong Kong, Taiwan and South Korea.

While we often may think of multinational corporations as operating exten­sively in developing countries, actually about 95 percent of such companies are based in developed countries and about 75 percent of foreign investment has been channeled to developed countries. Nevertheless, the rising prosperity of many less developed countries (particularly those in the NIC group) provides the potential for tremendous expansion of current world markets. Such pros­pects, however, must be carefully assessed on a country-by-country basis to ensure that the level of economic development supports adequate markets for particular products.

The decision to conduct business in a given area also will depend heavily on the availability of an adequate infrastructure. Infrastructure is a broad term that refers to the highways, railways, airports, sewage facilities, housing, educa­tional institutions, recreation facilities, and other economic and social amenities that signal the extent of economic development in an area. For example, trans­portation facilities are important for moving various supplies and products, while educational facilities may be a factor in the availability of an adequately educated work force. Similarly, recreational and cultural facilities influence a company's ability to attract managerial and professional employees to a given area. For example, in an effort to develop Manaus, an inland city on the Amazon River that is surrounded by jungle for about 1000 miles in every direction, the Brazilian government built a modem airport, improved communication facilities, and encouraged the establishment of a renowned opera, a world-class hotels and other amenities to attract outside workers.

Another significant economic variable is a country’s balance of payments, an account of goods and services, capital loans, gold, and other items entering and leaving a country. The balance of trade, the difference between a country's export and import, is generally the most critical determinant of a country’s balance of payments. Constant trade deficits result in the exportation of conduct even more international trade. Recently, the United States has been suffering from an imbalance in trade due to more imports than exports. A country's balance of payments may affect its willingness to allow profits and certain types of currencies to leave the country. For example, the Soviet Union generally does not allow foreign businesses operating there to take profits out of the country unless they are earned in foreign currencies or taken out in the form of Soviet-made goods, such as Russian dolls or Ukrainian carvings. Because of ' such limitations in some countries, Unilever sometimes makes further investments in particular countries with the profits earned in those places; for example, it has invested in cultivating sunflowers in Kenya and establishing palm plantations in Nigeria and the Ivory Coast.

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A related issue is the exchange rate, the rate at which one country's currency can be exchanged for another country's currency. Exchange rates fluctuate, depending on a variety of international economic factors, including shifts world demand for a particular country's exports. Changes in exchange rates can have a profound impact on the ability of a firm to engage in international business because exchange rates affect the relative prices of goods from various countries. For example, the declining value of the dollar in the late 1980s made automobiles imported from Japan more expensive in the United States because Japanese companies needed to charge more dollars to earn the same amount of profit in their own currency. Conversely, the declining dollar made U.S. goods cheaper on world markets.

**The Legal-Political** **Element.**

Both legal and political conditions affect the ability of organizations to conduct business in a given country. Major considerations include the level of political risk associated with doing business in a particular country, the degree to which trade barriers are erected by various governments, and the business incentives offered by governments.

Corporations must closely assess the political risk involved in establishing themselves in a given country. Political risk is the probability of the occur­rence of political actions that will result in loss of either enterprise ownership or significant benefits from conducting business. The seizure of a foreign com­pany's assets by a host-country government is called expropriation. In the past such countries as Cuba, Zambia, and Iran have expropriated assets of foreign- owned corporations located within their borders. Iran seized the assets of many American companies, including the Iranian operations of Xerox, R. J. Reynolds, and United Technologies, which were valued at an estimated $5 billion when the Ayatollah Khomeini took over the Iranian government in 1979. Since 1960 more than 1535 companies have been expropriated by 76 nations. Other political risks are less severe but may make it more difficult or expensive to conduct business in a host country. Managers at Exxon have developed a policy for dealing with political risk after the company has established itself in a host coun­try. If there appears to be a major escalation of risk, the managers may add 1 to 5 percent to the required return on investment for further expansion of opera­tions in that country.

Another aspect of the legal-political environment is trade control, the crea­tion of barriers or limitations on goods entering or leaving a country. Such barriers often are erected so that domestically produced goods will have a com­petitive price advantage over the goods of foreign competitors. Other major reasons include raising governmental revenue or discouraging domestic purchases of foreign-made goods. The most common type of barrier is the tariff, a customs duty, or tax, levied mainly on imports. The impact of tariffs can be seen in the relative prices of an American-built Chrysler Reliant К car that during the late 1980s could be purchased in the United States for $10,000 but cost $48,000 in Korea. Another type of barrier is an import quota, a limit on the amount of a product that may be imported over a given period of time. Import quotas can protect a domestic market by restricting the availability of foreign competitors' products. The United States implemented an import quota on Japanese-made cars during the 1980s, when the. large number of imports was severely damaging the domestic automobile industry. The quotas were a factor in causing a num­ber of Japanese companies to begin manufacturing automobiles in the United States.

Because tariffs and quotas tend to engender direct reprisals from countries whose products are affected, a country may use the more subtle approach of administrative protections, various rules and regulations that make it more dif­ficult for foreign firms to conduct business in a particular country. Examples include veterinary regulations, such as quarantines for imported animals; buy ­national policies, which give preference to domestic products or require that imports contain a certain, percentage of domestic parts; and complex customs regulations, which can cause delays and add to costs. In one well-known situa­tion, Japanese video recorders were required to pass through French customs at a small facility at Poitiers, where they were inspected one by one, creating tremendous delays. Because actual importation of the recorders slowed to a dribble, the Japanese manufacturers eventually agreed to a "voluntary export quota," limiting the number of recorders that they shipped to France.

While countries often institute various barriers to international trade for a host of reasons, they also frequently take action to encourage foreign companies to operate within their borders in order to boost economic development. In the United States, attempts to attract foreign industry are largely made through inducements (such as tax breaks, road building, and subsidies for worker training) offered by state and local governments. Through massive recruiting efforts and special incentives, Tennessee has managed to attract about 12 percent of the total Japanese manufacturing investment in the United States, creating at least 7000 jobs. Many other countries (such as Mexico, South Korea, Taiwan, and Brazil) also offer a variety of tax breaks, cash grants, and other financial incentives to foreign companies that locate operations within their borders.

**The Sociocultural Element**. The sociocultural element of the environment in­cludes the attitudes, values, norms, beliefs, behaviors, and associated demographic trends that are characteristic of a given geographic area. When compar­ing individuals in different nations, it is common to speak in terms of cultural differences.

Dutch social scientist Geert Hofstede has developed a framework for study­ing the effects of societal culture on individuals. In developing his framework, he researched the values and beliefs of more than 100,000 IBM employees work­ing in 40 countries throughout the world. Although the study has been criticized for focusing on only one organization, the framework is proving to be useful for studying other organizations and countries. Hofstede's approach involves four cultural dimensions that can be used to analyze societies: power distance, uncer­tainty avoidance, individualism-collectivism, and masculinity-femininity. Each, dimension represents a continuum from high to low.

Power distance is the degree to which individuals in a society accept differ­ences in the distribution of power as reasonable and normal. In low-power- distance societies, such as those of Sweden, Denmark, and Israel, people from different backgrounds interact more frequently with one another, and members of lower status can move more easily to higher-status positions. In contrast, in societies with high power distance, such as those of Mexico, the Philippines, and India, individuals of high status have very limited interaction with lower- status individuals, and it is very difficult to raise one's status. Such differences affect the degree of collaboration between subordinates and their bosses. With high power distance, managers are more likely to tell subordinates what to do rather than consult with them. On the other hand, greater collaboration between managers and subordinates is likely in a low-power-distance society.

The second dimension in Hofstede's framework, uncertainty avoidance, is the extent to which members of a society feel uncomfortable with and try avoid situations that they perceive as unstructured, unclear, or unpredictable. For example, in low-uncertainty-avoidance countries, such as Sweden, Great Britain, and the United States, organizations tend to have fewer written rules and regulations in order to facilitate the development of generalists (who know about many different areas) as opposed to specialists (who know a great deal about a narrow area) and to encourage risk taking among managers. Organiza­tions operate in opposite ways in countries with high uncertainty avoidance, such as Japan, Peru, and France.

Individualism-collectivism, the third dimension, refers to the degree to which individuals concern themselves with their own interests and those of their immediate family as opposed to the interests of a larger group. In cultures that place a high value on individualism, managers are more likely to switch companies when opportunities arise, feel less responsible for the general welfare, of employees, and rely more on individual than on group decision making. High-individualism countries include the United States, Great Britain, and Can­ada. In contrast, in cultures that value collectivism, managers tend to focus on team achievements rather than individual ones, emphasize employee welfare, and view the organization as if it were a family. Countries that are high on collectivism include Venezuela, Taiwan, and Mexico.

The fourth dimension, masculinity-femininity, involves the extent to which a society emphasizes traditional male values such as assertiveness, com­petitiveness, and material success rather than traditional female values such as passivity, cooperation, and feelings. In relatively masculine societies, such as those of Japan, Italy, and Mexico, employees tend to believe that jobs should provide vehicles for recognition, growth, and challenge. In more feminine socie­ties, such as those of Sweden, Finland, and Yugoslavia, there is greater empha­sis on good working conditions, security, feelings, and intuition in decision making. Masculine societies, tend to define very different roles for men and women; as a result, opportunities for women in organizations tend to be limited to some degree. Of course, Hofstede's labels reflect common stereotypes about male and female values, which may not apply to particular individuals.

In the course of his work, Hofstede developed clusters, or groups, of coun­tries that have similarities on the four value dimensions. The United States falls in a cluster that is characterized by lower-than-average power-distance and un­certainty-avoidance values, higher-than-average masculinity values, and high individualism. Hofstede's study showed that Americans placed a higher value on individualism than did people in any other country in the study. Other re­searchers argue that the United States reflects this individualism through such heroes as Lee Iacocca of Chrysler; H. Ross Perot, formerly of EDS; and Sam Walton of Wal-Mart Stores.

Still, there are many differences among countries and within countries that must be taken into account. Even within the United States, we recognize signifi­cant regional differences. For example, PepsiCo divides its U.S. operations into four regions to take into consideration the variations in regional markets. McDonald's works with 74 different advertising agencies serving various parts of its U.S. market.

**The Technological Element**. The technological environment is also a particu­larly significant aspect because the level of technology in various countries af­fects the nature of markets and the ability of companies to conduct business. In fact, considerable technological transfer typically takes place in the course of engaging in international business. Technological transfer is the transmission of technology from those who possess it to those who do not. The technology can be in the form of tangible goods or processes, such as component parts or ma­chinery, or in the form of intangible know-how, such as advanced knowledge of road-building techniques. International technological transfers occur through a variety of means such as joint ventures, licensing agreements for the use of technology within certain parameters, in-house transfers of technology to for­eign subsidiaries, attendance at educational institutions in other countries, and the purchase of products or services (by means of which competitors can obtain information about a given technology), After General Electric Co. purchased the Tungsram Co., a state-owned light bulb maker based in Budapest, Hungary, in order to boost its position in lighting in Europe, Tungsram's factories and com­puter systems required major technological overhauls.

Technological innovation is important both for competing in global markets and for protecting domestic markets from foreign competition. While the United States is the source of considerable technological transfers to other countries, several researchers argue that U.S. companies need to take possible technological advances in other countries. In 1981, Japanese companies paid U.S. firms about $3,8 billion in royalties and fees for licensed technology, while U.S. firms paid approximately $165 million. These figures indicate that Japanese compar. have licensed considerable technology from U.S. companies while the reverse not true. In addition, approximately 800 U.S. citizens are studying at Japanese universities, compared with about 13,000 Japanese citizens studying at U.S. universities. Thus, there is evidence that U.S. companies need to expend greater efforts in obtaining technology from others, rather than engaging in one technological transfer.

**Promoting Innovation: The Competitive Advantage of Nations**

**TASK:** insert the necessary information in the table.

|  |  |
| --- | --- |
| **FOUR NATIONAL FACTOR**  that establish the diamond of national advantage | **TERMS USED** |
| 1. |  |
| 2. |  |
| 3. |  |
| 4. |  |

**How does strategy expert Michael E. Porter see the impact of environmental factors on organizations?**

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**Answer the question: What are Michael E. Porter’s views based on?**

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In considering the impact of environmental factors on organizations, strategy expert Michael E. Porter has developed the notion of the competitive advantage of nations. The competitive advantage of nations is a concept which holds that environmental elements within a nation can foster innovation in certain indus­tries, thereby increasing the prospects for the success of home-based companies operating internationally within those industries. The competitive success of such companies, of course, has positive implications for national prosperity as well.

Porter's views are based on the argument that companies achieve competi­tive advantage through innovations. Such innovations may be radical break­throughs or small incremental improvements, as long as organi­zations continually upgrade their innovative efforts to stay ahead of the competition. The likelihood of innovation among companies in given industries, though, is influenced by the characteristics of the nations within which the com­panies are based.

The Diamond of National Advantage. In explaining why certain companies are able to innovate on a consistent basis, Porter identifies four national attributes that individually and as a system establish the diamond of national advantage. The national attributes depicted in the diamond determine the conditions within which a nation's industry players must operate.

***Factor conditions*** are components of production, such as skilled labor or in­frastructure that are needed to compete effectively in a particular industry. Factors have the most impact on competitive success when they are highly spe­cialized, require continual heavy investment, and are directly related to a partic­ular industry's needs. Examples are a scientific institute that specializes in optics and major sources of capital that will fund new software companies—factors that can foster innovation in home-based companies. For example, Holland, with leading research institutes in the. cultivating and shipping of flowers, is the world's principal flower exporter.

***Demand conditions*** are the characteristics of the domestic demand for the i products and services of an industry. While home demand for products and services may appear to be of lesser importance to organizations operating internationally, domestic demand conditions can be a critical factor in establishing a competitive advantage. The reason is that the makeup of the home market often has a major impact on how companies envision and respond to customer needs. When home buyers are sophisticated and exacting, companies are pressured to innovate and meet high standards. Demand conditions can further aid a nation's companies in gaining a competitive advantage when domestic consumers tend to anticipate and even influence the needs of consumers in other nations. For example, strong environmental concerns in Denmark have prodded companies in that country to develop world-class expertise in water-pollution control equipment and windmills.

The attribute of ***related and supporting industries*** refers to the availability within the nation of supplier and other related industries that compete effec­tively on an international basis. Such industries can help create competitive advantages in several ways. For one thing, they can provide cost-effective inputs and the latest developments rather quickly to home-based companies. In addi­tion, the lines of communication frequently are shorter, allowing for the rela­tively free flow of information and the constant exchange of information that increase the likelihood of innovations.

Moreover, companies can become testing sites for potential supplier breakthroughs, thus hastening the tempo of innovation.

***Firm strategy, structure, and rivalry*** comprise the major conditions in a nation that affect the way in which organizations are created, organized, and managed, as well as the character of domestic rivalry. For example, successful international firms in Italy tend to be small- or medium-size companies that are privately owned and that function almost as extended families. This profile is well suited to the industries in which Italian firms tend to excel, such as lighting, furniture, footwear, and woolen fabrics—all of which require strategies that include cus­tomized products, fast change, and ample flexibility. On the other hand, compa­nies in Germany are likely to be fairly hierarchical in orientation and to have top managers with strong technical backgrounds. The German approach has been particularly successful in industries that rely on strong technical and engineering expertise, such as optics, chemicals, and complicated machinery. These industries also typically involve complex and precise design and manufacturing pro­cesses that are compatible with the German management approach. In addition, the prestige that a nation accords to various industries affects the flow of capital and human resources to those industries and influences their prospects for com­petitive advantage. Finally, one of the most important factors in the diamond is the presence of strong domestic rivalry, which stimulates innovation and the development of competitive advantage. Porter argues that domestic rivalry is a vital factor precisely because it pressures all the local members of an industry to innovate and upgrade their efforts. For example, the rivalry among the major Swiss drug firms (Hoffman-La Roache, Ciba-Geigy, and Sandoz) serves to en­hance their leading global positions. A similar point could be made about the computer industry in the United States, and about the machine tool, semicon­ductor, audio equipment, and camera industries in Japan.

**Implications for Organizations and Their Managers.**

**TASK: read the text and decide what might be steps taken by the modern manager to make the company efficient and competitive?**

**Answer the question: What experience might be gained from international practices?**

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| |  |  | | --- | --- | | **PORTER’S view** | **Your steps** | |  |  | |  |  | |  |  | |  |  | |  |  | |

In the final analysis, though, companies themselves must develop competitive advantages. Porter argues that they must take action on the basis of the factors contained in the diamond of national advantage and particularly must recognize the "central role" played by innovation in achieving a competitive advantage. Among the most important steps that a company's management should take is fostering pressures for innovation through such means as seeking sophisticated and de­manding buyers, working with advanced suppliers, establishing high perfor­mance standards, and working to develop and retain valuable human resources. Another important step is establishing early warning systems by continually assessing critical aspects of the environment. Another is helping to improve national diamond by working closely with home-based buyers, suppliers and other channels in encouraging them to innovate and improve. Still another is welcoming domestic rivalry. Another useful step for companies is expanding; international business dealings on a selective basis that allows the tapping of advantages in other nations, such as sophisticated buyers or important research (in other words, expanding to enhance a competitive advantage rather than for expansion alone). For example, the Electro Rent Corporation, which rents anc. leases electronic equipment, entered the Japanese market in order to facility staying abreast of technological developments in both the United States and Japan. Another step is using alliances with foreign companies only selectively mainly because such alliances tend to preclude developing an independent competitive advantage. Finally, an additional step is locating company headquarter (or the headquarters of substantial businesses) in nations that will support competitive advantage for the business. Although Porter's ideas are based on considerable research, they are quite new; further investigations will be necessary for a complete assessment of their applicability. Nevertheless, the issues raised by Porter help to further highlight the importance of long-range planning and strategic management in the realm of international business.

**GAUGING INTERNATIONAL STRATEGIC ISSUES**

**TASK: after reading express your agreement or disagreement on the statement below. Reason it out.**

Many companies involved in international business, particularly multinational corporations, engage in long-range planning. The planning period normally is- corporates a 3-, 5-, or 7-year horizon. Studies of U.S., German, and Japanese multinationals indicate that much of the planning is done at the headquarter level, with some involvement by subsidiaries.

Although most companies conducting international business appear to engage in long-range planning, their initial efforts to do business in the interna­tional arena are likely to focus on more narrow goals than becoming a full- fledged multinational corporation. Accordingly, we first consider, the major methods of international entry before examining several strategic approaches for multinational corporations.

**Methods of International Entry**

Companies contemplating entering or expanding international business typi­cally have several alternative methods of entry. There are four main entry meth­ods that organizations can use to expand into different countries: exporting, licensing, establishing joint ventures, and operating wholly owned subsidiar­ies.

**TASK: Explain the difference and advantages of entry methods.**

|  |  |
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| **Four main entry meth­ods** | **Your commentaries**  **TERMS USED** |
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| 2. |  |
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| 4. |  |

**Exporting.**

Exporting, the process of making a product in the home country and sending it overseas, is a common means of entering international markets for organizations that manufacture products. A major advantage of exporting is that it requires very little in the way of additional capital if the product does not need modifications for sale abroad. There also is relatively low risk involved, especially if the company ships products only after payment has been guaran­teed.

Exporting does have some serious potential disadvantages. For one thing, various tariffs and taxes, as well as transportation costs, are typically involved. In addition, the exporter may have difficulty promoting products adequately in other countries. If the product is successful, local competition may emerge. As one means of minimizing the disadvantages of exporting, many companies en­gage foreign sales representatives, local individuals who have a good understand­ing of product and market needs and whose activities may also help to deter the emergence of competition.

**Licensing.**

Licensing is an agreement in which one organization gives limited rights to another to use certain of its assets, such as expertise, patents, copy­rights, or equipment, for an agreed-upon fee or royalty. Typically, a license allows the licensee to use the assets within a certain territory and for a specified length of time. A main advantage of licensing is that an organization can make profits without the large outlays required to conduct business directly. Also, since the licensee is usually from the particular country involved, the licensee is familiar with the culture and the methods of doing business there.

Licensing has several major potential disadvantages, however. Perhaps the most important is that it usually precludes the licenser from conducting business involving the licensed product or service in a given territory for 5,10, or even 20 years. If the product or service is very successful, the licenser will have given up the much greater profits associated with doing business directly. Another major disadvantage is that the licenser may be establishing a potential competitor, since licensees often have the right to produce an equivalent product or service after the license has expired. Also, the licensee may not perform at a desired level, affecting licensing revenues and long-term business potential. Coca-Cola recently engaged in a legal battle to buy back the license that it granted to Pernod Ricard, a major French beverage maker. A principal reason was Pernod's ten­dency to push its own brands at the expense of Coke.48 Still, licenses may be the only feasible means a given organization has of doing business abroad, owing to lack of resources for international expansion or limitations on imports imposed by certain countries.

**Joint Ventures**.

A joint venture is an agreement involving two or more organiza­tions that arrange to produce a product or service jointly. Exam­ples of international joint ventures include the fiber-optics venture between Sie­mens A.G. and Corning, the robotics venture between Fujitsu and General Electric, and the factory automation venture between Westinghouse Electric and Siemens A.G. Joint ventures typically represent a direct investment, the estab­lishment of operating facilities in a foreign country, although with a joint ven­ture the direct investment is limited to the degree of ownership that a company has in the venture. According to one estimate, approximately 20 percent of di­rect investments are in joint ventures. Many companies seek to have a majority interest in joint ventures so that they can maintain control over operations. However, in a number of countries, foreign companies are limited to a minority interest or have been required to reduce their proportion of interest over a speci­fied period of time. For example, in the People's Republic of China, joint ven­tures with companies from capitalist countries have been permitted only since 1980, and such companies may not hold majority interest in the ventures.

One advantage of joint ventures is that they can provide a means of gaining access to countries where full equity is not permitted. Other advantages include possibilities for lowering the risk of introducing new products, for staying abreast of hew technology, and for combining the technical expertise and capital of' one partner company with the local knowledge held by the host-country partner. Major disadvantages include possible losses if the venture is not suc­cessful, possibilities of expropriation, and potential disagreements among part­ners that may be difficult and time-consuming to resolve. For example, a joint agreement between the American Motors Corporation (now owned by the Chrysler Corporation) and the Chinese government to produce jeeps in Beijing resulted in an endless series of exasperating incidents and few profits for Ameri­can Motors.

**Wholly Owned Subsidiaries.**

A wholly owned subsidiary is an operation on foreign soil that is totally owned and controlled by a company with headquarters outside the host country. Like joint ventures, wholly owned subsidiaries repre­sent direct investments; however, in this case, the productive facilities are totally owned by one company. Wholly owned subsidiaries can be established either through acquisitions (buying an existing company in a foreign country) or through start-ups (developing a company from scratch).

Wholly owned subsidiaries offer several major advantages. The parent com­pany has sole management authority to operate the subsidiary within the exist­ing laws of the foreign country where it is located; profits do not need to be shared with partners; technology and expertise remain under the control of the parent company; and the subsidiary may enhance the ability of the parent com­pany to service worldwide customers. The most important disadvantage, aside from the substantial costs involved, is that the facilities and considerable exper­tise—representing a substantial investment and completely located within for­eign borders—may be subject to expropriation if there is a major shift in the political environment. IBM, which generally establishes wholly owned subsidi­aries, declined to make direct investments in India because of limits to total ownership of subsidiaries and other onerous conditions. The Coca-Cola Com­pany also closed its operations in India rather than give up majority control and risk revealing its secret formula for Coke. Italy's Benetton Group is a good example of a company that has used licensing, and wholly owned subsidiaries, to expand worldwide.

**CASE IN POINT: Benetton Makes Unique Ideas Work Worldwide**

Sometimes called the McDonald's of fashion Italy's Benetton Group now has about 5000 sportswear shops, featuring brightly colored knit clothing, in over 75 countries. The development of Benetton constitutes a rags-to-riches story about four siblings, one sister and three brothers, who built a billion-dollar empire beginning in the early sixties after Giulianna (the sister) began designing attrac­tive knitwear. The knitwear sold well, spawning what was to become a major multinational corporation and the largest wool consumer in the world.

The basic idea behind the company's success is to make clothing that not only is fashionable but also can be produced on a major scale so that prices are affordable. To boost affordability, the Benettons have eliminated the wholesaler and all the intermediaries. They rely mainly on independent licensees who sell Benetton merchandise directly to customers in specially designed stores with the now-famous Kelly-green fronts. Benetton's licensees pay no fees or royalties. Instead, they commit to selling only Benetton-made goods. Although it can cost more than $100,000 for a licensee to set up a Benetton store in the United States, profits can be sizable if the sales volume is high. The profits come from the markup on the clothing purchased from the Benetton Group.

Benetton goods are manufactured mainly in Italy, where the company has seven factories. The company also has wholly owned manufacturing facilities in other countries, such as France, Spain, the United Kingdom, and the United States. The U.S. facility in Rocky Mount, North Carolina, opened in 1986 to help meet domestic demand for cotton and denim goods and to shorten ordering time. Manufacturing in the United States also has helped shelter Benetton's U.S. licensees against the impact of the falling dollar, which had been pushing up the prices of Italian-made Benetton goods.

Part of the company's prosperity is attributable to a special technique for making sweaters in undyed wool and dyeing them a short time before shipping. This approach allows the company to react rapidly to fashion trends and fill orders horn licensees quickly. To make the system work, the company has in­vested in a computerized inventory system and a huge $20 million computer-controlled warehouse that is bigger than a domed sports arena. The warehouse has 16 robots and a complex conveyor system to help handle 12,000 boxes per day.

Benetton works at keeping a steady stream of new merchandise in its stores. Besides the traditional outlets aimed at its core market of women between the ages of 15 and 30, the company is developing Benetton 012 stores for children, Sisley higher-priced boutiques, and Benetton Uomo shops for men. It is also expanding product lines by adding such items as Bulova watches, Polaroid sun­glasses, Giulianna Benetton shoes, and Colors de Benetton fragrances.

As the number of stores in the United States moves toward the 650 range, some U.S. licensees have complained that Benetton is licensing too many stores in close proximity and that the company has violated a number of oral agree­ments with store owners. Licensees are chosen by one of Benetton's nine U.S. agents. These company representatives also show new collections to licensees every 6 months, earning a 5.5 percent commission on orders they receive. To help increase company service to licensees and respond to their complaints, Benetton recently has named an individual to head U.S. operations and has organized Benetton USA, an autonomous New York-based company.

**TASK: Answer the question:**

**What lessons can be taught from this case?**

**What measures would you take and how would you act?**

**Give a list of difficulties the company faced and fill in the table.**

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| --- | --- | --- | --- | --- |
| **Problems raised** | **Main objectives** | **Techniques used** | **Recommendations made** | **Takeaways** |
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**Multinational Corporation Strategies**

As companies such as Benetton expand their international business dealings, they need to develop appropriate international strategies. Multinational corpo­rations, and to a lesser extent other organizations conducting business in the international arena, must weigh two important factors: the need to make opti­mum economic decisions on a global basis and the requirement to be responsive to significant host-country differences. Accordingly, multinationals have three major strategy options: worldwide integration, national responsiveness, and multifocal emphasis.

**Worldwide Integration**.

A worldwide integration strategy, sometimes called globalization (or globalism), is aimed at developing relatively standardized products with global appeal, as well as rationalizing operations throughout the world. Rationalizing operations, or rationalization, involves assigning activities to those parts of the organization, regardless of their location, that are best suited to produce the desired results and then selling the finished products where they are likely to yield the best profits. Thus, a multinational might con­sider such factors as costs, expertise, raw materials, and availability of capacity in deciding where particular work is to be done. Rationalization facilitates taking advantage of economies of scale and making the best use of worldwide organi­zational resources.

Automobile production represents a classic case of globalization. The Japanese, in particular, have been extremely successful in designing, automobiles that can be manufactured on a massive scale to meet global markets, thus. J achieving major economies of scale. Recently, several Japanese auto manufacturers, such as Mazda, Honda, and Nissan, have established automobile plants in the United States as well as in other countries. In addition, more than 150 Japanese parts companies now have facilities in the United States, a number that is expected to double in the 1990s.

Globalization is based on the notion that there are a number of products that can be used around the globe with little alteration of specifications. Coca-Cola, which is sold in 155 countries, is a classic example of a global product requiring only limited alterations of formula. Not all products and situations lend them- f selves to globalization. Thus, under some circumstances, multinational organi­zations may need to consider alternative strategies that are more responsive to local needs.

**National Responsiveness**.

A national responsiveness strategy allows subsidiaries to have substantial latitude in adapting products and services to suit the particular needs and political realities of the countries in which they operate. As such, a national responsiveness strategy sacrifices many of the potential advan­tages of worldwide integration. Subsidiaries operate almost as if they were na­tional companies, although they retain many of the substantial benefits of being affiliated with a multinational company, such as shared financial risks and ac­cess to global R&D resources. However, it may be a successful approach in t situations in which globalization is not feasible because of the need to cater to national differences.

For example, Parker Pen, Ltd. was doing well with a national responsiveness strategy that involved about 500 styles of pens produced in 18 plants. Local offices in about 150 countries created their own packaging and advertising geared to local tastes. Then, in 1983, company officials read a Harvard Business Review article highlighting the advantages of globalization, arguing that technology has created immense global markets for standardized consumer products, and contending that "different cultural preferences, national tastes and stan­dards, and business institutions are vestiges of the past."

Taking the globalization argument to heart, Parker Pen officials consoli­dated pen styles down to about 100 choices manufactured in 8 plants, and they developed one international advertising campaign that was then translated into a number of local languages.Profits plunged when local managers resisted the singular advertising approach, which ultimately failed, leading to a $12 million loss for fiscal 1985 and the sale of the company to a group of its British managers the following year. Profits rebounded when the company switched back to a national responsiveness strategy. Thus, in developing an international strat­egy, managers need to evaluate their situations extremely carefully, testing for a global market before making massive moves in that direction.

National responsiveness often is needed in such industries as nuclear engi­neering and electric power, since political factors often necessitate considerable product customizing in these fields. Other products that typically must be tai­lored to respond to national tastes are food and personal-care items, such as cosmetics. On the other hand, the significantly larger costs normally associated with a national responsiveness strategy must be justified by the existence of a clear need for that type of responsiveness.

Multifocal Emphasis. A multifocal strategy is aimed at achieving the advan­tages of worldwide integration whenever possible, while still attempting to be responsive to important national needs. For example, Citicorp is attempting to create the largest investment bank in the world. The expansion involves con­structing a multi-million-dollar global communications network to service worldwide client investment needs, but it also is aimed at providing in-depth. investment coverage in a growing number of countries where Citicorp has of­fices. Thus, the strategy involves both worldwide integration and national re­sponsiveness. Organizations with multifocal strategies are typically more diffi­cult to manage because they need to be concerned with two dimensions simultaneously. The integration aspect requires careful coordination from head­quarters, yet the national responsiveness aspect requires considerable feedback from subsidiary personnel and strong efforts to integrate local information into the global perspective. Another organization that is attempting to implement a multifocal strategy is Texas Instruments, a long-time leader in microchips.

**CASE IN POINT**: Texas Instruments Strives for a Multifocal Perspective

Although Texas Instruments (TI) operated throughout the world, including Asia, for more than two decades, the company was deriving only some of the potential benefits of a multinational corporation. For the most part, the subsidi­aries in various countries operated as separate fiefdoms, with little regard for the overall needs of the company or other subsidiaries. One implication of this ap­proach was that the various subsidiaries operating independently contributed to a huge buildup of excess capacity. This excess caused the company serious prob­lems when the international semiconductor market took a severe downturn in 1985. Jerry R. Junkins, who took over as CEO of TI at that point, has since been working to take better advantage of the company's global position.

Junkins wants managers to consider the capabilities and needs of the com­pany as a whole, as well as the requirements of their own particular subsidiaries when making decisions. He is taking decisive steps to bring about the desired multifocal perspective. For example, he has given Akira Ishikawa, the executive in charge of TI operations in Japan, responsibility for TT’s global memory-chip business. Because Japan is such a heavy user of memory chips, it is tempting for Ishikawa to add local production capacity. But, because he is responsible for the global business as well, Ishikawa must weigh carefully any further investments 4 in Japanese plants when chip capacity is available in other parts of TI. As a result, he placed a large order with a TI plant in Lubbock, Texas, for chips slated for export to Japan. As part of the deal, he exacted a commitment from the Lubbock plant that the order would receive first priority even if chip demand increased in the United States.

Another aspect of Junkins's campaign for a multifocal view is the company's requirement that managers with global responsibilities meet once each quarter to set worldwide strategy. The executives work in small groups to resolve the various conflicts that arise from attempts to coordinate their individual investment and product development plans. They ultimately produce a detailed agreement that spells out how much money will be spent on each program and where. In order to signal commitment to the plan, each manager must individually stand up and write his or her name on a blackboard, while the group leader makes a permanent record of the event with a Polaroid picture. TI managers and their staffs keep in touch through the company's worldwide private communications network, involving 40,000 terminals in 50 countries.

Junkins is trying to create an organization that can learn to effectively utilize global economies of scale to make a profit in the viciously competitive memory- chip business. At the same time, he wants the company to gain and maintain the competitive edge that comes from producing customized chips. With custom­ized chips, customers design their own products around state-of-the-art chips produced by companies such as TI. The worldwide strategy meetings help man- agers pinpoint various customers' needs so that investments can be geared to satisfying the largest number of buyers regardless of their global location. Helped by a worldwide increase in the demand for chips, TTs new multifocal approach appears to be working.

**TASK: Answer the question:**

**What lessons can be taught from this case?**

**What measures would you take and how would you act?**

**Give a list of difficulties the company faced and fill in the table.**

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| --- | --- | --- | --- | --- |
| **Problems raised** | **Main objectives** | **Techniques used** | **Recommendations made** | **Takeaways** |
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**ORGANIZING INTERNATIONAL BUSINESS**

**TASK: express your view on the statement below and give your comments on five types of organization structures.**

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| --- | --- |
| **Five types of organization structures.** | **Your comments** |
| worldwide functional divisions |  |
| worldwide product divisions |  |
| international division |  |
| geographic regions |  |
| global matrix |  |

In addition to considering strategic issues, managers involved in international business need to choose the most appropriate organization structure, given the nature of their organization's global pursuits. Most of the research on appropriate organizational designs has centered on multinational corporations. Such corporations tend to adopt one of five types of organization structures: worldwide functional divisions, worldwide product divisions, international division, geographic regions, and global matrix.

**Part II**

**BUSUNESS FINANCE**

Once your business is operational, it's essential to plan and tightly manage its financial performance. Creating a budgeting process is the most effective way to keep your business - and its finances - on track.

This guide outlines the advantages of business planning and budgeting and explains how to go about it. It suggests action points to help you manage your business' financial position more effectively and ensure your plans are practical.

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When you're running a business, it's easy to get bogged down in day-to-day problems and forget the bigger picture. However, successful businesses invest time to create and manage budgets, prepare and review business plans and regularly monitor finance and performance.

Structured planning can make all the difference to the growth of your business. It will enable you to concentrate resources on improving profits, reducing costs and increasing returns on investment.

In fact, even without a formal process, many businesses carry out the majority of the activities associated with business planning, such as thinking about growth areas, competitors, cashflow and profit.

Converting this into a cohesive process to manage your business' development doesn't have to be difficult or time-consuming. The most important thing is that plans are made, they are dynamic and are communicated to everyone involved. See the page in this guide on what to include in your annual plan.

The benefits

The key benefit of business planning is that it allows you to create a focus for the direction of your business and provides targets that will help your business grow. It will also give you the opportunity to stand back and review your performance and the factors affecting your business. Business planning can give you:

* a greater ability to make continuous improvements and anticipate problems
* sound financial information on which to base decisions
* improved clarity and focus
* a greater confidence in your decision-making

**What to include in your annual plan**

The main aim of your annual business plan is to set out the strategy and action plan for your business. This should include a clear financial picture of where you stand - and expect to stand - over the coming year. Your annual business plan should include:

* an outline of changes that you want to make to your business
* potential changes to your market, customers and competition
* your objectives and goals for the year
* your key performance indicators
* any issues or problems
* any operational changes
* information about your management and people
* your financial performance and forecasts
* details of investment in the business

Business planning is most effective when it's an ongoing process. This allows you to act quickly where necessary, rather than simply reacting to events after they've happened.

**A typical business planning cycle**

1. Review your current performance against last year/current year targets.
2. Work out your opportunities and threats.
3. Analyze your successes and failures during the previous year.
4. Look at your key objectives for the coming year and change or re-establish your longer-term planning.
5. Identify and refine the resource implications of your review and build a budget.
6. Define the new financial year's profit-and-loss and balance-sheet targets.
7. Conclude the plan.
8. Review it regularly - for example, on a monthly basis - by monitoring performance, reviewing progress and achieving objectives.
9. Go back to 1.

**Budgets and business planning**

New small business owners may run their businesses in a relaxed way and may not see the need to budget. However, if you are planning for your business' future, you will need to fund your plans. Budgeting is the most effective way to control your cashflow, allowing you to invest in new opportunities at the appropriate time.

If your business is growing, you may not always be able to be hands-on with every part of it. You may have to split your budget up between different areas such as sales, production, marketing etc. You'll find that money starts to move in many different directions through your organization - budgets are a vital tool in ensuring that you stay in control of expenditure.

**A budget is a plan to:**

* control your finances
* ensure you can continue to fund your current commitments
* enable you to make confident financial decisions and meet your objectives
* ensure you have enough money for your future projects

It outlines what you will spend your money on and how that spending will be financed. However, it is not a forecast. A forecast is a prediction of the future whereas a budget is a planned outcome of the future - defined by your plan that your business wants to achieve.

**Benefits of a business budget**

There are a number of benefits of drawing up a business budget, including being better able to:

* manage your money effectively
* allocate appropriate resources to projects
* monitor performance
* meet your objectives
* improve decision-making
* identify problems before they occur - such as the need to raise finance or cash flow difficulties
* plan for the future
* increase staff motivation
* Creating a budget

Creating, monitoring and managing a budget is key to business success. It should help you allocate resources where they are needed, so that your business remains profitable and successful. It need not be complicated. You simply need to work out what you are likely to earn and spend in the budget period.

Begin by asking these questions:

What are the projected sales for the budget period? Be realistic - if you overestimate, it will cause you problems in the future.

What are the direct costs of sales – i.e. costs of materials, components or subcontractors to make the product or supply the service?

What are the fixed costs or overheads?

**You should break down the fixed costs and overheads by type, e.g.:**

* cost of premises, including rent, municipal taxes and service charges
* staff costs –e.g. wages, benefits, Québec Parental Insurance Plan (QPIP) premiums, contributions to the Québec Pension Plan (QPP) and to the financing of the Commission des normes du travail (CNT)
* utilities – e.g. heating, lighting, telephone
* printing, postage and stationery
* vehicle expenses
* equipment costs
* advertising and promotion
* travel and subsistence expenses
* legal and professional costs, including insurance

Your business may have different types of expenses, and you may need to divide up the budget by department. Don't forget to add in how much you need to pay yourself, and include an allowance for tax.

Your business plan should help in establishing projected sales, cost of sales, fixed costs and overheads, so it would be worthwhile preparing this first. See the page in this guide on planning for business success.

Once you've got figures for income and expenditure, you can work out how much money you're making. You can look at costs and work out ways to reduce them. You can see if you are likely to have cash flow problems, giving yourself time to do something about them.

When you've made a budget, you should stick to it as far as possible, but review and revise it as needed. Successful businesses often have a rolling budget, so that they are continually budgeting, e.g. for a year in advance.

**Key steps in drawing up a budget**

There are a number of key steps you should follow to make sure your budgets and plans are as realistic and useful as possible.

Make time for budgeting

If you invest some time in creating a comprehensive and realistic budget, it will be easier to manage and ultimately more effective.

Use last year's figures - but only as a guide

Collect historical information on sales and costs if they are available - these could give you a good indication of likely sales and costs. But it's also essential to consider what your sales plans are, how your sales resources will be used and any changes in the competitive environment.

**Create realistic budgets**

Use historical information, your business plan and any changes in operations or priorities to budget for overheads and other fixed costs.

It's useful to work out the relationship between variable costs and sales and then use your sales forecast to project variable costs. For example, if your unit costs reduce by 10 per cent for each additional 20 per cent of sales, how much will your unit costs decrease if you have a 33 per cent rise in sales?

Make sure your budgets contain enough information for you to easily monitor the key drivers of your business such as sales, costs and working capital. Accounting software can help you manage your accounts.

**Involve the right people**

It's best to ask staff with financial responsibilities to provide you with estimates of figures for your budget - for example, sales targets, production costs or specific project control. If you balance their estimates against your own, you will achieve a more realistic budget. This involvement will also give them greater commitment to meeting the budget.

**What your budget should cover**

Decide how many budgets you really need. Many small businesses have one overall operating budget which sets out how much money is needed to run the business over the coming period - usually a year. As your business grows, your total operating budget is likely to be made up of several individual budgets such as your marketing or sales budgets.

**What your budget will need to include**

Projected cash flow -your cash budget projects your future cash position on a month-by-month basis. Budgeting in this way is vital for small businesses as it can pinpoint any difficulties you might be having. It should be reviewed at least monthly.

**Costs - typically, your business will have three kinds of costs:**

* fixed costs - items such as rent, salaries and financing costs
* variable costs - including raw materials and overtime
* one-off capital costs - purchases of computer equipment or premises, for example
* To forecast your costs, it can help to look at last year's records and contact your suppliers for quotes.
* Revenues - sales or revenue forecasts are typically based on a combination of your sales history and how effective you expect your future efforts to be.

Using your sales and expenditure forecasts, you can prepare projected profits for the next 12 months. This will enable you to analyze your margins and other key ratios such as your return on investment.

Use your budget to measure performance

If you base your budget on your business plan, you will be creating a financial action plan. This can serve several useful functions, particularly if you review your budgets regularly as part of your annual planning cycle.

**Your budget can serve as:**

* an indicator of the costs and revenues linked to each of your activities
* a way of providing information and supporting management decisions throughout the year
* a means of monitoring and controlling your business, particularly if you analyze the differences between your actual and budgeted income

**Benchmarking performance**

Comparing your budget year on year can be an excellent way of benchmarking your business' performance - you can compare your projected figures, for example, with previous years to measure your performance.

You can also compare your figures for projected margins and growth with those of other companies in the same sector, or across different parts of your business.

Key performance indicators

To boost your business performance you need to understand and monitor the key "drivers" of your business - a driver is something that has a major impact on your business. There are many factors affecting every business' performance, so it is vital to focus on a handful of these and monitor them carefully.

**The three key drivers for most businesses are:**

* sales
* costs
* working capital

Any trends towards cash flow problems or falling profitability will show up in these figures when measured against your budgets and forecasts. They can help you spot problems early on if they are calculated on a consistent basis.

Review your budget regularly

To use your budgets effectively, you will need to review and revise them frequently. This is particularly true if your business is growing and you are planning to move into new areas.

Using up to date budgets enables you to be flexible and also lets you manage your cash flow and identify what needs to be achieved in the next budgeting period.

Two main areas to consider

**Your actual income** - each month compare your actual income with your sales budget, by:

* analyzing the reasons for any shortfall - for example lower sales volumes, flat markets, underperforming products
* considering the reasons for a particularly high turnover - for example whether your targets were too low
* comparing the timing of your income with your projections and checking that they fit
* Analyzing these variations will help you to set future budgets more accurately and also allow you to take action where needed.
* Your actual expenditure - regularly review your actual expenditure against your budget. This will help you to predict future costs with better reliability. You should:
* look at how your fixed costs differed from your budget
* check that your variable costs were in line with your budget - normally variable costs adjust in line with your sales volume
* analyze any reasons for changes in the relationship between costs and turnover
* analyze any differences in the timing of your expenditure, for example by checking suppliers' payment terms