

THE MINISTRY OF EDUCATION AND SCIENCE OF THE RUSSIAN FEDERATION
Federal State Autonomous Educational Institution of Higher Education
Lobachevsky State University of Nizhni Novgorod
National Research University

Maria Gorbunova

INTERNATIONAL MANAGEMENT

TUTORIAL

Recommended by the Methodical Commission
of the Institute of Economics and Entrepreneurship, studying at the
B.Sc. Programme 38.03.01 “Economics” in English

Nizhni Novgorod
2017

МИНИСТЕРСТВО ОБРАЗОВАНИЯ И НАУКИ РОССИЙСКОЙ ФЕДЕРАЦИИ

**Федеральное государственное автономное образовательное учреждение
высшего образования
«Национальный исследовательский Нижегородский
государственный университет им. Н.И. Лобачевского»**

М. Л. Горбунова

МЕЖДУНАРОДНЫЙ МЕНЕДЖМЕНТ

Учебно-методическое пособие
по дисциплине «Международный менеджмент»

Рекомендовано методической комиссией Института экономики и
предпринимательства ННГУ для иностранных студентов, обучающихся по
направлению подготовки 38.03.01 «Экономика» (бакалавриат) на английском
языке

Нижегород
2017

УДК 174.4
ББК Ю725.4
Г-67

Г-67 **М.Л. Горбунова.** Международный менеджмент: Учебно-методическое пособие. – Нижний Новгород: Нижегородский госуниверситет, 2017. – 37 с.

Рецензент: д.э.н., профессор **А.В.Золотов**

В настоящем пособии изложены учебно-методические материалы по курсу «Деловая этика» для иностранных студентов, обучающихся в ННГУ по направлению подготовки 38.03.01 «Экономика» (бакалавриат).

Пособие включает 8 разделов курса, для каждого из которых приведены основные понятия, принципы и модели. Пособие завершает список рекомендуемой и использованной для написания работы литературы.

Ответственный за выпуск:
председатель методической комиссии ИЭП ННГУ,
к.э.н., доцент Летягина Е.Н.

УДК 174.4
ББК Ю725.4

© Нижегородский государственный
университет им. Н.И. Лобачевского,
2017

© **М.Л. Горбунова**

Contents

Unit 1. The decision to internationalize	5
Unit 2. Evolution of international business	8
Unit 3. Global business environment	10
Unit 4. Globalization trends and business models	15
Unit 5. Decision which market to enter.....	18
Unit 6. Strategy formulation for international markets	21
Unit 7. Market entry strategies	26
Unit 8. Organizational structures of MNCs	30
Unit 9. Managing human resources around the world	32
Unit 10. International motivating and leading	34
References	35

Unit 1. The decision to internationalize

Increasing integrity and unification of the competitive scenarios point out new business conditions all over the world. Almost all firms and other business organizations need an international orientation even to survive in the home market. Mostly, the business internationalization can occur through trade or direct investment. International trade implies export or import of goods and services. The direct investment implies acquiring or building of productive facilities abroad. On this basis, R.M. Grant (Grant, 2010) identifies four types of industries according to their internalization potential (see Figure 1.1). *Global industries* are represented by large-scale manufacturing industries in which both international trade and foreign direct investment are relevant. *Trading industries* usually develop so called national competitive advantages and tend to internationalize through exports. *Multidomestic industries* realize internationalization through direct investment generally because of national or even single customer differentiation of their marketing offer, product or service. *Sheltered industries* are outsiders of internationalization. They produce nontradable goods or have a fragmented market or small-size production. Under this logic, only sheltered industries has low propensity for international growth while other industrial types face home and overseas international competition.

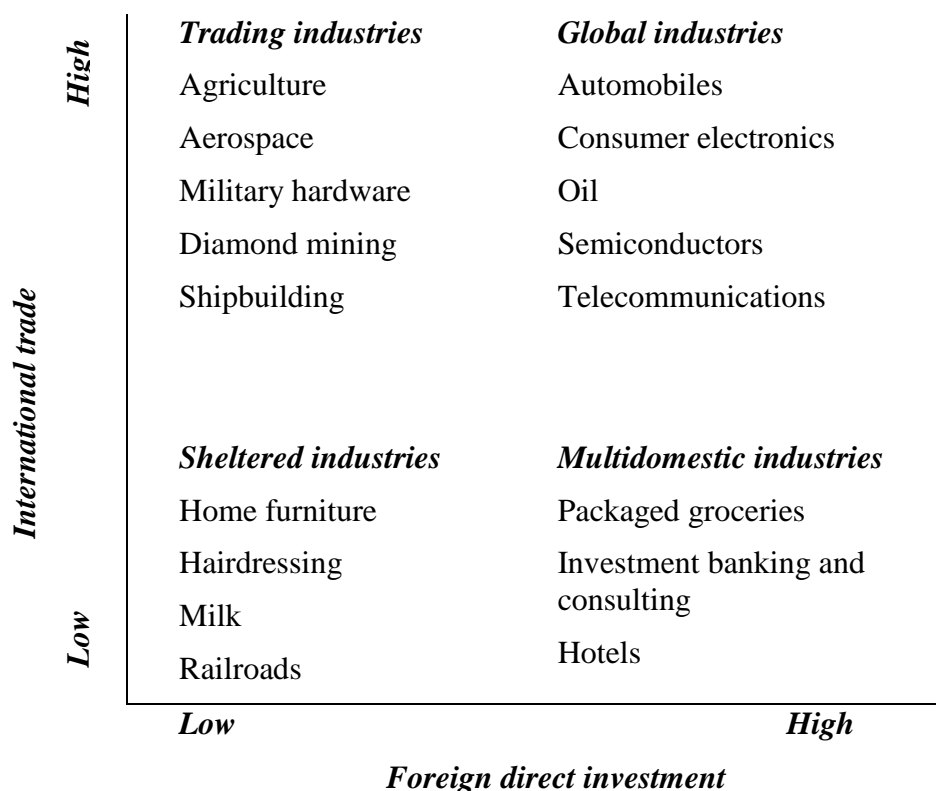


Fig. 1.1. Patterns of industry internalization (Grant, 2010)

The inevitability of global expansion is a point of view on internationalization widely supported by American business literature, firstly because of size and potential of US economy. On the contrary, the more prudent European approach suggests taking into account production and sales factors that may inhibit internationalization (see Table 1.1). Therefore, European firms more often

reflect on the liability of foreignness (LOF). This concept means that firms face additional social and economic costs when they operate in foreign markets.

Table 1.1

Motives for non-internationalization

Functional area	Motivations
Production	<ul style="list-style-type: none"> • Impossibility of timely delivery and quality assurance; • National competitive advantage and efficiency in manufacturing (German, Japanese, Italian, French, and other manufacturing models); • Loss of good's national and cultural identity (value of tags 'Made in USA', 'Made in France', 'Made in Italy', 'Made in Japan', etc.)
Sales	<ul style="list-style-type: none"> • Home market unsaturation; • Low competitiveness of a good or service on international market; • Difficulties in sales and logistics organization; • High cost of international operations (tariff and non-tariff barriers to trade, bureaucracy and corruption abroad)

Source: Saviolo (2003)

Nevertheless, many businesses are involved in international competition, so their owners and top-managers reflect on motives to develop international activity. The internationalization motives are numerous, so they need a classification. S. Hollensen (Hollensen, 2014) divided them into proactive and reactive ones (see Table 1.2)

Table 1.2

Motives for starting internationalization: driving forces approach (Hollensen, 2014, p.54)

Proactive motives (pull)	Reactive motives (push)
<ul style="list-style-type: none"> • Profit and growth goals; • Managerial urge; • Technological competence / unique product; • Foreign market opportunities / market information; • Economies of scale; • Tax benefits 	<ul style="list-style-type: none"> • Competitive pressure; • Domestic market: small and saturated; • Overproduction / excess capacity; • Unsolicited foreign orders; • Extend sales of seasonal products; • Proximity of international customers / psychological distance

Source: Hollensen (2014)

F. Saviolo (Saviolo, 2003) divides internalization motives in internal and external reasons, adopting for the internal factors a further distinguishing in ownership/top-management features and enterprise's characteristics (see Table 1.3).

Table 1.3

Motives for starting internationalization: analytical approach

Level	Motivations
Internal origin	
Ownership/top-management features	<ul style="list-style-type: none"> • Orientation toward foreign markets; • Educational level and profession; • National and ethnic group; • Foreign language proficiency; • Managerial competences and skills; • Valuation of operational risk in international business; • Perceived foreign market profitability; • Age

Table 1.3 (continuation)

Level	Motivations
-------	-------------

Internal origin		
Specific features	enterprise	<ul style="list-style-type: none"> • Staff for international business trips and for doing business abroad; • History and evolution of enterprise; • Product range and marketing offer; • Previous international experience; • Importing as inward (the simplest) internationalization; • Particular internal event
External origin		
Global state	environment	<ul style="list-style-type: none"> • Foreign market national regulation; • Availability of marketing information; • Internal market sales potential; • Institutional and infrastructural aspects; • Financing; • Conduct of network partners and competing firms

Source: adapted from Saviolo (2003)

The basic reasons for going global are:

- Resource-seeking logics. It means obtaining access to all types of production resources. For example, a country possesses an abundant quantity of natural resources, but it acquires capital funds and technological innovations abroad;
- Market-seeking logics or growth opportunities. Considering a business system consisting of local, national and global operational levels, G. Hamel and C.K. Prahalad (1994) predict an extermination of firms so called national champions and their distribution between two others. The key factor to determine a global development of a single market-sized firm lies in successful entering two or three triad or BRICS market;
- International diversification. Even if the possibility of political or economic risk diminishing provided by doing business in more countries is always decreasing in the globalization era, firms use a lagging product life cycle in less developed countries;
- Cross-border and host country regulatory policies. The additional profit can be generated by tax and offshore benefits, by relaxed labor and environment restrictions in low-income countries.

Strategic choices in international business can be concentrated in two questions:

- Where to compete? The answer implies an international commodity and geographical portfolio of firm or corporation;
- How to compete? It's about the type of competitive advantage applied in each single market;
- How to supply the customer? It regards the appropriate mode of entering the selected market.

Business processes are becoming more and more internationally located. Even a firm, which operates within a single country, may procure, for example, the inputs and finished goods abroad. The common choices in international business operations are represented in Figure 1.2 (Cherunilam, 2010).

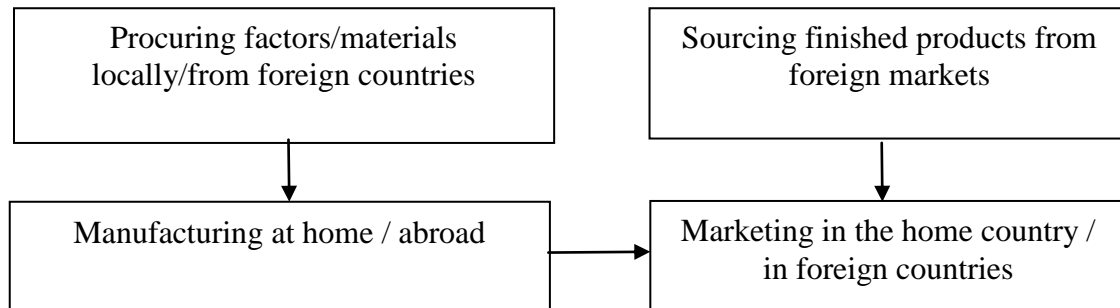


Fig. 1.2. Stages of international business operations

Unit 2. Evolution of international business

The international business has a long and exciting evolution. The ancient civilizations traded with each other about five thousand years ago. International trade has defined relationships between countries from early times to the present. The demand for luxury goods, spices and other rarities lead to the search for new trade routes during the age of discovery, to the development of interconnected, later global, markets. Therefore, the influence of international business on the world history cannot be overestimated. Each country entering the global economy, to a certain extent, needs to undertake the same phases the whole world economy has passed through.

There are different views on international business evolutionary steps. Robert Robinson (Robinson, 1964) proposed four-stage approach consisting of

- Commercial Era (1500-1850) - This period coincides with the Age of Discovery. It was the era of great gains and risks. During this time, individual entrepreneurs were seeking personal fortunes in distant lands and trading in gold, silk, slaves, and wide range of colonial goods. During this period, there was a development of some basic industries like shipbuilding and metallurgy as well as infrastructural ones such as banking, insurance and commercial warehousing. The opinion on the importance of openness of a nation for successful economic development appeared by taking into consideration, for example, later industrial development of secluded Japan or Russia before Peter's the Great modernization.

- Explorative Era (1850-1914) - This era began with industrial revolution when hand production methods were substituted by machines. The production machinery created a demand for homogeneous resources and therefore international trade went from colonial and precious goods to colossal flows industrial and agricultural raw materials. The established colonial systems assured the safety and stability of this commerce. There was a genesis of capital movement and first foreign subsidiaries, in major part European in Europe, appeared. The present-day global stratification into industrialized and developing countries or into industrial European North and agricultural South

began to be evident. Nevertheless, a rapid economic growth distinguishes this rather fervent period of global development.

- Concessionary Era (1914-1945) – It is a conflicting interwar period. The western companies adapted to always changing, more hostile than welcoming, global environment and became very powerful which lead to a rise of nationalism and economic development. The multinational giants improved business and social infrastructure in dependent countries. They built seaports, railroads and the telegraph as well as hospitals and primary schools to improve work force quality and to obtain local management personnel. This advance in social capital anticipated liberation movements later on. This is a period of growing complexity and constant improvement of international business practices.

- National Era (1945-1970) - This was era of economic growth and political instability because increasing hostility towards western companies led to the desire for self-government and sovereignty. The decolonization and the emerging of the Third World contributed to international capital market formation. A former colony that nationalized well-developed mining or manufacturing inbound assets early belonged to multinationals represented a demand side on international capital market. The developed countries, former metropolises, having a high savings rates, provided a capital resources ready to invest abroad. There was a rapid development of financial infrastructure such as rating agencies, auditing and consulting firms. The globalization of American business started in this period, later this strategic pattern involved Asian, primarily Japanese enterprises.

The next period, globalization, was added by other scientists.

- Globalization (1970 - ... or 2008) – The globalization that gives a title to the period is the most relevant contemporary phenomenon in the political, economic and social life. However, some experts suppose that the financial and economic crisis of 2008 to a certain extent put an end to the Era of Globalization and opened a new, rather gloomy, period for international economics and business. Turning to the globalization, it should be noted first that its essence is strictly connected to an amalgamation of international capital, technological and information markets. On that basis a unification of competition for the most part of businesses occurred. This development happened due to technological advances, mainly in IT, computer technologies and communications, transport sector included. Globalization demands constant efficiency improvements in each of the phases of the business cycle.

Next, John S. Hill (Hill, 2009) proposed three eras of international business: the Exploration Era to 1500, the Colonial Era spanning 1500-1900, and the Era of the International Corporation from 1900 to the present.

During the Exploration Era, regional, national and somehow international markets were forming gradually. Major progresses in international trade occurs in 12th and 13th centuries when compasses for navigation and other advances in sail change drastically ocean travel. According to J. Hill, the modern-day effect of this epoch consist of establishing the major spheres of religious influence that we have today due to economic and cultural connections.

The next period, the Colonial Era (1500 – 1900) is characterized by military conquests, colonization, and regularization of international trade. The industrial revolution has created conditions for the development mega languages of communications, transportation innovations fostering international development, spread of knowledge by printing sources. There are two modern-day effects of this period (J. Hill, 2009): the first one is the spread of European languages

to their colonies, the second phenomenon regards a diffusion of a common consumer pattern based upon commerce of colonial products including maize, vegetable, tea, flavorings, horses, etc.

J. Hill subdivides the Era of the International Corporation spanning 1900-1980 into Era of Company Internationalization (1900-1945) and Era of Increasing International Competition (1945-80). A homogenization of supply and demand during the previous period conditioned a growing impact of international corporations. During the first part of century, corporations began to replace countries as major entities or drivers of international business and global development. After the World War II, American corporations followed by European and Asian ones have realized a generous foreign direct investment. These capital movements have increased business opportunities and therefore competitive pressure all over the World.

The contemporary Era of Globalization has coincided with the collapse of Soviet bloc and the industrialization of developing markets, the China in the first place that fostered the global commerce, at least until current economic stagnation.

Unit 3. Global business environment

Political environment and relative risk assessment. Economic environment variables assessment. Clusters. The regulatory aspects. The technological environment. The cultural context of international management. Cultural variables and dimensions. Cultural profiles.

The global business environment is somewhat that defines a relevant part of international management specific features. An international business strategy links an enterprise to its operational background. F. Cherunilam (Cherunilam, 2013) observes: ‘Differences in the business environment between regions/ nations may call for different business strategies’. An international manager cannot develop a global business strategy without first evaluating the political, legal, regulatory, and technological environment in which the company plans to operate.

Let us start with the three approaches to how the business environment should be analyzed. The first approach is called *systemic*. It considers a firm as a ‘black box’ that represents a subsystem of a wider system business, i.e. business environment. Therefore, the environment fully determines the firm’s structure and dynamics. This impact reflecting the total dependence of an enterprise’s on its environment is reflected by the paradigm ‘structure – performance – results’ introduced by Joe S. Bain in 1959. The strong form of the paradigm ‘structure – performance’ paradigm means that the firm should follow the behavioral pattern suggested by the market structure. For instance, if the structure of the market under consideration is an oligopoly, the firm should avoid destructive price wars, and try to conclude a ‘silent’ agreement with the main competitors in order to share the market and to maintain a lucrative price of selling goods. The weak form of paradigm, i.e. ‘structure – performance – results’, implies that the firm can success or fail choosing, in the first case, an appropriate strategy, while in the second one leads to a collapse. Despite of a certain methodological simplicity, this approach facilitates the design of the structural business environment’s model that order the external factors following their level of location, for instance, mega-, macro-, micro- and business or the strength of their influence. The main defect of this approach connected to the abnegation of a necessity for an enterprise to create, innovate or change

the rules is overcome by the relational or network or stakeholder approach to the business environment representation.

The *relational* approach to the environment perceives it as a pool of individuals and legal entities that may influence an enterprise's performance or even existence. The external stakeholders are divided into formal, or the first rank, and informal, or of the second rank. The external stakeholders of the first rank exercise their influence in the form of a contract that presupposes the details of interactions between the parties, for instance, like it occurs for suppliers, buyers, banks, and so on. The informal stakeholders influence the firm performance implicitly, as mass-media, opinion makers, public entities, etc. do. The business environment under this logic can be changed by the enterprise, hence, there is the possibility not only of an opposition, but of a dialogue between actors, for instance, leading, if necessary, to the establishment of an alliance or at least to the search a compromise in the conflictual situation.

The *cognitive*, last to consider, approach, in a certain sense, demonstrates the ideas opposite to the systemic paradigms. Its logic is inspired by the principles of human behavior that relies on the compact and understandable depiction of the environment that makes an emphasis on neighboring persons and circumstances. According to these assumptions, a firm not only selects the proper operational surroundings, but also designs them in accordance with its objectives.

Basing our definition of the business environment on the three above-mentioned assumptions, it can be understood as a pool of *factors* influencing a firm's structure and dynamics (systemic part) and *outside stakeholders* which support is crucial or at least relevant for the firm under consideration (relational view), both factors and stakeholders are *observable* for the company's decision-makers (cognitive logic).

Every single firm design its own model for the business environment analysis according to its size, sector of provenience and management aspirations.

The exhaustive model of business environment, i.e. the most suitable for a multinational enterprise, includes the five levels of analysis:

- global or supranational level;
- macro- or national level;
- industrial level (offer side);
- market level (demand side)
- level of a single function.

The trends and forces that shape the global business environment due to their always growing importance and influence will be considered in the next unit. As about the macro- or national level of the business environment analysis, it is usually represented by so-called PEST- or STEP model (see tab 3.1).

Table 3.1

The Environment of the International Manager

Environment	Parameters
-------------	------------

Political Environment	<ul style="list-style-type: none"> Form of government Political stability Foreign policy State companies Role of military Level of terrorism Restrictions on imports/exports
Regulatory Environment	<ul style="list-style-type: none"> Legal system Prevailing international laws Protectionist laws Tax laws Role of contracts Protection for proprietary property
Economic Environment	<ul style="list-style-type: none"> Economic system Economic stability Stage of development GNP International financial standing Monetary/fiscal policies Foreign investment
Technological Environment	<ul style="list-style-type: none"> Level of technology Availability of local technical skills Technical requirements of country Appropriability Transfer of technology Infrastructure Environmental protection
Cultural Environment	<ul style="list-style-type: none"> Shared values and trends Understandings Assumptions Goals that are passed down through generations and imposed by members of the society Religion Lifestyles of different social groups Propensity to consummation and savings Educational attitude Free time habits Attitudes and expectations about on-the-job behavior of individuals and groups
Natural environment	<ul style="list-style-type: none"> Geography and climate Availability of fertile land and water supply, rain and temperature patterns Location toward to markets and transport infrastructure Country's territory, presence of non-renewable natural resources (oil, gas, metals), renewable resources (forests, fish) and 'flow resources' (wind, tide and solar) Environmental stability (the frequency of natural disasters, degradation of resources and level of pollution)

Source: adapted from Deresky (2013), Trifonova, Gorbunova (2008)

The 'P' stands for the political and legal factors characterizing a nation or a regional trading bloc. The changes in the political system in a country under consideration may lead to an increase in

political risks that regard, for instance, the loss of an important contract with the public or semipublic entities, the nationalization of foreign investors' assets, etc.

The regulatory environment comprises the many different laws and courts of those nations in which a company operates. Most legal systems derive from the common law, civil law, or Islamic law. The *economic environment* that is denominated by 'E' nowadays, for the analytical purposes of international assessment is further subdivided into (1) the parameters of macroeconomic dynamics and (2) the structural characteristics of a national economy, first the presence of clusters or highly-competitive group of enterprise that may facilitate doing business in the country of reference or any way maintain a globally-competitive value chain of the entering company.

The sociocultural and demographic environment (the letter 'S') reflects a country' cultural peculiarities, that will be considered further in detail, and its demographic structure: the age and sex structure of country's population, the types of families represented in the society, the migration inflows, the employment attitude, the geographic distribution of population, etc.

The last letter 'T' stands for the technological environment that represents a system of approaches, competences and capabilities engaged in the improvement of the production systems, utilization of resource and single-good properties. Such multipurpose technologies enable a rise in the enterprise's efficiency, hence the information and communications technology, genetically modified materials science, the applied physics and chemistry development are taken in consideration. The technological environment regards the conditions of technology transfer, level of pirating as well as legal restrictions on the protection of proprietary technology, i.e. how intellectual property can be protected through patents, trademarks, trade names, copyrights, and trade secrets.

Clearly, the international manager must assess and manage a number of different kinds of risk in the global environment. The ability to realize effective risk management will determine the success of international firms across the globe. The *political risk* is specific to the international business, while the economic and financial risks may be encountered in the national arena as well as in the international one. Political risks are any governmental actions or politically motivated events that adversely affect the long-run profitability or value of a firm. Political risk assessment by MNCs usually takes two forms: consultation with experts familiar with the area and the development of internal staff capabilities. Political risk can be managed through (1) the avoidance or withdrawal of investment; (2) adaptations to the political regulatory environment; (3) maintaining the host country's dependency on the parent corporation; and (4) hedging potential losses through political risk insurance and local debt financing [Deresky, 2013]. International economic risk refers to the ability of a country to meet its financial obligations, therefore also has a political connotation. The risk is that the government may change its economic policies, thereby making a foreign company unprofitable or unable to repatriate its foreign earnings.

In the recent years, *environmental risk* has become the new frontier in global business. The skills of companies and the measures taken to really manage their exposure to environmental risk on a world scale will soon largely replace their ability to develop, produce and market global brands as the key element in global competitive advantage.

Last but not least, the managerial functions and the daily operations of a firm are also affected by *cultural factors* of the host country. The pervasive role of culture in international management is undoubted.

The culture of a society comprises the shared values, understandings, assumptions, and goals that are passed down through generations and imposed by members of the society. Cultural and national differences influence the attitudes and expectations and therefore the on-the-job behavior of individuals and groups. Managers must develop cultural sensitivity to anticipate and accommodate behavioral differences in different societies. Harris and Moran (2000) take a systemic approach to understanding cultural and national variables and their effects on work behavior. They identify eight subsystems of variables: kinship, education, economy, politics, religion, associations, health, and recreation. From his research in 50 countries, Hofstede (2001) proposes four underlying value dimensions that help identify and describe the cultural profile of a country and affect organizational processes. These are power distance, uncertainty avoidance, individualism, and masculinity. Through the research of Hofstede and others, the countries can be clustered in accordance to intercultural similarities.

On-the-job conflicts in international management frequently arise out of conflicting values and orientations regarding time, change, material factors, and individualism. Managers can use research results and personal observations to develop a character sketch, or cultural profile, of a country. This profile can help managers anticipate how to motivate people and coordinate work processes in a particular international context.

The cultural variables affect such parameters as social responsibility, ethical behavior, and interdependence. International business ethics refers to the conduct of MNCs in their relationships to all individuals and entities with whom they come into contact. Ethical behavior is judged and based largely on the cultural value system and the generally accepted ways of doing business in each country or society. MNC managers must decide whether to base their ethical standards on those of the host country or those of the home country and whether these different standards can be reconciled. Concerns about MNC social responsibility revolve around issues of human rights in other countries, such as South Africa and China. Many organizations develop codes of conduct for their approach to business around the world.

In conclusion, when research findings and anecdotal evidence indicate differential attitudes toward ethical behavior and social responsibility across cultures, MNCs must take certain steps. For example, they must be careful when placing a foreign manager in a country whose values are incongruent with his or her own because this could lead to conflicts with local managers, governmental bodies, customers, and suppliers. As discussed earlier, expatriates should be oriented to the legal and ethical ramifications of questionable foreign payments, the differences in environmental regulations, and the local expectations of personal integrity, and they should be supported as they attempt to integrate host-country behaviors with the expectations of the company's headquarters.

The concept of international social responsibility includes the expectation that MNCs should be concerned about the social and economic effects of their decisions regarding activities in other

countries. MNCs must balance their responsibility to various stakeholders, such as owners, creditors, consumers, employees, suppliers, governments, and societies.

Questionable payments are those payments that, raise significant questions about appropriate moral behavior either in the host nation or other nations. The Foreign Corrupt Practices Act prohibits most questionable payments by U.S. companies doing business in other countries.

Managers must control their activities relative to interdependent relationships at all levels, from simple, daily business transactions involving local workers, intermediaries, or consumers to global concerns of ecological responsibility.

The MNC-host country relationship is generally a love-hate relationship from the host-country's viewpoint in that it wants the economic growth that the MNC can provide but does not want the dependency and other problems that can result.

The failure to manage interdependence effectively will result in constraints on strategy, in the least or in disastrous consequences for the local area, the subsidiary, and the global reputation of the company. Managing environmental interdependence includes the need to consider ecological interdependence as well as the economic and social implications of MNC activities.

The analysis of the global business environment should result not so much in a comparison of countries as in a comparison of the relative risk and the projected return on investments among these countries. Similarly, for ongoing operations, the subsidiary manager and headquarters management both must continually monitor the environment for potentially unsettling events or undesirable changes that may require the redirection of certain subsidiaries or the entire company.

Unit 4. Globalization trends and business models

Global megatrends, its relevance for internalization. The atomic corporation model.

In Figure 4.1 it is assumed that small and medium enterprises (SMEs) and large scale enterprises (LSEs) are learning from each other. The consequence of both movements may be an action-oriented approach, where firms use the strengths of both orientations. The following section will discuss the differences in the starting points of LSEs and SMEs in Figure 4.1. The result of the convergence movement of LSEs and SMEs into the upper-right corner can be illustrated by Figure 4.1. The terms 'glocal strategy' and 'glocalization' have been introduced to reflect and combine the two dimensions in Figure 4.1: globalization (y -axis) and localization (x -axis). The glocal strategy approach reflects the aspirations of a global integrated strategy, while recognizing the importance of local adaptations/market responsiveness. In this way, glocalization tries to optimize the balance between standardization and adaptation of the firm's international marketing activities (Hollensen, 2013). First let us try to explain the underlying forces for global coordination/ global integration and market responsiveness in Figure 4.1.

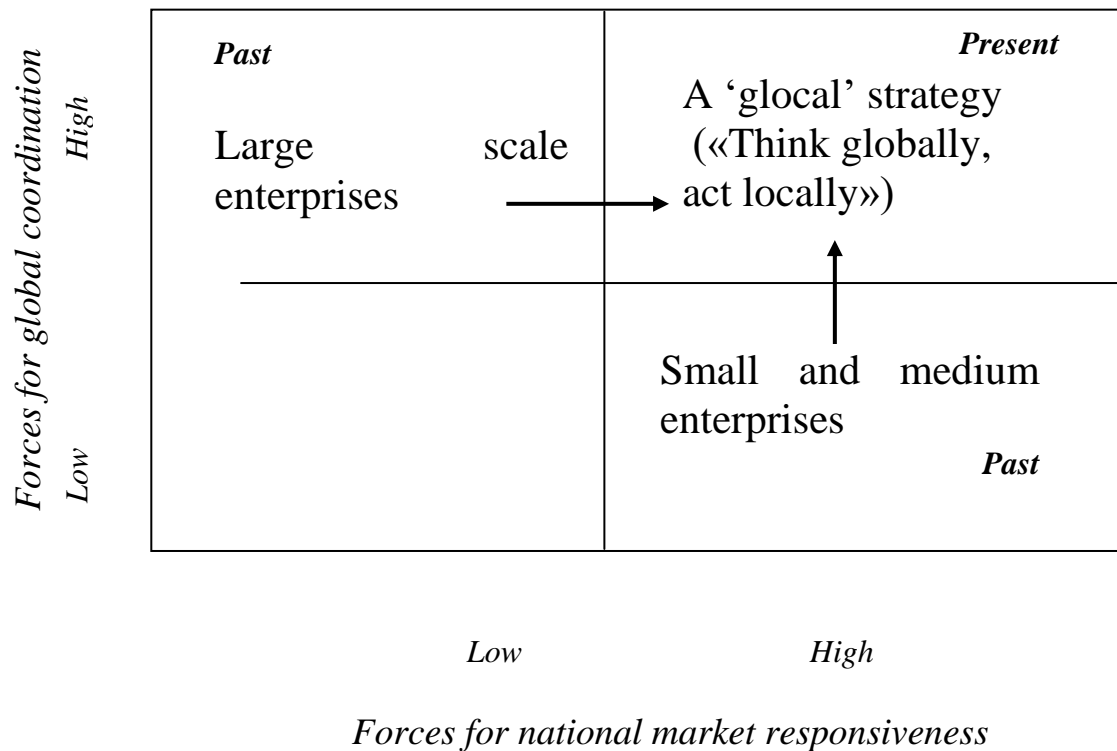


Fig. 4.1. The global integration/market responsiveness grid [Hollensen, 2013]

Forces for 'global coordination/integration' represent similarities for target markets that claim for the realization of global or universal strategy across the globe (Hollensen, 2013; Trifonova, Gorbunova, 2008):

- **Worldwide markets.** The globalization led to the true internationalization or unification of the important markets such as markets of information, financial services and technological innovations. Furthermore, these markets has been followed by some commodity markets. The 'diffusions of innovations' from the home country to the rest of the world tends to be replaced by the concept of worldwide markets. Worldwide markets are likely to develop because they can rely on world demographics. For example, if a marketer targets its products or services to the teenagers of the world, it is relatively easy to develop a worldwide strategy for that segment and draw up operational plans to provide target market coverage on a global basis.

- **Removal of trade barriers (deregulation).** Removal of trade barriers, both tariff and non-tariff – which have been realized as a result of the WTO activity – has led to the increase in international trade and investment. Such development accomplished by the international enterprises has contributed to the unification of global competitive scenarios. Furthermore, deregulation that has occurred at all levels: national, regional (within national trading blocs) and international – reduces the time, costs and complexity connected to the international commerce.

- **'Global village'.** The term refers to the phenomenon in which the world's population shares commonly recognized cultural symbols produced by the global mass culture and media. The business consequence of this is that same or similar products and services can be sold to similar groups of customers in almost any country in the world. Cultural homogenization therefore implies

the potential for the worldwide convergence of markets and the emergence of a global marketplace, in which brands such as Coke, Nike and Levi's are universally desired. The situation implies an increase in the variety of commodities in every single location with the parallel decrease in the global variety due to the tough competition between MNCs and local companies, from the one hand, and between MNCs themselves, from the other hand.

● ***Global accounts/customers and relationship management/network organization.*** As customers become global, they demand that suppliers provide them with global services which outperform the local offer on the cost or quality. The LSEs generate 'global' demands on suppliers, typical SMEs, this situation creates the global integrated value chains. In a course of business internationalization, a network of relationships with external stakeholders, for example, customers and suppliers, both inside and outside the country of origin, needs to be developed in order to preempt competition. Such business alliances and network relationships help to reduce market uncertainties, particularly in the context of rapidly converging technologies and the need for higher amounts of resources to cover global markets. However, networked organizations need more coordination and communication.

● ***Standardized worldwide technology and communication.*** The advanced technological products for consumer applications are available worldwide for gaining scale and scope in production. As a consequence we may witness more homogeneity in the demand and usage of consumer electronics across nations. New internet-based 'low-cost' communication methods (e.g. e-mailing, e-commerce) ease communication, marketing research and trade across different parts of the world. As a result, customers within national markets are able to buy similar products and similar services across parts of the world.

● ***Global cost drivers.*** These are categorized as 'economies of scale' and 'economies of scope'. The market forces tend to locate the production in a centralized or decentralized manner with the respect of the localization rules. These global distribution of production forces guarantees the optimal utilization of resources and, therefore, the cost minimization.

Conversely, there are forces that imply 'market responsiveness' of the enterprise offer. These are as follows (Hollensen, 2013):

● ***Cultural differences.*** Despite the advent of the 'global village', cultural diversity clearly continues to exist. For instance, if the migrants have difficulties pursuing the standard carrier path in a host country, they tend to prefer the diaspora's values to the host-country ones. Cultural differences often pose major difficulties in international negotiations, marketing (customer analysis, in particular), and international human resource management. These cultural differences regard personal values under the assumptions people make about how business is organized. Every culture may have values opposing another culture's cultural standards. There may be products which are barely to be produced and distributed identically.

● ***Regionalism/protectionism.*** Regionalism is the grouping of countries into regional clusters based on geographic proximity, for instance, Central and Eastern European countries, Latina American countries, Sub-Saharan countries, etc. The clusters may form regional trading blocs (EU or NAFTA), which may represent a significant barrier to globalization, since regionalization is

often seen as a barrier to the global free trade. Thus, one may argue that regionalism results in a situation where protectionism reappears around regions rather than individual countries.

● **Deglobalization trend.** Under conditions of the global recession, the voices against the amalgamating globalization. Current movements in Arab countries, the big demonstrations accompanying events such as the World Economic Forum in Davos or the World Trade Organization (WTO) meetings show that there could be a return to old values, rising barriers to the further globalization.

As a response to the dramatic changes across the global economy, Camrass and Farncombe (2001) suggest that the contemporary corporations should be atomized into core components based around key relationships with all non-core operations devolved to external networks. These are more agile and focused organisations than the monolithic businesses today. Instead of being focused on financial assets, the primary unit of corporate value will be the individual, both as customer and employee.

In the world of atomic corporations, the core components or atoms of a business are freed and the corporation is redefined in the following elements [Camrass and Farncombe, 2001]:

- **Smart companies** that ‘serve a broad industrial base, and are knowledge-based businesses capitalizing on skills in innovation’;
- **Asset platforms** are the atoms that actually ‘make’ the goods that are offered by the above atoms;
- **Service platforms** that will take responsibility for organizing common ‘processes’ or all other atoms, such as pay, accounting, administration, etc.;
- **Customer managers** in the form of a portal must capture, confirm, refine and constantly use the customer's views and experiences in suggesting offers’;
- **Webspinners** source the suppliers from which the customer wishes to buy. ‘They own the relationships between suppliers and customers by improving the matching process across the value chain’;
- **Portfolio Managers.** ‘The principal competency of these atoms is risk taking. Portfolio owners will manage their atoms as a set of investments that are expected to produce returns, maintaining a mix of types of atoms that produces the right profile of risk and reward’;

They move further than articulating their observations though, and even provide the characteristics that will make a winning ‘atom’ in the future.

Unit 5. Decision which market to enter

International environment scanning process. The international market selection criteria.

The decision which geographical combination of production markets to enter can not be made without taking into consideration the organization form of business expansion, hence, the arrangement of estimating parameters differs for the cases of export, licensing and direct

investment. In accordance to the observable growing short-run orientation of the global business processes, more flexible forms of international expansion are chosen by the economic agents, therefore, there is a tendency to use the simple models of the business environment assessment.

Further, the factors affecting the choice a market's to enter are specified respectively for the commercial and production presence abroad (see Tab. 5.1). In general, the choice of the market to enter is defined by following factors [Trifonova, Gorbunova, 2008]:

Table 5.1

Choice of a country's and commodity's market to enter: relevant factors

	Commercial presence	Production presence
Macroeconomic factors	GDP in general, GDP per capita, rate of GDP growth, exchange rate regime of convertibility and dynamics, relationship between nominal and PPP exchange rate, rate of inflation	GDP in general, GDP per capita, rate of GDP growth, regime for FDI, tax, labor laws, perseverance of monetary and exchange rate policy, quality of general infrastructure, market capitalization to GDP ratio
Factors of integration and regionalization	Distance to the market under consideration, common trading bloc, logistic complexity, a leading country's ('big power') influence, psychological distance between cultures	
Factors connected to the industry and market	Market or segment sales potential, specific-to-segment tariff and non-tariff barriers, competition intensity, transport and logistic infrastructure	Market or segment sales potential, competition intensity, the availability of basic resources and raw materials (including eventual sourcing in the neighboring countries), lobbying efficiency of regional and local authorities, salary level in a sector under consideration, general technological level of a sector, quality of regional and local infrastructure, competitive suppliers

Source: Trifonova, Gorbunova, 2008.

- 1) *macroeconomic factors*;
- 2) *factors of integration and regionalization* determining the peculiarities of cross-nation interactions;
- 3) *factors connected to the industry and market* depending on the development of a sector under consideration, its suppliers and consumers and other phenomenon strictly connected to the clusters.

The factors positive for international trade activity are multiple, and the first among them is the relevant GDP level and its stable positive rate of growth. On such growing market, even niches could have a great sale potential. The leading role in the international environment scanning belongs to such a simple indicator as the GDP per capita (see Fig. 5.1). The middle or high level of income per capita together to a country's relevant demographic potential may give basis for the segment of any type with a relevant sales potential, including the segments similar to the country of origin.

If the nominal exchange rate is undervalued exchange or equal to PPP, the exporting goods would be competitive in price terms. The moderate inflation allows to business entities to obtain sales and profitability forecasts and plans. In a case of the foreign direct investment in both 'greenfield' or 'brownfield' form, the additional long-term parameters as entrepreneurial climate, attitude toward foreign investors, tax and labor legislation, the stability of nation monetary system are important to the decision which market enter. The quality of general infrastructure represented by transport and communication system, the development of banking and insurance sector, availability of business and marketing information determine the production cost characterized a certain localization; under this aspect the developing markets almost cannot compete with the matured markets. The market capitalization to GDP ratio reflects the undervaluation or overvaluation of local business assets in respect to a country production system. If the assets seem to be undervalued, the potential investor can gain a extra revenue from the increase in the value of production facilities in emerging markets during the period of the possession of the assets overseas.

The factors of integration and regionalization seem to be the same for both trade and production presence in a foreign market. The geographical proximity of home and host countries is a natural motive to the reciprocal business expansion that determines the regionalization itself. The business interaction between the neighboring countries is fostered by purely economic drivers as well as historical and social factors, for instance, between such countries there is a better understanding of cross-cultural contradictions that facilitate the initial business contacts, reciprocal human resource management and give a better understanding of consumer behavior. The established international business activities at the regional level enable the lobbying movement toward a removal of barriers to trade and investment and a regional integration, in general.

The favorable *industrial and market factors* for the export activity are significant sales potential, absence of particular tariff and non-tariff barriers for the commodities produced by the company. To succeed, the company should have a competitive advantage toward local and international players, understandable conditions of distribution, good quality of transport and marketing infrastructure.

For the investment allocation, the crucial role belongs to the availability and cost of basic production factors, presence competitive suppliers, (essentially, it refers to a cluster genesis factors). The low labor cost and the high-quality regional and local infrastructure are also welcome. The role of local authorities is worthy of mention, whereas their openness and positive way of thinking can reduce the liability of foreignness for the international investors.

A priority market to enter usually possesses the following characteristics:

- a relevant dimension in order to realize a deep segmentation;
- clearly determined and well-assessed in sales potential;
- more accessible, transparent and similar to the markets which the enterprise has been entered earlier;
- sensitive and responsive toward the company's offer, positioning and promotion.

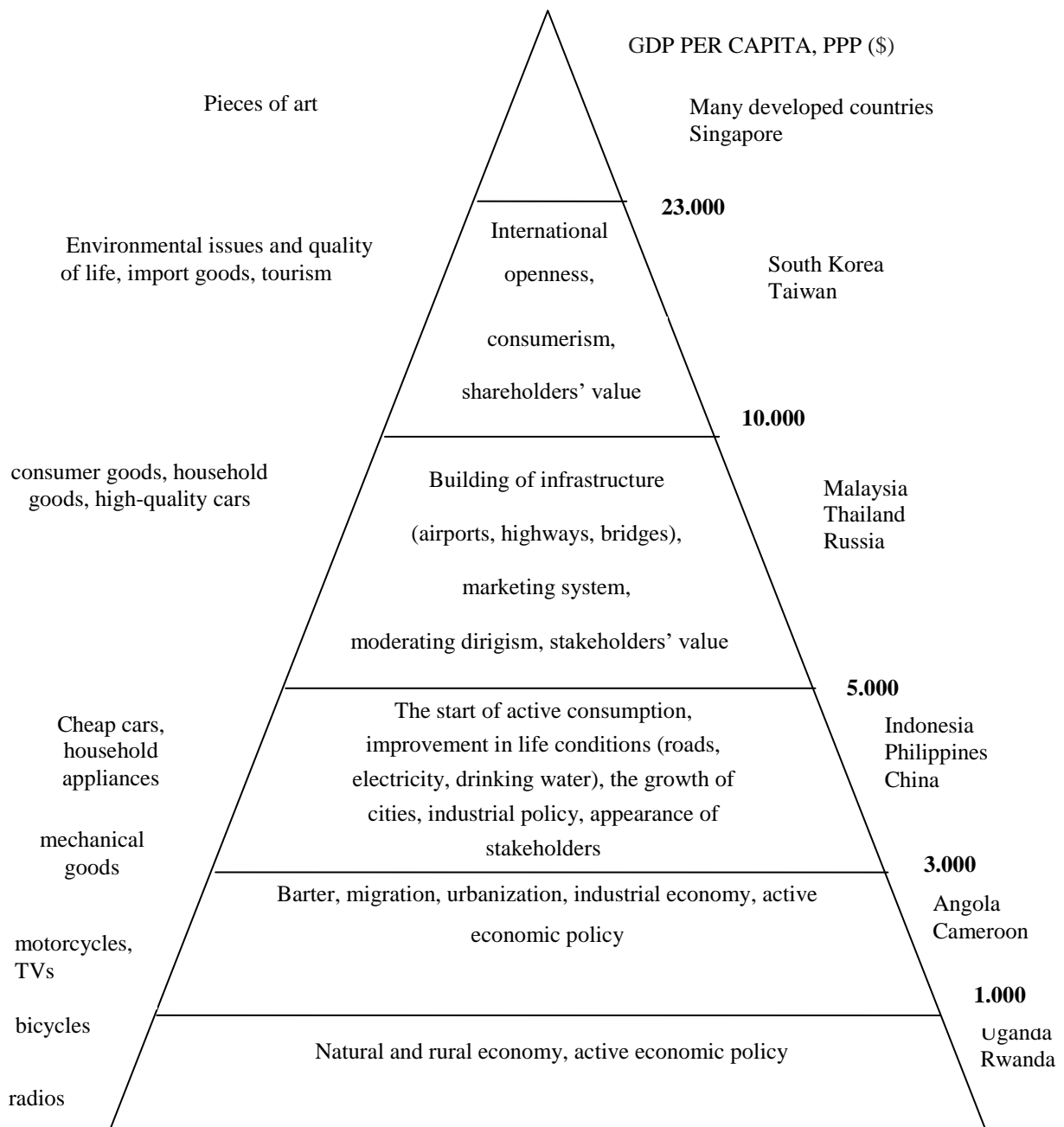


Fig. 5.1. GDP per capita, PPP (\$) and the market potential (Marafioti, 1998)

Unit 6. Strategy formulation for international markets

Strategic management process. International strategic management tools. Generic M. Porter strategies. Cost leadership factors. Differentiation potential. External and internal sources of competitiveness. Capabilities, competences, and routines. Strategic maps.

The corporate strategy determines and implements the company's position toward a market under consideration and the society taken as a whole. The strategic planning has been appeared as a result of the growing importance of external environment for ongoing business activity. The business strategy represents a sequence of business actions reflecting long-run purposes of a

company that matches better to the most probable scenario of business environment's trends. The strategy implies an allocation of a firm's resource; because of a certain rigidity of labor and investment contracts, the strategy has middle-term or long-term orientation.

The contemporary approach to the strategy's definition process recognize its two sides: planned (top-down) and emerging strategy.

The main phases of the *strategic planning* are:

- general and competitive environment analysis and estimation;
- selection of the markets and within them the choice of type of competitive advantage or M. Porter's generic strategy;
- allocation of proper and borrowed resources.

The business strategies are unique and individual, hence they reflect the firm's perception of business environment and its response to external trends as well as properties of its corporate culture and other internal development parameters. The two frequently used classifications are reported on Fig.6.1.

The types of competitive advantage following Porter (1980) are:

- *cost leadership* (price differentiation);
- *differentiation* based on the non-price competitive parameters of a product, for instance, quality, design, brand's image, pre- and post-sale service as well as on the differentiation of consumers;
- *focus strategy* of the cost leadership or differentiation type when the company due to its modest dimensions focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialized needs.

The cost leadership strategy involves the firm winning market share by appealing to price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. It means to operate worldwide always seeking to diminish price of production factors maintaining the appropriate quality level. The problem of this type of competitive advantage consists of the fact that the position of cost leader is unique on the market and can be compromised by some force majeure phenomenon as, for instance, a third country's currency depreciation.

A *differentiation strategy* is appropriate where the target customer segment is not price-sensitive. Successful differentiation is displayed when a company accomplishes either a premium price for the product or service, increased revenue per unit, or the consumers' loyalty to purchase the company's product or service (brand loyalty). It is more stable type of advantage because of a better knowing of the consumer need and the respective loyalty.

For the possibility to implement a *focus strategy*, there should be distinct groups (niches) with specialized needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm.

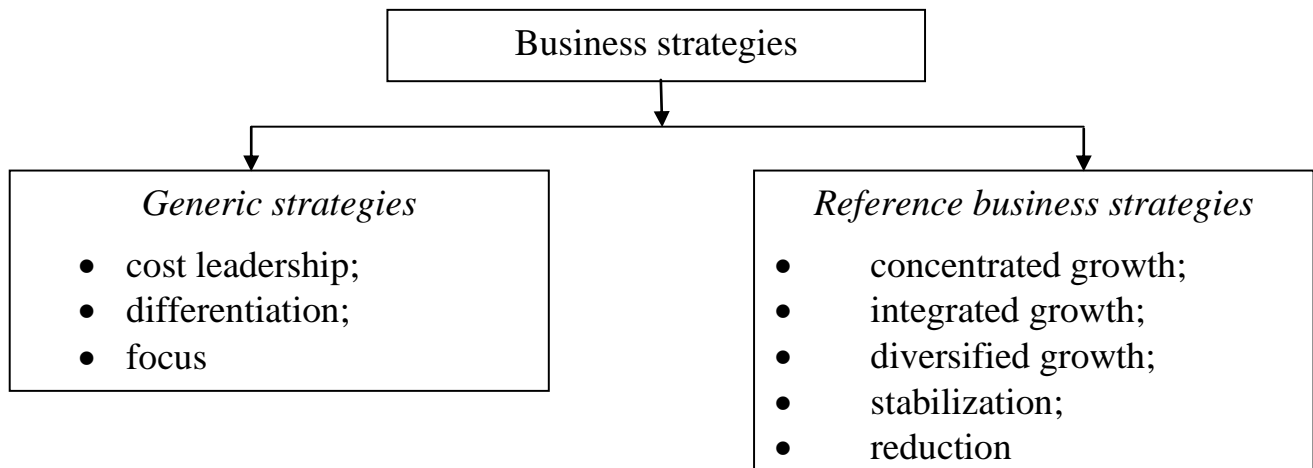


Fig. 6.1. Generic and reference business strategies

Reference business strategies [Daft, 1997] reflect a range of decisions regarding each commodity/geographic markets, when in accordance to their future potential, the respective sales volumes may be increased, decreased or maintain stable:

Group 1. *Concentrated growth strategies*:

- *strategy of penetration* for launched goods and traditional-to-business market;
- *search for new markets or strategy of market development* for launched goods;
- *new product development* for the current market;
- *packaging strategy* (joint sales of a firm's product).

Group 2. *Integrated growth strategies*:

- *upstream vertical integration with suppliers*;
- *downstream vertical integration* with distributors and consumers (usually, another firms).

Group 3. *Diversified growth strategies*:

- *centralized diversification strategy* (search for additional opportunities for the production of new products on the existing productive basis);

- *horizontal diversification strategy* (the production of new products following new technology distinguished from the technology used for an already controlled market);

- *conglomerate diversification strategy* (the firm expands the activity on the basis of new products, that are completely new and non-connected to the existing firm marketing offer for the new markets).

Group 4. *Stabilization strategies*:

- *strategy of pause* presupposes the limitation of production volumes, the slow controlled development, simple business expansion. The strategy of stabilization is the logic decision if the period of rapid business growth has ended;

- *strategy of economy* implies a simplification of product range.

Group 5. *Strategies of reduction*

- *strategy of business liquidation;*
- *strategy of harvesting* (diminishing purchase and labor cost, short-run revenues following the aggressive promotion and sales of all stocks);
- *strategy of cost reduction.*

A company's growth can be supported from the inside, i.e. be based on proper investment from the outside (alliances, joint ventures, acquisition of existing production facilities). *Internal* or organic growth is realized in a form of the introduction of new products or the penetration of new markets. External growth is connected to the diversification, when a firm acquires other businesses that have similar product range or completely different one.

The main strategic dilemma consists of the problem what, external environment or internal firm factors, comes first in the strategic planning, i.e. determines the business strategy. Initially, in the systemic logic the business environment was considered as determining component of business actions and the firm was seen in a purely reactive way.

In the early eighties, the accent was shifted toward a major enterprise independence and auto-determination in a business universe. The first concept to appear was the *key success factors* that guarantee a firm's positive result within a certain industry. The detailed classification of the *key success factors* is reported in Tab. 6.1

Table 6.1.

Industrial key success factors

<i>Group of factors</i>	<i>Examples of key success factors</i>
Technological factors	- R&D competence; - Production process innovation capabilities; - Production innovation capabilities; - Presence of technological expertise
Production factors	- Capability to maintain low-cost production; - Quality; - Availability of qualified labor force; - High productivity; - Cost-effective design and technical support; - Production flexibility in a case of changes in product range
Distribution factors	- developed distribution network; - retail margin; - won sales network; - fast delivery
Marketing factors	- effective sales mechanism; - suitable and accessible service; - meeting of consumer needs; - wide range of commodities; - art of commerce; - promotional design and packing; - quality guarantees

End of table 6.1

<i>Group of factors</i>	<i>Examples of key success factors</i>
Human resource factors	- pool of talents;

	<ul style="list-style-type: none"> - know how in the quality management; - expertise in design and technology; - capabilities for creation of advertising; - capabilities to innovate and to introduce new goods on the market
Organizational capabilities	<ul style="list-style-type: none"> - developed information systems; - capabilities to react to changing business environment; - management competences and know how
Residual key success factors	<ul style="list-style-type: none"> - favorable image and reputation; - self-awareness of a leadership; - beneficial localization, friendly service; - access to the financial capital; - protection of intellectual property

The next concept that has been developed in order to find the internal source for the strategy planning, i.e. the sustainable competitive advantage is the resource-based view (RBV). The principal requirement to the internal forces under consideration is to be able to sustain competitive advantage and to be inimitable. The following concepts has been introduced into the strategic discourse:

- *Resources* which are not strictly coincide with the production factors. The importance of immaterial resources is recognized as a difference between the capitalization and book value of a company. The problem of resources is the ease of imitation or annexation.
- *Competence and capabilities*. The concepts of core competence, combinative capabilities and architectural competence have been coined. The *core competence* is a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace [Prahalad, Hamel, 1994]. The concept of *combinative capability* reflects a company's approach to synthesize and apply current and acquired knowledge; to socialize knowledge and to stipulate the effects of the degree of environmental selection on the evolution of this knowledge [Kogut, Zander, 1992]. The *architectural competence* reflects the firm's ability to knowledge integratively and positively associated with research productivity of a firm. These competencies and capabilities have the same defect of the resources regarding the creation of sustainable competitive advantage, i.e. they can be annexed, effectively or not, by the competitors.
- *Organizational routines* is the most inimitable firm characteristic As Nelson and Winter (1982) suggest that the routines are the skills of an organization similar to individual skills that generally regard the capacity to respond to a situation and to do something, an ability that is smoothly and unhesitatingly deployed, almost automatically. The problem to apply and develop organizational routines regards a difficulty to catch up their essence and to communicate them further.

The next important analytical tool of international strategic management is the firm's value chain. It explains how a firm creates a competitive advantage among market competitors towards

customers at the same competitive level. A value chain is a chain of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market (see Fig. 6.2).

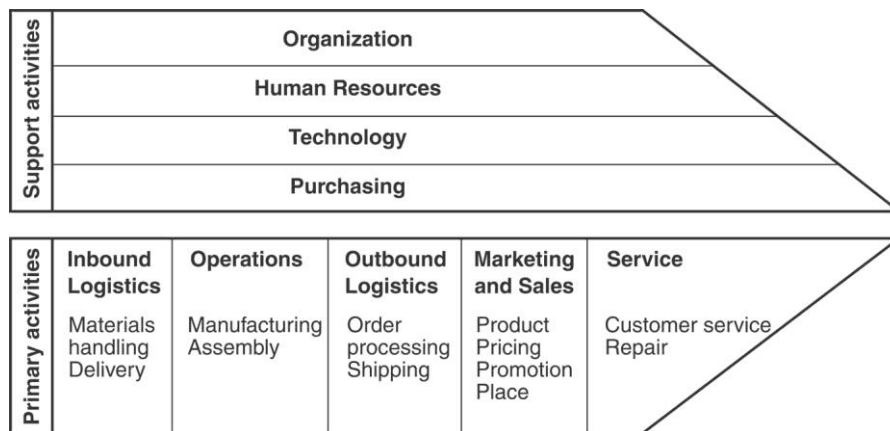


Fig. 6.2. The value chain representation [Porter, 1985]

The relevant contemporary strategic tool is the balance scorecard method, which is graphical representation is s strategy map. It is a diagram that is used to document the primary strategic goals being pursued by an organization or management. Across these broad range of articles, there are only a few common attributes. Strategy maps show firm's multiple objectives, broad causal relationships between them allowing to obtain them in a complex.

Relatively new concepts as collective competitive advantage and clusters focus on a systemic (external) aspect of competitive advantage. In general, they regard the positive externalities of localization in an agglomeration that possesses a high-level intellectual infrastructure for the international business or in a industrial district that offer specific-to-sector institutions and conditions, for instance, professional schools, specialized international distributors, R&D entities, suppliers of equipment and raw materials, etc. All the territorial phenomenon contribute to the national competitive advantage that nowadays determines a single firm's success on the global market.

Unit 7. Market entry strategies

The Uppsala model. The born global companies. Technological entry modes. Global alliances: benefits and limitations. Offshore business.

The choice of market entry mode represent a strategic decision in tha framework of international management. From the perspective of the manufacturer, market entry modes can be classified into three groups:

1. **Export modes:** low control, low risk, high flexibility;
2. **Intermediate modes (contractual modes):** shared control and risk, split ownership;

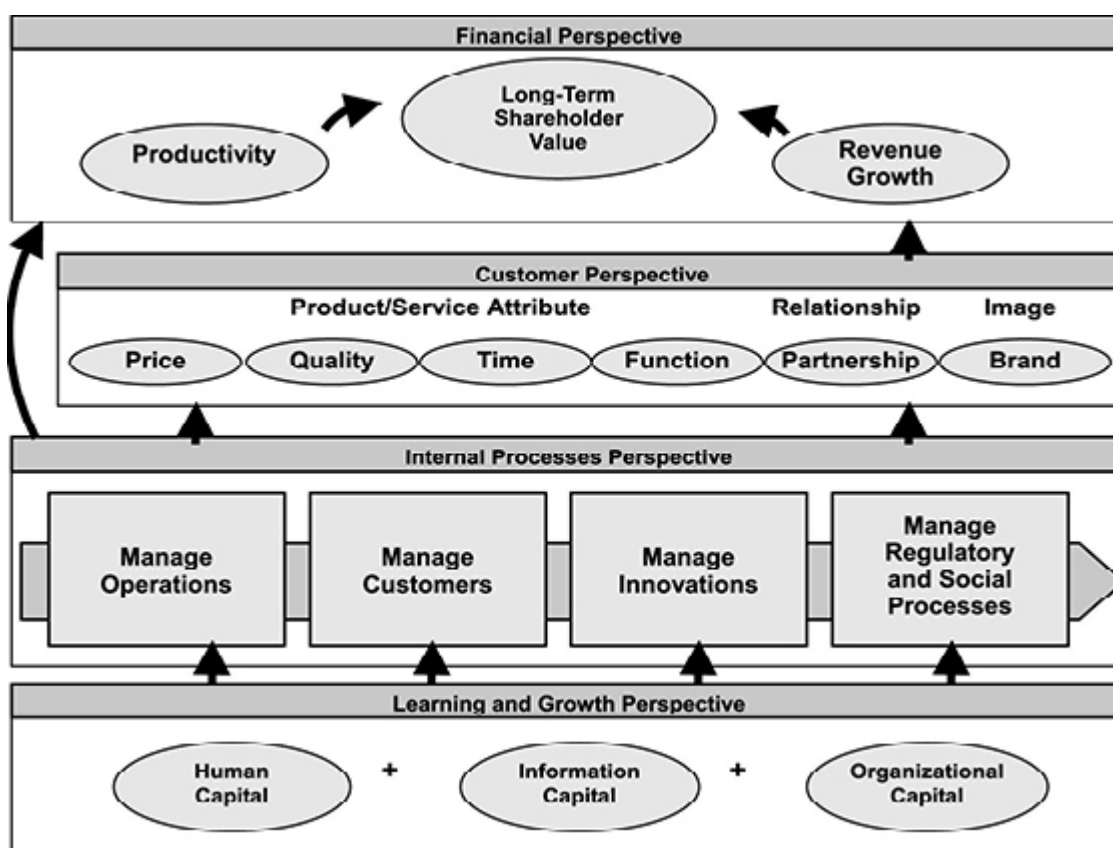


Fig. 6.3. Strategic map [Kaplan, Norton, 2004]

3. *Hierarchical modes (investment modes):* high control, high risk, low flexibility.

The Uppsala model suggest a gradual internalization of business from the simple commercial forms toward the rather complicated and risky investment engagements.

With *export entry modes* a firm's products are manufactured in the domestic market or a third country and then transferred either directly or indirectly to the host market. Export is the most common mode for initial entry into international markets. Exporting is thus typically used in initial entry and gradually evolves towards foreign-based operations. In some cases where there are substantial scale economies or a limited number of buyers in the market worldwide (e.g. for aerospace), production may be concentrated in a single or a limited number of locations, and the goods then exported to other markets.

Exporting can be organized in a variety of ways, depending on the number and type of intermediaries. As in the case of wholesaling, export and import agents vary considerably in the range of functions performed. Some, such as export management companies, are the equivalent of full-service wholesalers and perform all functions relating to export. Others are highly specialized and handle only freight forwarding, billing or clearing goods through customs. While export channels may take many different forms, for the purposes of simplicity, three major types may be identified:

1. Indirect export. This is when the manufacturing firm does not take direct care of exporting activities.

2. Direct export. This usually occurs when the producing firm takes care of exporting activities and is in direct contact with the first intermediary in the foreign target market.

3. Cooperative export. This involves collaborative agreements with other firms (export marketing groups) concerning the performance of exporting functions.

So far we have assumed that the firm entering foreign markets is supplying them from domestic or third country plants. However, sometimes the firm may find it either impossible or undesirable to supply all foreign markets from domestic or third country production. *Intermediate entry modes* are distinguished from export modes because they are primarily vehicles for the transfer of knowledge and skills between partners, in order to create foreign sales. They are distinguished from the hierarchical entry modes in that there is no full ownership (by the parent firm) involved, but ownership and control can be shared between the parent firm and a local partner.

Generally speaking, contractual arrangements take place when firms possessing some sort of competitive advantage are unable to exploit this advantage because of resource constraints, for instance, but are able to transfer the advantage to another party. The arrangements often entail long-term relationships between partner firms and are typically designed to transfer intermediate goods, such as knowledge and/or skills, between firms in different countries.

Contract manufacturing enables the firm to have foreign sourcing (production) without making a final commitment. Management may lack resources or be unwilling to invest equity to establish and complete manufacturing and selling operations, but contract manufacturing keeps the way open for implementing a long-term foreign development policy when the time is right. These considerations are perhaps most important to the company with limited resources. Contract manufacturing enables the firm to develop and control R&D, marketing, distribution, sales and servicing of its products in international markets, while handing over responsibility for production to a local firm.

Licensing is another way in which the firm can establish local production in foreign markets without capital investment. It differs from contract manufacturing in that it is usually for a longer term and involves much greater responsibilities for the national firm, because more value chain functions have been transferred to the licensee by the licensor. The **franchising** is a particular case of licensing used in the service sector as retail, fast-food, etc.

A **joint venture** or a strategic alliance is a partnership between two or more parties. In international joint ventures these parties will be based in different countries, and this obviously complicates the management of such an arrangement.

The final group of entry modes is the **hierarchical mode**, where the firm completely owns and controls the foreign entry mode. Here it is a question of where the control in the firm lies. The degree of control that head office can exert on the subsidiary will depend on how many and which value chain functions can be transferred to the market. This again depends on the allocation of responsibility and competence between head office and the subsidiary, and how the firm wants to develop this on an international level. An organization that is not wholly owned (i.e. 100 per cent) will here be viewed as an export mode or an intermediate mode. While a majority owned (e.g. 75 per cent) joint venture is, according to definition, an intermediate mode, but in practice a firm with

75 per cent will generally have nearly full control, similar to a hierarchical mode. The factors affecting the entry mode are grouped into three profiles: host country factors, home country factors and enterprise's factors (see Tab. 7.1).

Table 7.1

Internal and external factors affecting the foreign market's entry mode

	Indirect export	Licencing	Direct export, Commercial representation	Direct investment	Service
External factors (host country)					
Insignificant market sales potential	<i>X</i>	<i>X</i>			
Significant market sales potential			<i>X</i>	<i>X</i>	
Split competition	<i>X</i>		<i>X</i>		
Oligopolistic competition				<i>X</i>	
Underdeveloped marketing infrastructure			<i>X</i>		
Developed marketing infrastructure	<i>X</i>				
Low production cost				<i>X</i>	
High production cost	<i>X</i>		<i>X</i>		
Relevant barriers to import		<i>X</i>		<i>X</i>	<i>X</i>
Irrelevant barriers to import	<i>X</i>		<i>X</i>		
Relevant restrictions for foreign investors	<i>X</i>	<i>X</i>	<i>X</i>		<i>X</i>
Irrelevant restrictions for foreign investors				<i>X</i>	
Insignificant geographic distance	<i>X</i>		<i>X</i>		
Significant geographic distance		<i>X</i>		<i>X</i>	<i>X</i>
Relevant currency restrictions	<i>X</i>	<i>X</i>			<i>X</i>
Irrelevant currency restrictions				<i>X</i>	
Depreciation of local currency				<i>X</i>	
Appreciation of local currency	<i>X</i>		<i>X</i>		
Insignificant cultural distance			<i>X</i>	<i>X</i>	
Significant cultural distance	<i>X</i>	<i>X</i>			<i>X</i>
Low political risk			<i>X</i>	<i>X</i>	
High political risk	<i>X</i>	<i>X</i>			<i>X</i>
External factors (home country)					
Insignificant market sales potential				<i>X</i>	
Significant market sales potential	<i>X</i>		<i>X</i>		
Split competition	<i>X</i>		<i>X</i>		
Oligopolistic competition				<i>X</i>	
Low production cost	<i>X</i>		<i>X</i>		
High production cost		<i>X</i>		<i>X</i>	<i>X</i>
Relevant support for exporters	<i>X</i>		<i>X</i>		
Restriction to invest abroad	<i>X</i>	<i>X</i>			<i>X</i>

End of table 7.1

	Indirect export	Licencing	Direct export, Commercial representation	Direct investment	Service
Internal factors					
Differentiated product	<i>X</i>		<i>X</i>		
Standardized product				<i>X</i>	
High share of a service in the product			<i>X</i>	<i>X</i>	
Services		<i>X</i>		<i>X</i>	<i>X</i>
High-tech products		<i>X</i>			
Low possibility of product adaptation	<i>X</i>				
High possibility of product adaptation		<i>X</i>	<i>X</i>	<i>X</i>	
Resource limitation	<i>X</i>	<i>X</i>			
Expensive resources			<i>X</i>	<i>X</i>	
Low involvement of management	<i>X</i>	<i>X</i>			<i>X</i>
High involvement of management			<i>X</i>	<i>X</i>	

X means that the factor is favorable to the one or another foreign market entry mode

The particular form of international business is the offshore business. The term 'offshore company' or 'offshore corporation' is used in at least two distinct and different ways. An offshore company may be a reference to: a corporation or (sometimes) other type of legal entity which is incorporated or registered in an offshore financial centre or "tax haven"; or a company or corporate group (or sometimes a division thereof) which engages in offshoring manufacturing or business services.

Unit 8. Organizational structures of MNCs

Evolution and change in MNC organizational structures. Integrated global structure. Organizing for globalization. Emergent structural forms: interorganizational networks, the transnational corporation network structure. Choice of organizational form: design variables. Coordinating for global operations.

A firm chooses to decentralize more and more of its activities to the main foreign markets. In other words, it transfers the responsibility of performing the value chain functions to the local management in the different countries. The firm also goes from one internationalization stage to another (Perlmutter, 1969):

- Ethnocentric orientation, represented by the domestic-based sales representatives. This orientation represents an extension of the marketing methods used in the home country to foreign markets.
- Polycentric orientation, represented by country subsidiaries. This orientation is based on the assumption that markets/countries around the world are so different that the only way to succeed internationally is to manage each country as a separate market with its own subsidiary and adapted marketing mix.
- Regiocentric orientation, represented by a region of the world.

- Geocentric orientation , represented by the transnational organization. This orientation is based on the assumption that the markets around the world consist of similarities and differences and that it is possible to create a transnational strategy which takes advantage of the similarities between the markets by using synergy effects to leverage learning on a worldwide basis.

The coordination process is the same whether it takes place in a domestic company, a multinational company with a network of foreign affiliates, or a specific IJV. It is the extent, the focus and the mechanisms used for monitoring systems that differ. More coordination is needed in multinational companies because of uncertain working environments and information systems and because of the variable loci of decision making. These dynamic conditions confound the task of integrating and controlling a worldwide network of subsidiaries, joint ventures, and contractual relationships. Headquarters managers must design appropriate systems to take into account those variables and to evaluate performance.

Table 8.1

Typology of MNCs management

MNCs type	Characteristics
<i>Multidomestic corporations</i>	Decentralized federation Low dependence from the headquarter Low level of interaction among subsidiaries High level of marketing mix adaptation, many versions of product
<i>Global corporations</i>	Confederation (Subsidiaries realize the headquarter strategy without any adaptation) High dependence from the headquarter High level of interaction among subsidiaries Low level of marketing mix adaptation, few versions of product
<i>Transnational corporations</i>	Network structure, presence of centers of excellence worldwide, wide exchange of resources among subsidiaries Middle dependence from the headquarter High level of interaction among subsidiaries High level of marketing mix adaptation, many versions of product

Source: Harzing (2000).

An organization must be designed to facilitate the implementation of strategic goals. Other variables to consider when designing an organization's structure include environmental conditions, the size of the organization, and the appropriate technology. The geographic dispersion of operations as well as differences in time, language, and culture affect structure in the international context. The design of a firm's structure reflects its international entry strategy and tends to change over time with growth and increasing levels of investment, diversity, or both. Global trends are exerting increasing pressure on MNCs to achieve economies of scale through globalization. This involves rationalization and the coordination of strategic alliances. MNCs can be regarded as interorganizational networks of their own dispersed operations and other strategic alliances. Such relational networks may adopt unique structures for their particular environment while also requiring centralized coordination.

The transnational structure allows a company to be global and act local by using networks of decentralized units with horizontal communication; this allows local flexibility while achieving global integration.

Indications of the need for structural changes include inefficiency, conflicts among units, poor communication, and overlapping responsibilities.

Coordinating and monitoring systems are necessary to regulate organizational activities so that actual performance conforms to expected organizational standards and goals. MNCs use a variety of direct and indirect controls.

Financial monitoring and evaluation of foreign affiliates is complicated by variables such as exchange rates, levels of inflation, transfer prices, and accounting standards.

The design of appropriate monitoring systems must take into account local constraints, management practices and expectations, uncertain information systems, and variables in the evaluation process.

Two major problems in reporting for subsidiaries must be considered: (1) inadequate management information systems and (2) the noncomparability across countries of the performance data needed for evaluation purposes.

Unit 9. Managing human resources around the world

Staffing philosophies for international organizations. Problems with expatriation. Labor relations in global human resource management (HRM).

The effectiveness of managers at foreign locations is crucial to the success of the firm's operations, particularly because of the lack of proximity to, and control by, headquarters executives. The ability of those expatriates to initiate and maintain cooperative relationships with local people and agencies will determine the long-term success, even viability, of the operation. In a real sense, a company's international cadre represents its most valuable resource. Proactive management of that resource by headquarters will result in having the right people in the right place at the right time, appropriately trained, prepared, and supported. MNCs using these IHRM practices can anticipate the effective management of the foreign operation the fostering of expatriates' careers, and, ultimately, the enhanced success of the corporation. In the next chapter, we will examine how to fully utilize global human resources.

Human resource management is a vital component of implementing global strategy and is increasingly being recognized as a major determinant of success or failure in international business. The main staffing alternatives for international operations are the *ethnocentric*, *polycentric*, *regiocentric*, and *global* approaches. Each approach has its appropriate uses, according to its advantages and disadvantages.

The causes of expatriate failure include the following: poor selection based on inappropriate criteria, inadequate preparation before assignment, alienation from headquarters, inability of manager or family to adapt to local environment, inadequate compensation package, and poor programs for career support and repatriation.

The three major areas critical to expatriate preparation are cultural training, language instruction, and familiarity with everyday matters.

Common training techniques for potential expatriates include area studies, culture assimilators, language training, sensitivity training, and field experiences.

Appropriate and attractive compensation packages must be designed by IHRM staffs to sustain a competitive international management cadre. Compensation packages for host-country managers must be designed to fit the local culture and situation as well as the firms objectives.

Managers operating overseas often face unexpected variation—both in a practical sense and a subtle sense—in the labor-management relations and system of worker participation in a country. Those differences influence the decisions of MNE managers both on a strategic level and on a daily operational level. Teamwork, group activities, and other means of decision-making participation by workers are particularly vulnerable to imposition of "foreign" management styles and practices. The international manager should attempt to understand the cultural and societal bases for the prevailing labor-management philosophies and practices before making changes. Some combination of practices can generally be beneficial as long as change is introduced in a participative manner. Successful MNCs—Ford in Germany, GM in Spain, and Bosch in the United States—familiarized their staff with the local industrial relations system and retained industrial relations staff from the host country to aid in the transition.

Expatriates and their families usually experience culture shock resulting from transfer anxiety social dislocation, disorientation, and impatience. Reverse culture shock occurs upon return to the home country.

Support programs for expatriates should include information from and contact with the home organization as well as career guidance and support after the overseas assignment.

Women represent an underutilized resource in international management; a major reason for this situation is the assumption that culturally based biases may limit the success of female expatriates.

Labor relations refers to the process through which managers and workers determine their workplace relationships. The labor relations environment, system, and processes vary around the world.

The labor relations system in a country affects how the international manager must plan strategy and organize work and human resources.

Coordination of MNE subsidiary activities around the world can be complex because of different labor relations systems, especially within trading blocs such as the NAFTA, or within common markets such as the EC.

External competitive forces, increased open trade, and frequent moves of MNCs around the world are forces toward convergence in labor systems; at this time, though, numerous differences among countries still remain.

Traditional labor-management relations are changing by reshaping the role of the worker at the level of the actual work performed and, more generally, by participation in the decision-making process.

The idea of improving productivity and worker satisfaction through teamwork, or small autonomous work groups, is growing, but implementation depends on the prevailing labor-management relations system.

Teamwork, decision-making participation of workers, and other labor-management processes are strongly influenced by culture. Foreign managers who try to transfer their practices and philosophies to another country are likely to experience system conflict based on cultural differences.

Unit 10. International motivating and leading

Cross-cultural research on motivation. Managing international teams and workforce diversity. Multicultural leader's role and business environment. The effective international leader.

The contemporary manager is faced with the responsibility of managing people from culturally diverse backgrounds who work together, either in the form of international management teams or in work groups in a multicultural domestic environment. The effective management of diversity includes encouraging people throughout the organization to value diversity and to take advantage of their different skills and perspectives. The integration of foreign-born employees requires particular care; it is vital to help them to take a permanent and useful place in the workforce.

International management teams are collections of managers from several countries who rely on group collaboration for goal achievement.

The effectiveness of multicultural teams depends on the synergy they can create despite the setbacks resulting from diverse members working together.

The advantages of multicultural teams include greater opportunities for global competition—by sharing experiences, technology, and international managers—and greater opportunities for cross-cultural understanding and exposure to different viewpoints.

The disadvantages of multicultural teams include problems resulting from language and communication differences and varying managerial styles; complex decision-making processes; fewer promotional opportunities; personality conflicts; and greater complexity in the workplace.

Domestic multiculturalism refers to culturally diverse workforces in home-country companies.

Managing diversity—that is, managing a culturally diverse workforce—is a crucial competitive issue for the future. The skills required for this task include understanding and valuing diversity to maximize the potential of the workforce. The benefits of managing diversity include reduction of turnover and absenteeism, recruitment of scarce skills, sales to minority culture groups, team innovation, improved problem solving, and enhanced organizational flexibility.

The advantages of multicultural diversity in domestic groups include a fuller use of resources through a wider pool of skills, perspectives, and ideas; better understanding of a multicultural marketplace; greater innovation and problem solving; and a motivation and commitment in the company resulting from a wider acceptance of decisions.

The disadvantages of multicultural diversity in domestic groups include conflicts and a lack of acceptance of ideas resulting from different norms of behavior and managerial styles; limit

productivity through a lack of cohesion and an inability to arrive at consensus; and poor motivation because of a lack of trust.

Effective means to integrate foreign-born workers include provisions and incentives for language training; culture sharing; improved recruitment and placement techniques that focus on identifying and using the skills of immigrants; and local mentoring programs.

References

1. Ahlstrom D., Bruton G.D. (2009) *International Management: Strategy and Culture in the Emerging World*. - Cengage Learning. – 528 p.
2. Bain J.S. (1959), 2nd ed., 1968. *Industrial Organization: A Treatise*, John Wiley.
3. Camrass R., Farncomb M. (2001) *The Atomic Corporation: A Rational Proposal for Uncertain Times*, John Wiley & Sons.
4. Daft R.L. (1997) *Management*. Fort Worth : Dryden Press.
5. Deresky H. (2013) *International Management: Managing Across Borders and Cultures, Text and Cases*. - Prentice Hall; 8 edition. - 528 p.
6. Harris P.R., Moran R.T. (2000) *Managing Cultural Differences by and*, 5th ed. Houston, TX: Gulf Publishing Company.
7. Harzing, A.-W. (2000). Cross-National Industrial Mail Surveys. *Industrial Marketing Management*, 29(3), 243-254.
8. Henderson R., Clark K. (1990) Architectural innovation: The reconfiguration of existing product technologies and the failure of existing firms in *Admin. Sci. Quart.* Vol. 35: 9–30.
9. Hill C.L. (2009) *International Business*. - Sage Publications, Inc – 736 p.
10. Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations*. Thousand Oaks, CA: Sage.
11. Hollensen S. (2013) *Global Marketing*. - Prentice Hall; 6 edition, 840 p.
12. Marafioti, E. *Competere in Asia orientale: quali alternative strategiche per le aziende italiane* / E. Marafioti, F. Perretti, S. Saviolo // *Ricerca Asia*. WP Università commerciale "L.Bocconi". – 1998.
13. Mead R., Andrews T.G. *International Management*. - Wiley-Blackwell, 4th edition. - 486 p.
14. Kaplan, R. S. – Norton, D. P. (2004): *Strategy Maps: Converting Intangible Assets into Tangible Outcomes*. Boston, Harvard Business School Press, 2004.
15. Kogut B., Zander U. (1992) "Knowledge of the Firm, Combinative Capabilities, and the Replication of Technology." *Organization Science*, no 3. pp.383–397.
16. Nelson, R. R. and S. G. Winter. 1982. *An Evolutionary Theory of Economic Change*.
17. Cambridge, MA: The Belknap Press.
18. Perlmutter, H.V. (1969) The Tortuous Evolution of the Multinational Corporation. *Columbia Journal of World Business*, 4: 9-18.
19. Porter, M.E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press, 1980. – 396 p.
20. Porter, M.E. (1985) *The Competitive Advantage: Creating and Sustaining Superior Performance*. NY: Free Press.
21. Prahalad, C.K. and Hamel, G. (1990) "The core competence of the corporation", *Harvard Business Review* (v. 68, no. 3) pp. 79–91.
22. Robinson R. (1964). *International Business Policy*. New York: Holt, Rinehart and Winston.
23. Trifonova, E., Gorbunova M. (2008) Problems of development of strategic planning and

management of foreign economic activity of enterprises. - Nizhny Novgorod: UNN press. Lobachevsky. – 291 p. (available in Russian)

Мария Лавровна Горбунова

МЕЖДУНАРОДНЫЙ МЕНЕДЖМЕНТ

Учебно-методическое пособие,

Федеральное государственное автономное
образовательное учреждение высшего образования
«Национальный исследовательский Нижегородский государственный
университет им. Н.И. Лобачевского».
603950, Нижний Новгород, пр. Гагарина, 23.