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PROSPECTS OF THE MANAGEMENT IN INTERNATIONAL INDUSTRIAL ARENA

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ABSTRACT

The decision to go international is a giant step for any business. The decision as to whether it's best to remain a domestic firm or to venture into the unchartered waters of international competition is a complex one and one that can pay-off handsome returns or result in total corporate failure. 'In general terms, it can be said that domestic firms enter the international arena in search of more and better opportunities than those that are available in the 1 domestic market of the firms, or to seek solutions to problems that are not found in the domestic market. In more specific terms, it can be said that the international business arena offers the business enterprise the potential for the following:

- ***Profits*** *It is common for businesses to establish international operations in order to increase their profit potentials.*
- ***Expanded Markets*** *With a global sales orientation, goods and services can be sold in many markets.*
- ***Raw Materials*** *International firms have expanded access to raw materials and raw materials suppliers.*
- ***Financial Capital*** *International firms have expanded access to financial resources.*
- ***Lower Labour Costs*** *International firms have the potential to concentrate their labour-intensive operations in nations with lower labour costs.*

In the first stage, companies have only passive dealings with foreign entities. Often, during stage one, the firm is content with filling those overseas orders that were received without serious selling effort. An international department might be created to handle foreign dealings, but many firms use third parties, such as brokers and agents, to serve as "go-betweens" during this initial stage. By the time the firm achieves the second stage, it prefers to deal directly with overseas clients, although some third parties may still be employed. Company employees are not yet based overseas, but some of them may travel abroad regularly to conduct business. An import or export department might be created during this stage. During the third degree of internationalization, the firm's overseas operations become an important part of its overall business. Although the firm is still primarily a domestic firm, it is directly involved in importing and exporting. It may be producing goods in overseas facilities. For the fourth and-final stage, the firm comes to view itself as truly a multinational enterprise.

KEYWORDS: *Domestic Market, Go-Betweens, Financial Capital, Expanded Markets, Labour Costs.*

Introduction

General Electric (GE) decided to go international, primarily because its major competitors were strengthening their international business positions. GE's appli-ance competitors. Whirlpool Corporation and Maytag Corporation had expanded through international alliances. Also. Electrolux, the world's

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biggest appliance maker, had continued to expand globally. From all appearances, GE is back in the international arena and will be a significant global power in the future. General Electric is caught up in a world-wide shift to massive international business operations. No matter where in the world marketplace one cares to look, it seems that exciting new economic events are leading slowly, but surely, to a globalization of business. Perhaps the single most significant international eco-nomic event since the creation of OPEC, was the single market composed of the twelve members of the European Community (EC). In preparation for what might become a “fortress Europe”, North American and Japanese firms jockeyed around to establish some sort of operational base within the EEC.Elsewhere in Europe, the movement towards greater East-West integration, the reunification of Germany, and the opening of markets in Russia all combine to give the European business community a new surge of global business activity. In Asia, global business is dramatically influenced by the continued phenomenal success of the Japanese export philosophy, which is being copied successfully by the four Tigers of Asia—Hong Kong, Singapore, South Korea, and Taiwan. The development of the ASEAN nations may offset some negative influences resulting from the return of Hong Kong to China in 1997 and the dramatic shift away from the further commercialization of China, as a result of the problems in the summer of 1989.

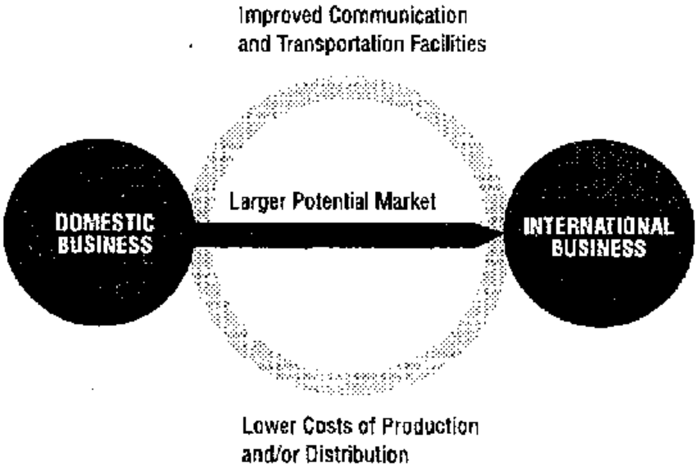
Meaning of International Business

Because of the rapid expansion into all levels of the field of international business, the terminology and other distinctions between different sorts of international business has become somewhat unclear in some sectors.

As firms enter into the international arena, the degree to which they are committed to international operations separates the companies into three groups: (1) multidomestic corporations, (2) multinational corporations, and (3) multina-tional enterprises.

- **Multidomestic Corporations**

Just as a domestic business acquires almost all of its resources and sells almost all of its products and services within a single country, a multidomestic corporation is an organization that operates across national borders but treats each country as a separate market and produces products developed solely for each market.



- **Multinational Corporations (MNCs)**

A multinational corporation (MNC) is an international firm that has significant operations in more than one country.Wayne Monday and his associates have determined that an MNC has the following criteria:

- It should conduct operations in at least six different countries.
- It should have at least 20 per cent of the firm’s assets and/or sales from business in countries other than where the parent company is located.
- It should have and demonstrate an integrated, global managerial orientation.
- Personnel are transferred throughout the world.
- Management takes on a broad, global perspective; they view the world as interrelated and interdependent. Many MNCs may also be classified as multinational enterprises.

- **Multinational Enterprises (MNEs)**

A multinational enterprise [MNE] is an MNC that operates in a number of countries with a single recognized headquarters. Noted that the MNE has three distinctive managerial characteristics:

  - The MNE is managed as an integrated global business system. All branches of the MNE operate in close alliance with each other. The sources of production—material's, capital, equipment, technology, people, and so on— are transferred between and shared among-affiliates. The MNE is free to acquire resources and /or to set-up manufacturing or distribution operations anywhere in the world where it is most advantageous to do so.
  - The MNE is ultimately controlled by one single management authority that makes all key strategic decisions.
  - The MNE executive team is presumed to regard the entire world market as the relevant frame of reference for all strategic decisions, resource acquisitions, facility location, and marketing efficiency.

Impact of the MNE on Host Countries

There are a number of potential costs and benefits that an MNE brings to its host country. Christopher North (1985) compiled a list of these potential benefits and costs. The potential benefits are:

- The potential transfer of capital, technology, and entrepreneurs hip to the y host country.
- The potential improvement of the host country's balance of international payments.
- The potential for the creation of local job and career opportunities.
- Potentially improved competition in the local economy.
- A potentially greater availability of products and services for local consumers.

In the past quarter century, U.S. MNEs have become the third largest economy in the world, behind only the domestic economies of the United States and Russia.

Impact of the MNE on the Home Country

Although MNEs seem to be having considerable problems working with their host countries, it appears that they are having even greater controversies with their home countries. On the other hand, when establishing major operations in another country, the MNE comes under home country criticism for:

- Exporting jobs: reduced employment opportunities at home.
- Exporting goods and services: reducing the supply and /or variety of goods and services available at home.
- Increasing the home country's foreign trade deficit.
- Decreasing capital investment in the home country.
- Reducing tax receipts and domestic income.

Managerial Attitudes towards the Globalization of Business

A company's human resources direct the degree of its internationalization. Accord-ing to Rutenberg (1982), there are three general philosophies or approaches to managing the MNE: (1) geocentric, (2) polycentric, and (3) ethnocentric.

- **Geocentric Corporations**

A geocentric corporation is typified by diversified global operations that are controlled by a centralized executive team at the corporate headquarters in the home country. The executive team has a global perspective for decision making, and it delegates little authority to overseas managers. As shown in Fig. 1, the geocentric corporation is a huge matrix structure connecting key personnel in various locations to project leaders located in the corporate headquarters. This matrix structure requires extraordinary information systems that network all the key personnel.

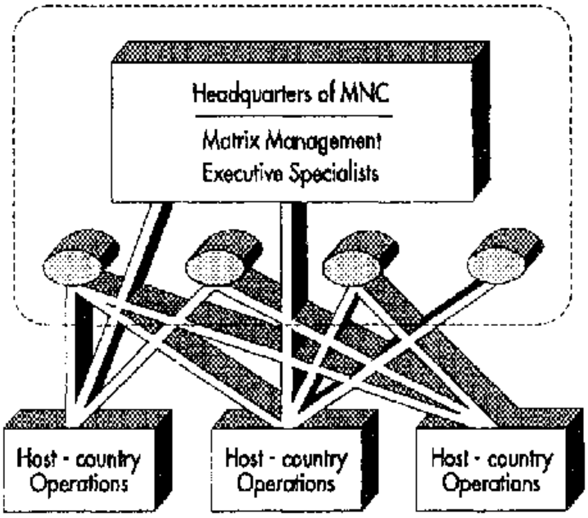


Figure: 1 Geometric Multinational Organization

- **Polycentric Corporations**

A polycentric corporation is a decentralized business organization in which overseas managers have considerable broad-based authority for making decisions. The typical polycentric corporation has semiautonomous operations within each host-country. Research has found that geocentric firms are systematically more profitable and more productive than polycentric firms, but have growth that is constrained by the decision-making burdens carried by the top executive team.

Economic Environment of International Business

Every country has a unique and complex economic environment. The international company can expect to be confronted with a wide range of different economic conditions.

- **Economic Development**

The global firm will be doing business in countries that have differing monetary systems and which are in varying stages of economic development or which have widely differing economic systems. For business purposes, the countries of the world can be divided into (1) developing countries and (2) developed countries. Developing countries are usually called less-developed countries (LDCs), because they have low per capita incomes. Most global business organizations are head-quartered in developed countries with high per capita incomes.

- **Resource Allocation**

There are two recognized methods for resource allocation: (1) the market economy; and (2) the command economy. In a pure market economy, the critical distinction is freedom of choice. Businesses are free to decide what products and services to provide, and consumers are free to purchase on the basis of personal choice.

- **Property Ownership**

Countries also vary with respect to their philosophy about the ownership of property. Again, there are two contrasting pure types: (1) private ownership and (2) public ownership. In nations that support private ownership, property is owned by individuals and by businesses. In nations that support public ownership, govern-ment owns the property and the organizations that produce goods and services. Few nations hold to either a pure private or public ownership policy, and most have a mix of the two extremes.

- **Resource and Product Markets**

The multinational enterprise (MNE) must evaluate the market demand for its product before entering a new foreign market. When market demand is perceived to be high, the MNE may choose to export products to this market through newly established sales and distribution facilities. However, before establishing manufac-turing facilities in a foreign market, the MNE must be assured of an available supply of raw materials.

Conclusion

- **Industrial Market Economies**

Industrial market economies include such nations as France, Germany, Great Britain, Japan, Sweden, and the United States. Industrial market economy countries have a number of shared characteristics. They tend to use market forces to allocate their resources. They tend to favour private ownership of the factors of production. They have mature economies with highly developed infrastructures. Operating in these economies is simplified by the fact that they all fairly well abide by the business "rules of the game". The principal challenge, when competing in these economies, is the acquisition of market share from established competitors.

- **Developing Countries**

Developing countries tend to be both underdeveloped and immature, with poor infrastructures and low levels of personal wealth. Developing nations have adopted a variety of market and command mechanisms for allocating their economic resources. China, despite some signs of moving towards limited market controls, continues to be basically a command economy. Brazil and the African nations are making some moderate movement away from command control to market control. Asia's four Tigers—Singapore, Hong Kong, South Korea, and Taiwan—have successfully adopted market controls.

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