managing international firms

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Conceptual Overview

The management of international firms is defined as the process of formulating strategies, developing operations, and monitoring performance in order to increase competitive advantage. The environment of international firms calls for a sophisticated set of competencies to navigate different markets, resources, and economic environments. Managers need a global mindset to understand the complexities of strategic planning, implementation, politics, the economy, regulation, technology, corporate social responsibility (CSR), culture, and human resources, as described in this article.

The scale and scope of managing international firms has increased substantially with the rapid development of the BRIC countries (China, India, Brazil, and Russia). Economists are predicting the next waves of emerging economies: MINT (Mexico, Indonesia, Nigeria, and Turkey), CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa), MIST (Mexico, Indonesia, South Korea, and Turkey), and the Next 11 (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea, and Vietnam). The increase in economic development in more countries will attract more firms to the international arena.

Strategic Predisposition and Organizational Structure

Strategic planning is the process of evaluation, planning, and implementation. International firms tend to exhibit four types of predispositions to strategic management: ethnocentric, regiocentric, geocentric, or polycentric. Ethnocentrism gives rise to the most hierarchical and autocratic form of organization. Polycentricism creates an environment of trust and allows the highest degree of autonomy to the firms overseas.

Ethnocentricity is based on the belief that the way of doing things in one's own culture is superior to that of others. This approach usually leads to a homogenized strategy for different countries. The organizational structure tends to be a steep hierarchy, top management is from the host country, strategy is dictated top down, and decision making is centralized.

Regiocentric firms adopt strategies that take the regional context and the local context into consideration. Organizational structure is flat and the strategic direction is set by the head office. Decision making within the boundaries of an established strategic plan is distributed between the head office and the overseas units.

Geocentric firms do not allow either the home culture or the host country culture to dominate. The organizational structure is a network of teams and units. Strategy is jointly specified, and decision making is shared by the head office and the overseas units. Geocentric firms are collaborative. Career progression is based on meritocracy rather than the country of origin.

Polycentric firms operate as a federation of semi-independent units in different countries that are held together through performance monitoring systems. Firms in various geographic locations are able to adapt their operations to local cultures. Executives at the head office appreciate the need for different approaches and allow operational flexibility as long as performance standards are met. Strategic planning and decision making are delegated from the head office to the local firm.

When a firm starts to operate in international territory, its first overseas units tend to be extensions of its original structure. As the international operation increases in scale, the firm may choose to centralize operations through an international divisional structure. Head office will manage the functions of production, marketing, personnel, finance, and operations. As international operations increase further, the tendency is to adopt a global structure organized by geographic region or by product. The type of structure that is adopted depends on the commercial importance of the international units, the firm's strategic objectives, the ability to adjust to change, and the firm's strategic predisposition.

Strategic Process

An international firm's strategic process involves the formulation, implementation, and control of strategy.

Wiley Encyclopedia of Management, edited by Professor Sir Cary L Cooper.

Strategy formulation starts with the assessment of the firm's international environment and the development strategic objectives. The analysis of the macro environment involves a review of political, economic, social, and technological factors (the section "evaluation of international environments" below provides a detailed description of these factors). A more industry-specific analysis is conducted using the five forces of competitiveness, namely suppliers, buyers, new entrants, substitute products, and the extent of competitive rivalry (*see* FIVE FORCES OF COMPETITION).

The analysis of the internal environment reviews the firm's international resources, such as premises, machinery, financial capital, human capital, and distribution networks, which can be combined and developed into operational capabilities. Capabilities are converted into core competencies, which are difficult to imitate. Core competencies create the firm's competitive advantage over rival firms.

Implementation of strategic activity at an international level calls for strong leadership and corporate governance across the different countries where the firm operates. Strategic leadership is necessary to communicate corporate objectives to the different units across the globe. Leadership captures the cognitive side of management that goes beyond financial performance measures. It can be the source of motivation, empowerment, creativity, and innovation, which often are required to steer firms out of difficult situations. Corporate governance is the firm's underlying infrastructure that facilitates and controls strategic action. It provides a monitoring structure for ethical behavior and regulatory compliance. Corporate governance determines the relationships among the shareholders, the board of directors, and the company's management.

The *control and evaluation* of strategic activity in international operations takes place through the monitoring of revenues, market share, profits, costs, return on investment, new product development, and overall management performance. The process requires a review of global, regional, and local performance in order to determine any adjustments in the strategic direction of the firm.

Evaluation of the International Environments

This section reviews the main components of the external environment that affects the management of international firms. Risk management plays an important role. Strategic planners have to be conscious of environmental risks and shifts in stability that can negatively affect the performance of the firm. The role of risk management is to avoid or to reduce the impact of international risk.

Political environment. Dramatic change in economies across the globe creates pressures on the management of international businesses. The last global recession has resurrected a wave of protectionism and nationalism around the world, demanding that more jobs go to local nationals. National bankruptcies have initiated a wave of privatization of government-owned corporations, sold to international firms with more liquidity.

Economic factors such as the development of emerging economies pose opportunities for firms to expand their operations and to enter new markets. Economic risk can be assessed by monitoring the countries' capacity to manage finances and to cover national debt. The risk of local economic failure for international firms is that governments may change business laws and fiscal policies that affect the repatriation of foreign earnings.

Regulation. Legal frameworks are made up of the laws of the country and the regulatory regimes specific to the sector in which an international firm is operating. Regulation is typical for financial, education services, telecommunications, and food industries. Regulation could incentivize, control, or limit the operation of industries. Some laws are tied to the main religion of the country and would affect the financial management, labor management, and commercial conduct. Management needs to be aware of international trade restrictions, as they determine the flow of goods across borders.

Technology. Technology has become embedded in the operation of international firms. It provides the infrastructure to conduct business-to-business transactions and to manage internal organizational processes such as procurement, production, logistics, sales, customer support, and financial management. Technological capabilities have become critical factors in developing and maintaining global competitiveness.

Technology is a resource that can provide competitive advantage if it is developed into a core competence that is specific to the firm and that cannot be replicated by competitors. Internet-based companies such as Amazon and Google operate a two-tiered strategy where on one level they maintain competitive advantage through rapid innovation rather than protection, and on another level they expand their commercial operation by opening up their technological infrastructure to a wide base of commercial partners.

The advancement of technology can create commercial risks in the form of product copying and pirating. The legal framework of the country would determine the extent to which such practices are controlled. Intellectual property can be safeguarded through copyright, trademarks, and patents, which can be registered at an international level.

Corporate social responsibility. CSR in an international context requires sensitivity to the local socioeconomic effects of commercial activity. International firms should build both preventive plans and remedial plans of action to manage potentially negative effects.

The CSR cases that attract media attention usually concern human rights, such as the case of child labor, and imbalance of power in the supply chain, as in the case of coffee or cocoa producers. It is customary for large firms to develop operating manuals and codes of conduct to safeguard human rights in the different geographic regions where they operate. Competing firms in the same industry often collaborate to develop codes of conduct that eventually become accepted as industry standards. The codes of conduct are a form of self-regulation that increases the trust of local governments in international companies.

Sustainability management or "green" management involves the effort to minimize the negative impact on the environment of the host country. A firm is seen to be environmentally aware if it includes the principles of sustainable management in its long-term strategy, if it has environmentally friendly products, and if it is more environmentally active than competing firms.

Sustainability management requires a firm to ensure that the use of materials, manufacturing processes, and final products do not create environmental issues. The underlying principle of sustainability is to meet the needs of the firm and its stakeholders, without compromising the rights of future generations. Sustainability has created an open managerial mindset to develop products that make careful use of environmental resources and perform well as renewable resources.

The strategic implementation of sustainable initiatives requires formal policies and informal systems to help a firm meet its environmental goals. The essential ingredient for a successful sustainable strategy is the commitment of the upper echelons of a firm and the underlying appreciation that sustainability will benefit the firm in the long run.

Over the years, the scope of sustainability has expanded to include the effects on local communities, society, and the economy, thereby overlapping on the role of CSR. The difference lies in the roots of their terminology: sustainability has its origin in the environmental movement, while CSR is applied in a legal and strategic context. CSR has made more headway in the boardroom as a strategic philosophy. It is used as an umbrella term that incorporates sustainability and business ethics.

Business ethics. The codes of conduct in different areas of operation have started the movement toward a "moral universalism" in international operations. Business ethics drive the behavior of managers in their dealings with governments, owners, creditors, suppliers, employees, consumers, and society. International firms with a long-term vision understand the need for fair and ethical conduct with all their stakeholders.

Ethical behavior is a subjective arena in international environments. Good or bad conduct is assessed through the cultural value systems of each country. Managers working in international environments come across different levels of expectations from stakeholders. While bribery may be seen as inappropriate in one country, it may be seen as normal conduct and part of the cost of doing business in another country.

The laws of the country of origin may legally bind international firms to maintain ethical conduct abroad. The Foreign Corrupt Practices Act in the United States and the Organization for Economic Co-operation and Development (OECD) Anti-Bribery Convention have set legally binding guidelines to prohibit the bribery of public officials and to provide for a set of legal instruments that criminalize unethical activity. The OECD treaty was the first international anticorruption legislation to criminalize parties that initiate a bribery transaction (referred to in the convention as the *supply side*). The OECD members and six nonmember countries (Argentina, Brazil, Bulgaria, Colombia, Russia, and South Africa) have adopted the treaty.

Human Resource Management

The management of international human resources includes recruitment, retention of high performers, management of real and virtual teams, compliance to local legislation, and labor relations.

Recruitment is conducted on an international basis. The initial management team tends to be recruited from the firm's country of origin, with some of the key managers having already been in employment with the firm at the head office or at other branches around the world. Over time, the management team tends to become more geographically diverse as new recruits are trained and move up the firm. Women are currently underrepresented in expatriate posts mainly because of the assumption that cultural bias may limit the performance of women employees. The situation is changing, and an increase in representation is likely to be seen in the coming years.

Retention of high performers includes support programs for expatriate executives in the form of information provision, contact with head office, providing opportunities for career development, and support for overseas work assignments. International firms typically provide support to move to a new country in the form of assistance with housing and school placements. Retention management plays an important role because it preserves the experience, commercial memory, and knowledge base of the firm. Hiring new executives to replace the ones that leave may result in the loss of corporate knowledge.

Virtual teams are a norm in international firms. The management of digital communications of team members requires the coordination of infrastructure for online meetings, on-demand electronic interactivity, and knowledge-sharing portals for ideas, targets, strategic plans, and documentation. The underlying technological foundation is important for virtual teams to run efficiently.

Labor relations, labor laws, and local trade unions will affect how firms plan to manage the productivity of local and expatriate human resources. Trade unions have become internationalized and interlinked with umbrella firms around the world. A common set of requirements are emerging from unions across the globe that call for a more level playing field for employment and working conditions.

Culture, Perception, and Communication

Diversity in international management teams provides an opportunity for more creativity, a better understanding of cultural perspectives, and a predisposition for innovation, unhampered by restrictive mindsets. International teams work well when they are predisposed to tolerance and when they are ready to adopt different ways of thinking. Without this predisposition, international teams may collapse under the conflicts that emerge out of cross-cultural challenges.

The effective management of diverse perspectives involves recognizing the impact of culture on managerial perceptions, attitudes, and interpretation of intentions; identifying ways that perception can influence interactions with colleagues from different cultures; categorizing the distinguishing cultures in cognitive dimensions; and recognizing the importance of verbal and nonverbal behaviors.

Monochronic and polychronic perception. An interesting difference among cultures is the concept of time and relationships. The way different cultures value and perceive time determines behaviors associated with punctuality, the allowance of margins of error, and the nature of personal interaction. Effective cross-cultural communication must take into account whether the receiver is from a country with a monochronic or a polychronic time system.

In a monochronic time system, work is done in a sequential order and time is structured into segmented units. Within this mindset, time is organized, scheduled, and managed. Northern American and northern European cultures tend to adopt this approach. Monochronic systems are typical of affluent regions with ample resources for the division of labor and the allocation of specific tasks to a specialized work force.

In a polychronic time system, multitasking is the norm. Several work assignments are handled concurrently, and a more flexible approach is taken to managing time. Central and southern Europe, Latin America, Africa, and Arab countries have a predominance of this approach. Polychronic systems are typical in regions with less resources were the division of labor into specialized tasks is not affordable and executives are assigned multiple tasks and multiple managerial responsibilities.

See also *cognitive map*; *five forces of competition*; *global strategy*; *globalization*; *globalization of service industries*; *international strategy*; *organizational culture*; *PEST analysis*

Bibliography

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