Chapter MP3 script 15

The International Context of Management

In this recording we summarise the content of chapter 15 The International Context of Management. Studying this chapter should help you distinguish between types of international organization; explain what is meant by globalization; distinguish differences between the domestic and global business environment; examine the impact of national culture on aspects of business and management; .

Introducing the chapter, the authors start with 1. In chapter 10 we introduced the contingency approach and emphasised the role of the environment in determining styles of management. This chapter takes a closer look at the international and global environment as a context for management. International business is vast and a significant source of opportunity (and threat) for many organizations. It requires organizations to manage internationally, presenting significant challenges. Many now see the world as a single and growing market – in recent years we have witnessed growth in international trade and investment and resource flows of many types between countries. In an era when half of the world's biggest economic entities are multinational corporations (that is to say many of our larger international organisations now produce more than some countries); where Labour is increasingly mobile across borders and ICT enables companies to overcome barriers in time, distance and language, the contemporary manager simply cannot afford to remain parochial, ethnocentric, or not in constant pursuit of competitive advantage, (Kelly 2009). To do so, is to be disadvantaged. Consumers and investors not only buy and sell across country boundaries but also invest in other countries (see foreign direct investment (FDI)). Organizations undertake FDI for a variety of reasons such as setting up offices, manufacturing, operations and distribution facilities. Additionally, in some cases, trade takes place using electronic channels (see e-business/ commerce).
2. At this point, we might ask why international business has grown so much over the past 10-20 years. There are many explanations for the growth of international business. The (social, political and economic) pursuit of 'free trade' has also eroded barriers and borders. This has been further enabled through the widescale adoption of ("open") Information and communication technologies (ICT) which enable trade, communication and collaboration - eroding barriers in time, space and language and integrating financial, political and legal systems. Liberalisation has not only resulted in increased mobility of people as workers and migrants but also in the movement of capital, goods and services. Consumers want choice, quality and low-cost products sourced from around the world. E-commerce and the MNC now bring the world to the doorsteps of businesses and consumers everywhere. With the phenomenal growth of E-Commerce, anyone can be open for business on an international level 24 hours a day, no matter where the business is physically located. In other words, one location can serve the business needs over the entire globe. Companies may now not only import and export more easily but can also establish their operations overseas.
3. Why conduct business internationally? Companies operating outside their home country are able to diversify and therefore mitigate home risk, tap new markets enabling growth and associated scale advantages, reduce costs not just through scale but also by accessing low cost materials, labour and facilities – they can also engage local expertise and may be able to avoid trade restrictions. Furthermore, organizations may internationalise as a strategic response to or in order to attack foreign competition. However, domestic managers must also be aware of the international context as it can bring opportunity and threat to their organizations also.
4. Organisations now source, manufacture, market and conduct value-adding activities on an international scale. This poses new management challenges and necessitates the rise of the international manager or manager within an international organisation who can acquire the requisite business knowledge and skills to enable the organization to perform in our ever-increasing globalised business environment. Not only is there a need to understand international business theory and practice, because international business activities are increasing, but there is also a need to understand domestic business since international organisations and their subsidiaries also have local challenges. The number, size, activity and importance of international organisations are of significant and growing importance. However, it is not just the multinational corporation that is embracing global opportunity; international business may now be conducted by small and medium enterprises. In some cases organizations may simply engage in import and export activities from home, enabled

through the Internet, and, in other cases, the organization may establish operations around the globe. However, overseas investment is not without risk. Organisations can behave in an unacceptable way when trading in a foreign country. They may fail to take account of cultural differences and needs (cross-cultural risk), may become exposed to many new and potentially damaging country-specific risks (political risk) including financial (or currency) risks and other commercial risks such as those associated with outsourcing or partnership selection. Certain national differences may require managers to tailor approaches to country needs - this may necessitate adaptation of products, services or business practices. In some areas, international business and management requires specialised knowledge whilst in others a global and standard approach may be adopted wherever the organisation is working or conducting business.
In this chapter we build on contingency theory by considering it in practice. We focus on the international business environment as a context for management and explore implications for organizations. In particular, we consider the practical issues associated with conducting business and managing relationships in and between countries..

The key concepts discussed within this chapter are:
Global - A form of international organizational design where foreign subsidiaries are modelled on the parent companies' domestic approach (replication) – standardization and centralisation are emphasised in order to achieve integration; Globalisation - growth and integration to a global or worldwide scale; International organization - any organization that engages in international trade, investment or offers products or services outside their home country; Internationalisation - the gradual process of taking organizational activities into other countries; Multinational - The multinational (multidomestic) is a collection of national companies that manage their businesses with minimal direction from headquarters – decentralisation is emphasised to achieve differentiation and a local response; .

Other terms discussed include:
Cross Cultural Competence; Cultural distance; Culture shock; Domestic exporter; Exports; Imports; International operations; International trade; theory z; .

Summarising and concluding, the author(s) make the following comments - In this chapter we have described, and presented frameworks (PESTLE etc) to analyse, the external (international) environment and commented on the concept of globalisation. We presented arguments suggesting why domestic companies may internationalise and described this as a process. The international context is relevant to both domestic and international organizations. Building on systems theory we introduced the value chain as a framework to analyse organizations but also explored the concept of value chain fragmentation where organizations may 'separate' activities and then locate them around the world. The extent of internationalisation and the way organizations see the world can be used to categorise companies – as domestic, domestic with an export department, global, multidomestic and transnational. Whatever the company type, globalisation means that the internal workforce is likely to be diverse and employees are likely to come into contact with customers, suppliers, partners, and subsidiary employees etc who are different. We therefore discussed practical implications of intercultural encounters and the need for organizations to get these right. Finally, we recognised that management styles are not universal and practices may need to be adapted when working in other countries..

We have now reached the end of the chapter   'The International Context of Management'.

There are a number of references for this chapter where further reading opportunities are identified for you.
Additionally, there are questions or activities to help develop and test your understanding of this chapter