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MANAGING IN THE INTERNATIONAL ENVIRONMENT

After studying this chapter, you should be able to:

- A Give reasons why international management is important
- A Explain why international business exists.
- A Identify basic features of the economic, legal/political, and sociocultural environment of international management.
- A Define the basic modes of entry used by firms when going international.
- A Understand some of the adaptations that need to be made in the management process (planning, organizing and staffing, directing, and controlling] because of cultural differences among countries. A Describe some of the major frameworks which can be applied to the study of comparative management

Recent newspaper headlines have heightened public interest in the growing international trade deficit facing the United States, the debt owed U.S. banks by foreign governments, and fears of foreign competition coupled with the need to protect the economy against the loss of jobs due to the flood of imports. Today's corporate manager is no longer making decisions for one isolated national market. Jet transportation has made it possible for corporate officials to reach any of the globe's major business centers in less than a day. Communication and computer technology permit instant verbal, written, and often visual contacts with business counterparts anywhere on earth.

Yet most business firms—especially the smaller and medium-sized ones—are still focusing their efforts on local, regional, or national markets. Indeed, international expansion is one option a firm might choose to pursue as a growth strategy. (Firms can also grow by devising new uses for existing products or services, by encouraging current customers to buy more of these offerings, or by enlarging the variety of products or services.) International growth is but an added dimension to the strategy of growing by geographic market expansion. On the other hand, some of the companies that do engage in international trade and investment rely on it very heavily. Companies, such as ITT, Coca-Cola, Black & Decker, IBM, Johnson & Johnson, and Gillette, receive more than half of their earnings from nondomestic activities. Major petroleum companies, automotive

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manufacturers, and banks consider the worldwide dimension to be critical to their sales and profitability.

Currently, U.S. export sales of goods and services represent about 10 percent of the nation's gross national product (up from around 4 percent in the early 1960s). This is a relatively small percentage compared with that of smaller European nations, such as Belgium and the Netherlands, where international sales may account for more than half of the national output of goods and services. The United States has a huge domestic market of more than 230 million people and the ability to be self-sufficient with respect to many foodstuffs and raw materials. Yet, U.S. export volume has grown by an average annual rate of 12 percent over the past two decades.¹ During the same period, the book value of U.S. corporations' investments in plants and equipment abroad has grown at an average annual rate of more than 30 percent.² [Comparable growth rates have taken place with respect to imports into the United States and investment in the United States by foreign-based corporations.]

How can all of this growth in international business be explained! As noted earlier, time and distance constrictions are diminishing, Barriers to trade have also been relaxed. Armed conflict has been minimal. Although there have been and continue to be numerous regional wars and insurrections, there has been no major international war since 1945. Indeed, various institutional arrangements, such as the General Agreement on Trade and Tariffs (GATT), free trade areas, and common market. treaties have provided frameworks for nations to agree to lower or remove various restraints on the free flow of trade. Such arrangements are explained later in the chapter.

Consumers worldwide have benefited from a greater variety of goods, services, and technologies at more favorable prices brought about by the growth in international competition. Meanwhile, enlightened business leaders have realized economic benefits from operating in large-scale world markets. As domestic markets become saturated, product life cycles can be extended by introducing goods and services to selected segments of the 94-plus percent of the world population residing outside the United States.

As managers begin thinking about expanding their horizons beyond the national market, they discover that the basic skills they acquired domestically may be universally applicable. However, some adaptation in their use may be necessary. The purpose of this chapter is to outline the concepts that make international business different from domestic business and to suggest ways that managers might adapt their

1. These statistics are based on data reported by the U.S. Department of Commerce, *Highlights of U.S. Export and Import Trade* FT 990 (December 1964, December 1984).

2. This statistic was calculated from data compiled by the U.S. Department of Commerce, *Survey of Current Business* [August 1984], 29; and *Statistical Abstract of the United States* (1977), 755.

approaches to the tasks of planning, organizing and staffing, directing, and controlling enterprises in other national contexts as well as in an integrated global context.

THE MULTINATIONAL CORPORATION

A rapid expansion of international business began in the decades of the 1950s and 1960s, largely in response to the lowering of tariff levels from their peak during the Depression of the 1930s and to the creation of a large tariff-free Common Market in Western Europe. This period gave rise to public awareness of large corporations labelled multinationals. A multinational corporation (MNC) is a company whose goods and services have significant market shares in several countries and whose senior managers plan for a global rather than a purely domestic market.

Managers must
"think global"
when planning
for
multinational
corporations.



Some MNCs have been criticized by governments due to these corporations' perceived economic power. Although the annual sales of some multinationals in the petroleum and automotive ^businesses are larger than the gross national products of many countries (see Table 21-1), their senior officers would argue that their assets are largely illiquid (i.e., in the form of plants and equipment] and thus their economic power is less than that perceived. Nevertheless, concern exists about future political uncertainties and antiforeign regulations of host countries (to be discussed later in this chapter). For these reasons among others, some companies have divested assets, linked up with joint-venture partners, or transferred technology without making capital investments in some host countries.

Table 21-1 **COMPARISON OF MNCs AND NATIONS
BASED ON GNP OR TOTAL SALES**

Nation or Firm	GNP or Total Sales for 1983 (\$ billions)
Exxon (New York)	
Belgium	88.6
General Motors (Detroit)	81.3
Mobil (New York)	74.6
Norway	54.6
Turkey	
Finland	
Ford Motor (Dearborn, Michigan)	51.0
IBM (Armonk, NY)	
Greece	
	44.5
	40.2
	35.7

Sources: From "The 500," *Fortune* vol. 109, no. 9 [April 30, 1984], 276; and *Statistical Abstract of the United States*, 106th ed. (U.S. Department of Commerce, Bureau of the Census, 1986), 843.

Other problems have plagued international companies of all sizes in recent years. Worldwide inflation, which was partially spurred on by the emergence of the OPEC oil cartel, growing competition from newly industrialized nations in Asia and Latin America, and radical changes in the international financial system have threatened the growth of international business. The movement toward freeing trade of government regulation has been restrained and a return to a protectionist philosophy is being debated. Underlying all of these problems is the age-old difficulty of understanding basic cultural similarities and differences among people. It is in this dynamic environment that the manager of the future will have to plan and decide whether to expand or contract the firm's geographic scope. After reviewing international economic and business theories, we can develop a framework for making such decisions.

UNDERSTANDING INTERNATIONAL BUSINESS

The oldest theoretical explanation of international trade can be traced back to the writings of David Ricardo, an English stockbroker who lived in the early 1800s. Ricardo was trying to convince the British government to permit the unregulated import of certain wines and foodstuffs, from the Mediterranean countries. As a basis for his argument, Ricardo used the concept of the labor theory of value. In brief, the theory stated that the price of any product could be approximated by the number of

hours it took a worker to produce one unit. Trade would take place if a worker could make Item A faster than Item B as long as another worker could make Item B faster than this second worker could make Item A. We recognize this principle in our everyday lives as the basis for career specialization. But Ricardo extended this concept to trade between nations.

Absolute Advantage

Suppose British workers could produce either 100 shirts or 25 kegs of wine per day and that Spanish workers could produce 100 kegs of wine or 25 shirts per day. If the British specialized in shirts and the Spanish specialized in wine and if the two countries traded their excess production with one another, the citizens of both countries would be better off. The theory of specializing in what we can do fastest and cheapest is called absolute advantage.

Comparative Advantage

Next, suppose there is an executive who is also a speedy typist. The executive could make a lot more money managing people and arranging business deals than he or she could make typing letters. Suppose this executive were to hire a secretary to do the necessary typing. Further, assume the secretary could type only half as fast as the executive and had no prior business experience. Should the executive hire the secretary? Of course, since the executive could make a lot more money managing and negotiating than devoting time to typing. This is an example of the theory of comparative advantage. Under comparative advantage, the executive has an absolute advantage over the secretary in both typing and managing—but has a larger comparative advantage with respect to managerial tasks. The secretary has a lesser absolute disadvantage with respect to typing than the larger disadvantage he or she has with respect to managerial tasks.

Let's take this example one step further. Suppose the secretary stays with the company several years and learns a lot about managing and negotiating by handling correspondence and intercepting phone calls for the boss. Meanwhile, the boss has decided to spend less time making deals and more time on the local golf links. In time, the secretary might become better at managing than the boss. Upon the boss's retirement, it is conceivable that the secretary could become the executive.

Likewise in international trade, one nation might have an absolute advantage in the production of two commodities but choose to import the item in which it has the lesser absolute advantage and to export the *item* in which it has the greater absolute advantage. Following the analogy above, the country might find that over time, its absolute advantage declines as other nations learn to produce its original specialty item more

efficiently. The nation may then import both items and may need to find something else to export if it wants to continue to pay its international debts.

International Product Life Cycle

During the 1960s, many companies began making more money from their investments in plants and equipment in other countries than they did from international merchandise trade. Questions arose as to why companies might choose to enter foreign markets by investing rather than trading. One answer, advanced by Professor Raymond Vernon and his associates, was the international product life cycle.³ The concept of the product life cycle is an old one in marketing. Business firms see sales of their new products go through four stages: slow growth, fast growth, a plateau of steady revenue, and decline. Vernon observed that these cycles occurred at different points in time in different countries. Therefore, he hypothesized that firms could extend the growth periods of their products through entering new markets by exporting when the domestic market was nearing saturation. But he also observed that as competitors would enter the new foreign markets, the earlier entrants would be under pressure to reduce the costs of tariffs, labor, and transportation in the import markets. Therefore, the original company would be forced to manufacture locally in the foreign country. Meanwhile, there is no incentive to continue producing in the original home country if the market there is saturated or in decline. The remaining demand in the home country is therefore satisfied by importing from other countries.

The international product life cycle theory can help to explain shifts of production from one country to another over time. The textile and consumer electronics businesses are examples. The heaviest concentration of textile manufacturing has moved from the United Kingdom to the United States to East Asia (Japan, Hong Kong, Korea, and Taiwan) and is now moving toward Southeast and South Asia (Philippines, Singapore, Malaysia, Thailand, India, and Pakistan). The locus of consumer electronics has shifted from the United States to Japan and now to other East Asian countries.

Other Direct Investment Theories

Scholars have suggested other reasons for the expansion of international investment (as opposed to trade). The theory of oligopoly suggests that firms are motivated to follow their major competitors into various

3. See R. Vernon, "International Investment and International Trade in the Product Life Cycle," *Quarterly Journal of Economics* (May 1966), 190-207, for a full explanation of the international product life cycle concept.

foreign markets in **order** to protect their worldwide market shares.⁴ The theory of **internalization** suggests that firms prefer to own their own marketing and production facilities in other countries in an effort to withhold their patents, trademarks, copyrights, and other corporate secrets from outside business partners in other countries.⁵ The **behavioral theory of international business** states that firms oftentimes live in a relative information vacuum and make decisions for noneconomic reasons such as prestige, proximity to a vacation spot, or support/rejection for a political or ethnic cause.⁶ The latter theory explains why some companies have elected to build plants in Israel and why others have elected to exit South Africa. A theory of **environmental determinants** suggests that firms are willing to make larger financial commitments in richer, politically stable countries.⁷

In the real world, all of these factors interact with one another to explain in an eclectic sense why international trade and investment take place. Trade and investment can take many forms as we shall see in a later section of **this** chapter.

THE ENVIRONMENT OF INTERNATIONAL MANAGEMENT

In this section, we will focus on the multiplicity of economic,, legal/political, and sociocultural forces to which firms and their manage

4. The application of oligopoly theory to international business was explained in a doctoral dissertation by F. T. Knickerbocker, *Oligopolistic Reaction and the Multinational Enterprise* [Boston; Harvard Graduate School of Business Administration, 1973].

5. The internalization theory has been advanced by J. H. Dunning, "Towards an Eclectic Theory of International Production," *Journal of International Business Studies* (Spring-Summer 1980), 9-31; and A. M. Rugman, "A New Theory of Multinational Enterprise: Internationalization versus Internalization," *Columbia Journal of World Business* (Spring 1980).

6. The behavioral theory of the international *investment decision process* was first explained by Y. Aharoni, *The Foreign Investment Decision Process* [Boston: Harvard Graduate School of Business Administration, Division of Research, 1966]. Later Scandinavian researchers such as J. E. Wahlne and F. Weidersheim-Paul, "Psychic Distance—An Inhibiting Factor in International Trade," unpublished working paper [Uppsala, Sweden: Center for International Business Studies, Department of Business Administration, Univ. of Uppsala, 1977]; and R. Luostarinen, "Lateral Rigidity in International Business Decision Making," *Working Papers in International Business*, No. 3 (Helsinki, Finland: The Helsinki School of Economics, 1978), elaborated on the importance of "noneconomic" behavior in the international entry mode decision process, especially with the notion of psychic (cultural) distance as opposed to geographic distance.

7. The environmental determinants theory was advanced by I. A. Litvak and P. M. Banting, "A Conceptual Framework for International Business Arrangements," *Marketing and the New Science of Planning* (Chicago: American Marketing Association Fall Conference Proceedings, 1968). The first empirical test of the theory appeared in an article by J. D. Goodnow and F. E. Hansz, "Environmental Determinants of Overseas Market Entry Strategies," *Journal of International Business Studies* (Spring 1972), 33-50.

ers must adapt when going international. Managers who are successful operating in the international arena often relate their successes to their heightened sensitivity to similarities and differences among the variety of external environments their firms face when doing business outside the more familiar domestic market.

International Economic Issues and Trends

Various countries around the world have widely diverging per capita income levels, economic growth rates, and levels of development. Scholars have devised several ways of classifying countries in terms of economic growth. One of the best known classifications was suggested by Walt W. Rostow.⁸ Rostow likened the five stages of economic growth to an airplane flight. First, traditional countries are those who rely almost exclusively on the primary sector (agriculture and raw materials) for their existence. Then, when industrialization begins, Rostow suggests a nation has reached preconditions for takeoff. During this stage, investment from foreign countries is needed to sustain economic growth. At the takeoff stage, nations have adequate internal financial resources to sustain continued growth without mandatory dependence on outside funding. The next stage is the industrialized society (or the drive to maturity, which is likened to an airplane climbing to cruising altitude) where the industrial sector makes the greatest overall contribution to the country's gross national product. Finally, countries reach the mass consumption stage (analogous to flying at cruising altitude) when the service sector may contribute to the plurality of national output.

Other scholars have suggested that several economic, political, and cultural statistics could be examined simultaneously to put countries sharing common characteristics into groups or clusters.⁹ Most such country classification studies have shown that there is a group of wealthy developed countries and several groups of developing countries—those that are newly industrialized, those that are rich in certain needed resources such as petroleum, and those that are largely poor with nonexistent, untapped, or undiscovered resources. Countries, such as the Soviet Union and its Eastern European allies, whose economies are largely managed by central planning systems are normally not included in grouping or clustering analyses because their statistical data are gathered in noncomparable ways. These Marxist socialist countries have reached levels of development about equal to or slightly surpassing those of the

8. See W. W. Rostow, *The Stages of Economic Growth*, 2d ed. [New York: Cambridge University Press, 1960], for a full explanation of the stages of growth concept.

9. The use of cluster analysis for the classification of countries was discussed by S. Prakash Sethi, "Comparative Cluster Analysis for World Markets," *Journal of Marketing Research* 8 (August 1971), 348-54; and Goodnow and Hansz, "Environmental Determinants," 33-50.

newly industrialized countries. Figure 21-1 divides the world's economies into three classifications.

Another uniqueness in the international economic arena is the lack of a standard currency for world markets. Since the world is no longer on a gold or silver standard, imbalances in trade and investment transactions among nations have to be covered by purchases and sales of numerous national currencies by various banks and governments. Prior to 1971, this foreign exchange market was fairly predictable since governments related the value of their currencies to the price of an ounce of gold. The system permitted fixed exchange rates since nations could also settle their payment imbalances with key currencies, such as the U.S. dollar and the British pound, whose values in terms of gold did not fluctuate. The system was coordinated by an agency known as the International Monetary Fund, to which member nations turned for short-term loans to cover temporary fluctuations in their overall international credit or debt positions.

Today there is a system of freely Floating exchange rates where the forces of market supply and demand can affect day-to-day values of a currency in terms of trading partners' currencies. Yet governments often intervene in the market to stabilize the values of currencies. This system is called a *managed Boat*. *The international manager must siJJ) be prepared* to cope with the uncertainties of currency values which can have a direct effect on costs and prices of international transactions. Through a technique known as "hedging," the manager can pass the risk of exchange fluctuations to other persons through the banking system which acts as an intermediary.

Legal/Political Factors

Some of the major economic factors facing international managers are closely related to laws restraining or encouraging international transactions. These include the following:

- ▲ Tariffs. Taxes imposed on imported products.
- A Quotas. Legal limitations on the quantities of particular products which can enter a country during a particular time period.
- A Administrative measures. Measures such as health and safety laws, time-consuming customs inspection procedures, and regulations impacting minimum pricing of foreign-made goods.
- A Exchange controls. Limitations or prohibitions against exchanging the home-country currency for foreign currencies.
- A Local content laws. Requirements for certain percentages of finished goods to be made of components produced in the importing country.
- A Subsidies. Special tax incentives which encourage the production of goods for export rather than domestic consumption.

Figure 21-1

WORLD ECONOMIC CLASSIFICATIONS

world's economies . . .

Developed market economies—technologically advanced countries where the private sector in the economy is dominant.

Centrally planned economies in Europe—U.S.S.R. plus Mongolia and East European countries where government ownership and control of the economy including Yugoslavia, listed with the former market economies, and

Developing economies—all relatively undeveloped non-ELINPC economies, including market, command and centrally planned economies.

Although it is common to divide the world's nations into three economic blocs, there is no settled usage as to which countries belong in each of the three categories. The World Bank, the International Monetary Fund, and the U.N. Conference on Trade and Development (UNCTAD) all divide the world into three systems: developed market economies, centrally planned economies, and developing economies.

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Developed market economies

Developing economies

Centrally planned economies in Europe

A Trade promotion assistance. Government underwriting of certain expenses associated with the marketing of goods in other countries.

▲ Commodity agreements and producers' cartels. International arrangements to stabilize the prices of food or raw materials rather than to allow free-market price competition to take place.

Governments have also devised regulations to discriminate against foreign investors in plants and equipment. These laws might require a percentage of local nationals in the managerial and labor work force or require all or a portion of the foreign firm's assets in the host country to be owned by local governmental agencies or local private investors. AEJ



Source: United States Department of State, Bureau of Public Affairs, Office of Public Communication, *Atlas of United States Foreign Relations* [Washington, DC: U.S. Government Printing Office, Dept. of State Publication 9350, 1983], 38

firm begins operating in a multiplicity of political jurisdictions, it finds a need for local legal representation to handle variations in laws affecting taxation, antitrust, intangible property (patents, trademarks, copyrights), contractual relationships with local partners, and labor relations.

Fortunately, ways have been devised to improve international cooperation to reduce trade barriers among nations. We have already mentioned the **General Agreement on Trade and Tariffs (GATT)**, an association of most of the nations in the free world which oversees and provides a forum for the multilateral reduction of tariff and nontariff barriers.

Member nations meet periodically to negotiate reciprocal reductions in such barriers.

A second way of progressing toward the international reduction of trade barriers is the concept of economic integration. This concept takes numerous forms:

- ▲ Free trade areas. Groups of nations who mutually agree to reduce all barriers to international trade among themselves.
- ▲ Customs unions. Nations who set up free trade areas and also agree to have one common set of regulations for trade relationships with nonmember countries rather than having each member country set its own unique rules with respect to trade with nonmember countries.
- ▲ Common markets. Groups of nations which agree not only to set up customs unions but also to find ways to further harmonize their economic policies such as having common policies for agricultural price supports, work permits, antitrust, transportation and communication.
- ▲ Economic unions. Common Market member countries who agree to issue an international common currency and to set up a central tax agency to collect revenues directly from private individuals rather than from their respective governments. When countries form an economic union, they are very close to becoming a political union or a nation state since the only additional requirement is a common foreign policy including a common defense policy.

In order to assess the future political/legal climate in various countries, some companies have developed an assortment of political risk-assessment techniques. These include monitoring the world press and appropriate statistical indicators, on-site visits to various countries, discussions with experts on various countries, and a variety of conceptual frameworks such as multiple-factor indices and mathematical probability models.¹⁰ They also use a variety of methods such as those shown in Figure 21-2 to minimize future difficulties with host governments.

Sociocultural Factors

Economic and political differences among countries are usually the result of more fundamental social and cultural differences among ethnic

10. A method for evaluating political uncertainties as they impact international business was suggested by R. Stobaugh, "How to Analyze Foreign Investment Climates," *Foreign Business Review* [September-October 1969], 100-108. Several private consulting firms such as Business International, Frost and Sullivan, and BERI [Business Environment Research Institute] publish reports on the political outlooks in various countries as they might affect international business activities.

Figure- 21-2 METHODS COMPANIES USE TO LESSEN CONFLICTS WITH HOST GOVERNMENTS

1. Obtain materials and components from host-country sources.
2. Set up joint ventures with host-government partners.
3. Employ local nationals as workers and managers.
4. Develop a profit-sharing program in the host country.
5. Set up a research and development facility in the host country.
6. Reinvest earnings in the host country.
7. Train foreign managers to better interact with the local culture.
8. Support public welfare projects.
9. Avoid bribing top government officials.
10. Sell stock to host-country shareholders.
11. Borrow from host-country banks and lending agencies.
12. Plan to divest assets by selling equity shares to local nationals.
13. Purchase political risk insurance from home-government agencies.
14. Learn effective bargaining.
 - a. Keep control over critical elements such as international transportation, international marketing channels, patents, trademarks, copyrights, and manufacturing processes. This can be accomplished by signing management contracts or licensing agreements.
 - b. Threaten to cut off future inflows of capital.
15. Keep local equity low; use more debt financing.
16. Develop an international image by having international headquarters in a neutral country and/or by having worldwide ownership of corporate equity shares.
17. Develop an effective lobbying presence with the host government.
18. Have legal representation in the host country.

groups who populate the nations of the earth. Such differences will have a direct effect on the selection of a managerial style, the adaptation of products and promotional messages, communication with employees and other workers, and the relative levels of productive efficiency among the operating facilities in various countries. The study of comparative culture is very broad in scope. We will only focus on a few important conceptual areas for our brief overview.¹¹

The first critical area is communication—verbal, written, and visual (body language). Many nations are populated by people who speak several languages or dialects. In the United States, there is a growing proportion of the population whose primary language is Spanish. India is composed of 14 major language groupings and many local dialects. In both countries, English serves as an official language for international business and for government activities. A spoken or written language is

11. For the most comprehensive discussion of the cultural impact on international business, see V. Terpstra and K. David, *The Cultural Environmental International Business* 2d ed. (Cincinnati: South-Western Publishing Co., 1985).

only a part of the cross-cultural communication concept. Visual or body language [gestures, etc.] may be equally critical for international managerial success. Different cultures have norms relating to the distances between people engaged in conversation, the exactness of meeting times, the giving of gifts and bribes, and the establishment of personal trust and friendship versus the use of formal written contracts. There are also different norms for aesthetics such as colors, designs, symbols, and the appreciation of food flavorings.

Differences in religion and values can have far-reaching implications for managerial style and effectiveness. Policies affecting holidays, work breaks, sex discrimination, job advancement, retirement, charitable contributions, the role of interest and profits, selection of employees, and the introduction of new technology can all be impacted by religious factors. For example, followers of Islam observe Fridays as religious holidays, observe prayer breaks five times a day, refrain from eating or drinking during daylight hours one month each year, give a percentage of their incomes to the poor, and abhor the taking of interest on loans. They also have a fatalistic belief that many misfortunes are the will of God rather than the result of human error. Followers of Hinduism have traditionally been limited in giving advancements to certain workers because they belong to the wrong castes. Fundamentalist Buddhists believe that the cause of all human suffering is a desire for material goods and therefore shun wealth acquisition. Those who come from a Confucian ethic accord high status to the elderly and therefore relate job advancement more to seniority than to proven skill. Followers of Calvinist Protestantism traditionally believed that hard work brought one closer to admission to heaven. Followers of Japan's national religion, Shintoism, believe that hard work is in accord with the spirits of nature.

Cultural value systems also have an impact on the nature of the decision-making system [scientific and rational versus impulsive inspirational], the influence of the family on the individual, the degree of politeness in negotiation, (face-saving versus frankness), and the role of authority versus participation in decisions. We will return to some of these issues later in the chapter under the section on comparative management.

Another area to be compared across cultures is the nature and extent of education. Although basic literacy levels are rising in the less developed nations, there is a minimum of vocational and managerial education available. Many developing countries were formerly colonies of Western European countries that imposed traditional content in advanced education which stressed the humanities and preparation for certain professions such as law and medicine. Until recently, there has been relatively little advanced education outside the United States to develop business leaders and skilled laborers. Therefore, foreign firms had to do much personnel training in-house. Today, many countries

are establishing business schools and vocational training centers (often with the cooperation of American counterparts).

A manager should understand that cultural change can come about as the result of armed conflict or the peaceful introduction of new ideas, products, and technologies. Some of the conflicts raging in today's world have their roots in interreligious strife (Islam versus Judaism in the Middle East, Hinduism versus Sikhism in India, Catholicism versus Protestantism in Northern Ireland, and Sunni versus Shiite Moslems in Iraq and Iran). Yet we see evidence that international businesses can bring about cultural change in peaceful ways as exemplified by the worldwide consumption of cola drinks or the nearly universal acceptance of Levi's jeans and British-originated rock music.

A knowledge of the environment facing the international manager will help him or her decide on appropriate strategies and human relations approaches when exporting and marketing in other countries. The remainder of the chapter is devoted to these issues.

LEVELS OF INTERNATIONAL INVOLVEMENT

Corporations can select from among three basic levels of international involvement: trade, technology transfer, and direct equity investment in overseas operations. Each of these levels has a number of sub-levels and variations.

International Trade Alternatives

International trade can be conducted indirectly through intermediaries in the **exporting, or sourcing, country** or directly through intermediaries in the **importing, or target market, country**. If sales to specific end-users are large enough, intermediaries between the domestic exporter and the foreign end-user can be bypassed. The variety of export intermediaries ranges from foreign companies with buying agents in the exporter's country to specialized intermediaries who take on a variety of responsibilities. Export merchants and trading companies as well as foreign distributors and dealers buy goods outright and take inventory-carrying risk off the exporter's shoulders. Certain types of agent middlemen, such as export management companies in the exporter's home country or manufacturer's representatives in the importing country, generally do not take title but act as part-time additions to the exporting firm's sales force. Still others, such as switch traders, specialize in barter and other types of countertrade (goods exchanged for goods) transactions.

Academic Profile

UMA SEKARAN



Uma Sekaran (Ph.D., University of California at Los Angeles) is Chairperson and Professor of Management at Southern Illinois University, Carbondale. Professor Sekaran's research interests are in the areas of international management and dual-career families. Her papers have won "Best Paper" Awards at the National Academy of Management. Professor Sekaran is the author of *Managing Organizational Behavior for Effective Performance*, *Research Methods for Managers: A Skill Building Approach*, and *Dual-Career Families: Their Implications for Organizations and Counsel*. Professor Sekaran is currently investigating the cultural specificity of the meaning and definition of the concept of organizational effectiveness. She is also examining the strategic decision choices available to organizations in different cultures as they structure their management control systems and how they interact with the external environment, using Hofstede's empirically established four dimensions of culture.

Q: Some U.S. companies prefer to staff their international divisions with personnel hired and trained in the United States. Other companies, such as IBM, prefer to hire nationals to manage their international divisions. What types of trade-offs, gains, or sacrifices do you see in pursuing these two approaches?

A: The ability to understand and manage cultural differences is important for the success of international operations. Hofstede has delineated four dimensions of culture which provide a very useful framework for understanding cultural differences. Depending upon where any particular country falls on these dimensions, appropriate management styles and structure and control mechanisms need to be built into the system, irrespective of whether the U.S. company hires nationals to manage the international divisions or sends its own staff. If the U.S. company prefers to staff the overseas operations with its own trained personnel, the willingness and ability of these managers to grasp the needs, values, and norms of the organizational members in the different cultures in which the company operates, as well as tailoring its structure and processes to match the differences, would be critical. On the other hand, if the company prefers to hire nationals to manage the international operations, then the complexity of managing a work force in a foreign country might be minimized, but the local managers may find it more difficult to grasp and adhere to the goals of the company. Q: Do you think that differences in management philosophies and processes are becoming increasingly similar on an international basis and thus common principles of management may soon be applicable throughout the world?

A: It is a fact that some types of cultural diffusion are taking place due to frequent travel and interaction among peoples of different nations. However, diffusion, however, seems to relate more to the external, superficial manifestations of changes, such as in dress (blue jeans) and some types of behavior (dating patterns), rather than any fundamental changes in deep-rooted values. In fact, Hofstede substantiated in his research that countries were fundamentally polarized in cultural differences in terms of the Hofstede dimensions when he compared the data obtained from his earlier study of 40 countries with subsequent data. Thus, while in some ways we may be becoming alike, at a deeper level, differences in cultural values will persist. Thus, the principles of management, while remaining the same, will have to be applied so that they fit cultural variations. Q: What advice would you give a student preparing to a career in international management?

A: First, realize the complexity of international management. Then try to understand if your own personal predispositions will help or hinder your operating effectiveness in various parts of the globe. Recognize that organizations in different countries may have their own definitions of organizational effectiveness. While for some nations, profits, market share, and the organization's growth may be primary, for others, quality of products, customer satisfaction, and the overall quality of life could take precedence. Be open minded and eagerly enthusiastic to learn as you interact with others in a foreign culture. Above all, choose to operate in a culture which is more aligned to your own personal operating values, attitudes, behaviors, and time orientations.

Intermediaries
play a key role
in international
trade.



Technology Transfer Alternatives

Sometimes transportation costs, tariffs, favorable cost factors faced by host-country competitors, and wholesale/retail margins result in export prices which are neither competitive nor profitable. In such cases, it becomes necessary to seek ways of making products in host-country locations. If firms are unable to afford the outright purchase of additional facilities in the host country or if host governments discourage foreign investment in certain industries, they may resort to some type of **technology transfer**. This transfer might take the form of a manufacturing contract with a host-country manufacturing firm as the sole supplier of a product made to the home-country firm's specifications. The home-country firm still oversees the marketing of the product in the host country. On the other hand, the home-country firm may look for a host-country licensee to manufacture and market the product using the home-country firm's specifications and brand identification. Although **licensing** requires little or no capital investment on the part of the home-country firm, it runs the risk of creating a competitor upon the expiration of the contract. Moreover, most licensing agreements give the licensor a fixed percentage of licensee sales. In the long term, these cumulative returns may be less than the cumulative amounts that could be earned on a direct equity investment.

Direct Investment Alternatives

Direct equity investment may take the form of a joint venture in service, distribution, or manufacturing facilities or a wholly owned ven-

ture either built from scratch or resulting from a merger with or an acquisition of a going concern in the host country. Manufacturing facilities can act as centers for assembling imported components or can involve the production of component parts as well. Multinational corporations often manufacture components in a variety of countries. These components are shipped to various countries where final assembly takes place. Joint ventures involve the sharing of expenses and risks. Such agreements can result in misunderstandings if the parent firms fail to assess one another carefully prior to forming the new company. The home-country firm can take either a minority, equal, or majority equity position in the venture. Wholly owned operations involve substantial investment and risk. Such operations also limit the financial flexibility of firms with modest cash resources. Yet, if they are successful, wholly owned branches or subsidiaries can result in substantial long-term returns.

The selection of an appropriate level of involvement (or mode of entry) is part of the international strategic-planning process undertaken by firms. This process is the topic of the next section.

STRATEGIC ASPECTS OF INTERNATIONAL MANAGEMENT

International managers need to make the same kinds of decisions as they make domestically. They must identify appropriate products or services to introduce to various market segments; select ways of reaching these market segments; select and manage sources of supply; select sources of funds; oversee the development of appropriate technologies; structure organizations for the formal flow of intracorporate communications; and devise schemes for the selection, training, and development of labor and managerial resources. The complexity of the international environment makes these tasks more difficult and challenging. Not only do managers face different kinds of economic, legal/political, and sociocultural conditions, but also they need to coordinate decisions affecting strategic business units in far-flung geographic locations. A framework for thinking and analysis is therefore critical.

One framework follows a chronological sequence of decisions that must be made when going international. This framework answers the following questions: J.

1. Does international activity fit into the overall mission of the corporation?
2. Which products or services should the firm introduce to markets?
3. Which countries should the company enter and when?

4. Which modes of entry should the firm use to enter each of the selected countries?
5. With which specific business partners should the firm deal within each market?
6. Which provisions should be included in the contracts the firm negotiates with each of its foreign partners?
7. How should the firm adapt its marketing mix (prices, products, distribution systems, and communications with potential buyers) in light of differing external environmental conditions (including competition) in each national market or submarket segment?
8. How should the firm select methods of supporting its marketing or revenue-generating program? The answer includes decisions on financing, personnel, research and development, and sourcing [including production].
9. How should the firm develop ways to assure the implementation of desired results? The answer includes decisions about the structuring of intrafirm communications [formal organizational structure], selecting an appropriate degree of delegation of authority, and selecting appropriate leadership styles.
10. How should the firm devise a system to monitor operations and their results in order to provide feedback for future decisions? The answer includes developing an international accounting system and a system for monitoring internal and external environmental conditions that could impact operating results positively or negatively.

Although it is not possible to provide in-depth answers to these questions in an introductory management text, the remaining sections of this chapter give brief overviews of some of the major ways firms plan, organize and staff, direct, and control their international operations.

International Corporate Planning

The process of planning in an international corporation is very similar to that followed, in a domestic context. It involves a periodic assessment of the situation facing the company in terms of market and financial objectives as related to past operating results, likely strategies of competitors, and the larger economic/political/social climate expected during the planning time-horizon. Based on the situation analysis, the firm develops a strategic plan covering its whole range of functional activities (marketing, finance, production, personnel, research and development, and administration). In an international context, this process becomes more complex due to the greater number of country settings in which the company hopes to conduct business.

Larger multinational corporations develop subplans for each product grouping [or strategic business unit] and for each country or region.

These subplans are interrelated through a process known as global planning. Critical to the process of global planning is the concept of rationalization. **Rationalization** is buying components or finished goods from where their prices are lowest anywhere in the world and selling finished products where they will command the highest prices. Thus, a global plan is truly synergistic—the whole is greater than the sum of the parts. Ideally, the multinational firm's strategy is based on global rationalization. But the firm is prevented from achieving this ideal strategy because of current and future government regulations and because of incomplete information about future market demand, competition, and operating costs. Although these constraints also exist in domestic business, they are magnified on an international basis.

Smaller firms new to the international market often do not use a global planning approach. Instead, they take advantage of opportunities as they come along. This is a reactive rather than proactive planning strategy. Such firms may live to regret previous mistakes such as selecting the wrong foreign partner or the signing of a licensing or distributorship agreement which gives too many benefits to the foreign partner. Such problems could have been averted by more careful advance analysis.

Organizing and Staffing for International Operations

Most manufacturing companies first enter the international market by occasional exporting. This activity is often supervised by a sales manager who has little or no international experience. Thus, the person responsible for exporting is often frustrated in his or her attempts to develop markets outside the home country. Time and money for travel and other promotional activities are often very limited during this start-up phase.

Over time, some smaller firms find that their export sales grow to a level where they can no longer be handled by a single salesperson part time. The salesperson may need help with correspondence, documentation, and scheduling. Therefore, an inside specialist is added to the sales group to handle these functions. Eventually, international trade becomes important enough to require the formation of an export department separate from the domestic sales department. With the addition of more levels of managerial supervision and the possible opening of foreign production facilities, the export department may become an **international** division. In some very large corporations such as IBM, the international division, may become equal in importance to the domestic division.

At this point, some corporate leaders feel that lines of communication between domestic and international operations need to be blended together. In some companies, functional vice-presidents for marketing, finance, production, and human resources will take on global responsibilities. In others, heads of product divisions will assume global responsibilities. In still others, the company is divided into world regions. Dom-

operations in the home country constitute just one of these regions. The functional organizational structure is used when the company is selling just one category of goods or services which does not require a great deal of adaptation from country to country. The geographic organization is used for companies that offer a limited number of product/service lines but need to make major marketing adjustments as they go from region to region. The worldwide product-division organization is used by firms that sell a variety of product lines, each of which reaches a very different set of customers through a very different set of distribution channels. Some companies have developed a matrix (hybrid or umbrella) structure to interrelate functional, product, and country specialists and to minimize costs of duplicating expertise. Formal reporting normally follows functional, product, or geographic lines, but informal relationships and project groups interrelate all three methods for structuring organizations.

When multinational corporations entered their greatest period of international expansion during the 1950s and early 1960s, many of them sent home-country executives and their families to foreign locations for extended stays. Staffing international offices through extended foreign assignments is less common today due to culture shock problems and the high cost of international relocation of the executive work force. Long-term foreign assignments are still common among bankers and engineers but less so in other industries. However, there is a growing amount of international market development, contract negotiation, and trouble-shooting going on today. This calls for a new breed of international manager.

During the remainder of the century, business will need to develop and train persons who have strong functional capabilities in areas such as production, marketing, accounting, and finance and who also have the ability to adapt very rapidly to a variety of cultural and political environments. The executive who is bilingual or multilingual, familiar with techniques for negotiating in a variety of national or subnational settings, and familiar with ways for evaluating future strategies in light of changing economic and political environments will be better able to adapt to short-term assignments in a large number of countries.

Although international business courses are widely taught, very few American business schools offer programs that are comprehensive enough to prepare managers adequately for such responsibilities. Most corporations still draw most of their international executive talent from local nationals in various host countries and from third-country nationals who have compatible cultural backgrounds/

Directing in International Corporations

Directing the performance of employees in an international setting is related to a knowledge of cultural similarities and differences. This knowledge will help the manager select an appropriate leadership style

(along the autocratic-participative continuum) and an appropriate degree of delegation of responsibility. Frameworks for analyzing this part of the management process appear under the topic of comparative management-
Controlling International Corporations

As is true in a domestic business, a good control system in an international corporation should be based on a regularly scheduled comprehensive overview of the firm's activities and operating results. This review should be conducted in a systematic fashion with the assistance of independent outside auditors. Major accounting firms maintain offices on a worldwide basis to assist in financial auditing just as they do on a domestic basis. However, it is also necessary to audit other areas of the firm's activities such as marketing and production.

Successful international firms develop their annual plans from such operations audits and apply company-wide approaches similar to the management by objectives approach used for setting goals and evaluating the performance of individual employees. But geographic distances, multiple languages, changes in the values of foreign currencies, and political/cultural factors, together with missing or incomplete data, make control more complex and more difficult on an international basis. Yet, with jet travel and worldwide electronic information networks, regular meetings and reports are becoming easier and more frequent.

Control questions, including the optimal number of persons reporting to one manager and the decentralization of decision-making responsibility, are very much related to cross-cultural communication' and mutual understanding. These skills can be enhanced by an understanding of comparative management, which is our next subject,

COMPARATIVE MANAGEMENT

The concept of culturally defined management practices has developed into an area of study known as **comparative management**, an area of study which interrelates the managerial process with a variety of cultural environments. These relationships are compared with one another to discover their similarities and differences. Some observers seek universal management principles while others feel that practices need to be individualized from culture to culture. At least two conceptual frameworks for such comparisons have been advanced.

The first involves descriptive comparisons of management in two countries such as Japan and the United States. Recent successes of Japanese businesses in major world markets have sparked an interest in a managerial style which can be seen as almost a polar opposite to Thai

commonly called "Western management." Can Japan's success be attributed to a managerial approach reflecting its cultural values? And more importantly, is this managerial style transferable to other countries? What are the differences between Japanese and American approaches to leadership, control, and delegation of authority which appear to have given Japan a competitive advantage in world markets?

The American perception of Japanese management style generally regards the custom of lifetime commitments (*shushin koyo*) between employers and employees as its most salient characteristic.¹² Thus, Japanese workers feel greater loyalty to their companies than do their American counterparts. Japanese companies provide the principal source of associates and activities for off-hours socializing. In North America, workers often have greater loyalty to their professions than to their current employers. Their off-hours social activities are more likely to be centered on the broader community.

Other elements associated with Japanese management are seniority rule (*nenko seido*) and a participatory or consensus decision-making process (*shuden ishi kettei*). These elements contrast strikingly with the Western approaches in which achievement and drive are rewarded by personnel promotions and in which decisions may be made by individuals or small groups. These elements, which reflect the culture and value orientation of Japanese society, are incorporated in managerial approaches to work assignments, methods of operation, work habits, and mobility. For example, with regard to work assignments, the Japanese practice fits broadly defined jobs to workers (who are assigned to groups) while the North American practice fits workers to more narrowly defined jobs. Thus, the North American worker might be unwilling to perform a task which was not specifically contained in his or her job description. The Japanese worker would be willing to perform a broader range of tasks. In addition, the function of a Japanese manager is to serve as a liaison between workers, their tasks, and their tools. Meanwhile, in a Western business, managers serve in more of a supervisory role. The Japanese approach is based on a cooperative group conscience. The North American approach is based more on competitive (often conflicting) individual consciousness.

There can be much more fluidity of job movement between labor and management in Japan than in North America. For example, the senior manager of Procter & Gamble's manufacturing operations in Japan joined the company as a factory worker and later served as chief spokesperson for the company workers' union prior to being promoted to a management position. One would not normally expect a shop steward in a traditional North American company to be promoted to a senior management post.

12. For example, see A. R. Neghandi, *Functioning of the Multinationals: A Global Comparative Study* (New York: Pergamon Press, 1980).

The essential differences between these two styles of management are based on cultural origins. As products of the various components of the societies in which they exist, they do not result from deliberate efforts to create management formulae which are uniquely Japanese or North American. Rather, the Japanese culture, which emphasizes obligations and relationships within a collectivistic entity, naturally developed¹³ a management system. Therefore, if management practices differ because of deep-seated societal orientations, barriers to cross-cultural transfers of management styles probably also exist.

Are managerial philosophies and processes becoming more similar or dissimilar on an international basis? Several years ago, Ross Webber suggested that forces of convergence, or uniformity, in machine technology, improved educational standards, and pragmatic "laissez faire" free enterprise philosophies were becoming more significant than forces of¹⁴ divergence, or diversity, such as cultural inertia (resistance to change), scarcities of natural resources, and demographic trends such as high population growth rates in developing countries.¹³

Some observers in more recent years have suggested that force leading toward universal convergence in management philosophies and practices are weaker than those leading toward more divergence.¹⁴ Deeply imbedded cultural value systems do not change rapidly. Moreover, certain worldwide concerns such as scarcities of resources, overpopulation, and pollution may require somewhat greater government regulation¹⁵ and central planning than might be considered appropriate by those who subscribe to a "laissez faire" free enterprise philosophy.

How is it possible to determine which management concepts can be transferred universally, which need adaptation, and which are unique, only to specific cultures? With the descriptive two-nation framework discussed previously, comparative management serves to highlight specific situational differences in culture and value orientations. However, such a framework does not permit a broader interpretation and analysis of the underlying cultural factors which would contribute to a more universal approach to selecting and adapting management practices among nations.

Geert Hofstede suggests a framework which may be more useful than the purely descriptive type illustrated here.¹⁵ Although Hofstede acknowledges national roots of cultural differences, he defines four universally applicable dimensions of cultures. These are power distance,

13. See R. A. Webber, "Convergence or Divergence?" *Columbia Journal of World Business* (May-June 1969), 75-83, for his views on convergence and divergence.

14. See G. S. Vozikis and T. S. Mescon, "Convergence or Divergence? A Vital Issue! Quest Revisited," *Columbia Journal of World Business* [Summer 1981], 79-87, for a critique of Webber's earlier views.

15. See G. Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Beverly Hills, CA: Sage Publications, 1980), for a full explanation of many variables that underlie each of his dimensions.

uncertainty avoidance, individualism, and sex roles.¹⁶ These dimensions serve as indicators of appropriate leadership styles, control practices, and ways of delegating authority. Hofstede suggests that each dimension is measurable in terms of its presence or absence. Thus his framework makes it easier to compare many different cultures and their associated management practices with one another.

Power Distance

Power distance is used to address the basic issue of human inequalities in prestige, wealth, and power. Different cultures have varying emphases on the importance associated with certain levels of power. Hofstede suggests that power distance can be seen in superior-subordinate relationships where the former prefers to widen the distance and the latter strives to close it. The typical distance between superiors and subordinates in each culture is socially determined. Power distance can be measured by obtaining subordinates' opinions of their superiors' styles of decision making, the degree to which they fear disagreeing with their superiors, and the types of decision making they think their peers prefer on the part of their superiors.

Uncertainty Avoidance

Hofstede suggests that **uncertainty** avoidance is a basic fact of human life. In an effort to make the future more predictable, societies have developed certain "innovations" in technology as well as in law and religion. In business organizations, these "innovations" manifest themselves as rules (corporate policy), rituals, and technological advancements. Data from Hofstede's study show that tolerance for uncertainty about the future (especially with respect to changing company policies which might bring stress and uncertainty about job security) varies considerably among countries. This may help to explain why long-term planning is more readily accepted in some countries than in others.

Individualism

Individualism describes typical relationships between individual persons and the collective society within various national cultures. The degree of individualism in a particular culture is reflected in its basic societal units. Nuclear families (spouses and their immediate offspring), as primary components of a specific culture, represent a high degree of

16. Hofstede originally used the term *masculinity* for this dimension. We have adopted the Cerin *sex roles* to be more consistent with current terminology.

individualism. In contrast, societies whose primary components are¹ extended families and tribal groupings represent a lesser degree of individualism. Those with a high degree of individualism consider individuality to be a source of well-being. A group-oriented society may regard emphasis on the individual as alienating and undesirable.

Employees in group-oriented societies depend emotionally on the organizations for which they work. The organization should in turn assume a broad responsibility for the welfare of its employees in areas such as housing, education, health, and recreation. The failure of a company to do so may result in worker disharmony with possible negative implications for the broader host-country society as a whole.

Sex Roles

Societies differ in the ways they cope with the issue of the duality of the sexes. Cultures put differing weights on the importance of biological differences as they relate to attainable social roles. Socialisation through families, schools, and the media creates a cultural pattern which allocates "typical characteristics" to each sex. Some cultures put greater emphasis than others on sex roles such as the male's provider role and the female's maternal function. Likewise, there can be a relationship between organizational goals and career possibilities for men and women. For example, in some cultures a merchandising concern would prefer to have males handle aggressive personal selling, but in the same cultures, hospitals may prefer women because of their presumed biological fit with nurturing, and healing goals.

Hofstede's framework provides a more practical approach to comparative management than does the purely descriptive approach. The four dimensions described above allow us to compare how cultural factors affect work-group motivation, advancement criteria, and the delegation of responsibility—all critical concerns for the international manager.

IMPLICATIONS FOR MANAGEMENT

We have seen the critical importance of examining the management process in light of similarities and differences in economic, political, and sociocultural environments of the nations and subnational regions in which a firm desires to do business. An understanding of these external environmental considerations will become more critical in the future as global interdependence and global information systems become the order of the day. Yet, we are faced with several unresolved issues such as limitations on the ability of countries to pay their international debt.

competition from foreign countries, and misunderstandings among political and cultural subdivisions of the planet. Although the world's economic and literacy standards are improving universally, these standards do not grow at a constant rate everywhere and for every participant in the world economy. When people's wishes and expectations exceed their current level of progress, envy and suspicion can pervade. The international manager of the future needs to discover ways to lessen the differences among nations by improving communication, cross-cultural understanding, and ways to deal with governmentally created barriers to free the exchange of goods and services. The future portends more joint-venture activities among businesses and governments in multiple countries, more trade in the nonmonetized sector (i.e., more barter and counter-trade), and more trade among nations who formerly considered one another to be enemies.

The foregoing issues suggest the need for the globalization of management. This chapter has provided only a minimal survey of the issues involved. You are strongly encouraged to pursue these topics further through formal courses (or even advanced degree work) in international business as well as through lifelong self-education. Overseas travel as well as the study of modern languages and area studies are certainly helpful. If a challenging international opportunity is offered to you during your business career, remember that success comes with careful preparation.

absolute advantage	free trade areas
administrative measures	<i>freely floating exchange</i> rates
behavioral theory of	General Agreement on Trade
international business	and Tariffs (GATT) global
commodity agreements	planning importing or target
common markets	market
comparative advantage	country individualism
comparative management	international division of labor
cultural value systems	international product
customs unions direct equity	Life
investment economic	cycle
integration economic unions	international trade labor
environmental determinants	theory of value. licensing
exchange controls exporting	local content laws managed
or sourcing country fixed	float matrix structure
exchange rates forces of	multinational corporation
convergence or	MNCI
uniformity forces of	oligopoly
divergence or	
diversity	

power distance
producers' cartels
quotas
rationalization
subsidies

tariffs
technology transfer trade
promotion assistance
Uncertainty avoidance

REVIEW QUESTIONS

1. What are multinational corporations?
2. What is the theory of comparative advantage?
3. What are Rostow's five stages of economic growth?
4. Give examples of three ways that governments restrain international business activities.
5. What are the main differences among the four major forms of economic integration?
6. Why do some companies enter foreign markets by direct investment rather than by exporting finished products from their home countries?
7. What is meant by the concept of rationalization in a global planning context?
8. What are six major ways of formally organizing international corporations?
9. What are two major differences between the Japanese and Western management styles?
10. What is the importance of Hofstede's four dimensions to the study of comparative management?

CASE 21 A Valmont Industries, Inc.

Valmont industries, Inc., is the manufacturer of Valley brand center-pivot irrigation systems. (If you have ever flown over semiarid or arid parts of the world, you may have seen circular green fields which were irrigated with the use of Valmont's leading products, the "Cadillacs" of center-pivot irrigation systems.) The company is headquartered in Valley, Nebraska (close to Omaha). By the mid 1980s, the company's annual worldwide sales volume reached nearly a quarter of a billion dollars.

Although about 70 percent of Valmont's business came from irrigation-related products, the company started to diversify into areas such as galvanized steel structures for street lighting and the distribution of computer hardware and software!

to agribusiness users. Its Valcom computer retail outlets ranked second in the United States to Computerland in annual sales of IBM personal computing hardware.

The company had been involved for several years with international business primarily by exporting irrigation systems. Its customers were located in many countries and it had sales and service offices in major cities such as Hong Kong, Madrid, London, and Riyadh. Recently, the company appointed a vice-president to head its international operations in Madrid. In addition, it appointed a blue-ribbon committee of business national advisors from such distinguished companies as Nestle, ConAgra, TRW,

and Phillips.

The company realized that its product in the declining stage of its product life : in the United States and in several r countries. Thus, it saw the interna-il market as key to extending the life of 3read and butter" business. However, it concerned about receiving payment developing countries in light of their ic balance of payments problems, ling recession difficulties, and political rtainties. As a partial remedy, the com-set up a group of persons responsible 3untertrade transactions.

One of the countries which might be dered for international sales expansion geria, the home of Africa's largest popu-1. Indeed, the 100 million Nigerians sent one in four Africans and are muJti-g at a rate of 3.2 percent annually. iwhile, their agricultural output is only iding at a rate of 1 percent per year, demand is increasing slightly faster the population growth rate. Nigeria is faced with severe balance of problems.

Its oil revenues have been ling in recent years owing to the dwi-n-strength of the OPEC cartel and world-conservation of energy. Furthermore, ountry has experienced considerable lal political turmoil stemming from ribal jealousies and recent government ; led by the military. Yet the national government bureau-is concerned about the need to give

heavier focus to the country's agricultural shortages. Nigerian officials had hoped their country would become self-sufficient in the near future in such basic commodities as cotton, peanuts, com, and sugar cane—all of which are grown in the country's semiarid north region. Only half of the arable land in the country is cultivated. Seventy percent of the population turns to agriculture as its source of income. Ninety percent of this population segment are small land holders and the remaining ten percent hold medium- and large-sized plots of land. The larger farms as a group produce over one third of the country's food.

Valmont might consider expanding sales to Nigeria significantly. The question is whether it should and, if so, how it should enter the market. The company is aware that other international corporations such as Beatrice and Unilever have entered into agribusiness ventures in Nigeria in such crops as tomatoes and sugar cane.

1. If you were a Valmont executive respon-sible for international sales, how seri-ously would you consider the Nigerian market?
2. How would you go about selecting a method to enter the market?
3. What problems might you expect Val-mont to encounter if it were to enter the Nigerian market?

