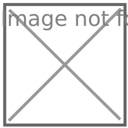

As trade barriers recede and businesses in developed economies increasingly pursue market opportunities abroad, competency and effectiveness in international management are paramount skills at many companies. The issues involved in international management span the whole gamut of those concerning management in general, but there are several areas of special interest, including:

- international finance and currency matters
- cross-cultural communication and understanding (including **international marketing** implications)
- foreign legal requirements and accounting practices
- **global strategy**
- **international competition**

To ignore such issues in an international business is to open the door to risks like inappropriate (and hence ineffective) marketing approaches, poor **labor-management relations,** adverse currency fluctuations, and other problems. Conversely, companies that are able to successfully manage these issues have greater potential to extend their marketing reach, increase market share, improve efficiency and profitability, decrease costs, and enjoy other competitive advantages.

THE EMERGENCE OF THE GLOBAL ECONOMY

In the 1980s, the world's leading industrialized nations began an era of cooperation in which they capitalized on the benefits of working together to improve their individual economies. They continued to seek individual comparative advantages, i.e., a nation's ability to produce some products more cheaply or better than it can others, but within the confines of international cooperation. In the 1990s these trends continued, and in many cases accelerated. Countries negotiated trade pacts such as the **North American Free Trade Agreement (NAFTA),** and the **General Agreement on Tariffs and Trade (GATT),** or formed economic communities such as the **European Union.** These pacts and communities created new marketing opportunities in the respective markets by decreasing trade duties and other barriers to cross-border commerce. They opened the door through which companies of all sizes and in various aspects of business entered the international market. The United States benefited extensively from the expanded global

economic activity.

U.S. trade figures from the 1990s illustrate the rapid expansion of cross-border business. In 1992, the United States exported $448 billion worth of goods and services, while importing more than $532 billion worth from other countries. By 1998, exports had more than doubled (in current dollars) to approximately $930 billion, and imports approached $1.1 trillion. Adjusting for inflation, the value of exports grew over the seven-year period by 78 percent, and the value of imports rose by 77 percent.

INTERNATIONAL BUSINESS MODELS

Prospective international managers must first realize there is no single way to enter a foreign market. Businesses must choose the model appropriate to their level of resources, market potential, and experience operating in the international sphere. The various categories of international business models include export/import businesses, independent agents, licensing and franchising agreements, direct investment in established foreign companies, joint ventures, and multinational corporations (MNC). The differences among these options are sometimes subtle in nature.

IMPORT/EXPORT BUSINESSES.

For instance, an export firm is one that sells its domestically made products to a very small number of countries. In contrast, import firms import foreign-made goods into the country for domestic use. Often, export and import firms are operated by a small group of people who have close ties with the countries in which they do business. Some such firms may begin as export or import specialists, but eventually expand their operations to production of goods overseas. IBM and Coca-Cola Co. exemplify companies that have used that approach.

INDEPENDENT AGENTS, LICENSES, AND FRANCHISES.

Independent agents are businesspeople who contract with foreign residents or businesses to represent the exporting firm's product in another country. Closely related are firms with licensing agreements, in which domestic firms grant foreign individuals or companies the right to manufacture and/or market the ex-porter's product in that country in return for royalties on sales. Another variation is a franchising arrangement, in which the parent company grants a franchise upon payment of a franchise fee by a local business operator, who then agrees to follow a prescribed methodology and marketing plan using the company's name. The local franchisee may have to pay royalties or annual

franchise fees, but otherwise remains independent of the franchisor. In each of these models, assuming the partner in the target market is competent, the risks to the originating company are usually low, as it is not setting up operations of its own in the foreign country, but rather relying on independent businesses or individuals that are already there.

JOINT VENTURES.

Joint ventures help distribute the risk of entering foreign markets and can provide hands-on experience for a company just initiating its presence in a particular country. Joint ventures can be formed with another domestic company to do business in another country, e.g., two Japanese companies collaborate in a Chinese business venture, or between one company from outside the target market and one from within, e.g., a Mexican firm and a Vietnamese firm create a new venture to do business in Vietnam. Having a local partner, as in the latter example, can be especially beneficial to a company that is relatively unfamiliar with the market it is trying to enter. This sort of arrangement can serve as a validation mechanism to reduce the chance of making foolish mistakes by not knowing local customs, preferences, laws, and so on.

BUYING A STAKE IN A FOREIGN AFFILIATE.

Buying part or all of a foreign company is a common form of foreign direct investment and carries with it the advantages of having an experienced partner to help do business in the foreign market. The foreign affiliate may be left to operate as a relatively independent entity, functioning more like a partner, or it may be more tightly integrated into the parent organization as a division or subsidiary.

MULTINATIONAL CORPORATIONS.

Multinational firms are relatively new in the business world, yet they are becoming increasingly important. There is no specific definition of a MNC. Nor is it easy to differentiate an MNC from a company that simply has offices or factories in multiple countries. Some experts define an MNC as a company that derives at least 25 percent of its sales from foreign sources. However, that is an arbitrary figure. Others define an MNC by its size. There is general agreement that large, multibillion-dollar enterprises, such as General Electric Company, Mitsubishi Corporation, DaimlerChrysler AG, and so forth, constitute MNCs.

Experts predict that the numbers of MNCs, joint ventures, and other international operations will rise as businesses seek to take advantage of economies of scale and the growth of new markets as a way of reducing costs and increasing profits. As the geographic boundaries over which individual companies operate become less defined, the need for people who are able to manage international activities becomes more acute. Thus, international managers are becoming more important in the business world, and their success can directly affect a company seeking to compete in the global market. As a result, business leaders are placing increased emphasis on the development of managers with expertise in international management.

INTERNATIONAL MANAGERS NEED SPECIAL SKILLS

Contemporary international managers will need to demonstrate a higher level of skill than those exhibited by the traditional manager in the past. They must be multilingual, sensitive to cultural differences, and knowledgeable about current global management theory, philosophy, psychology, and their practical applications. Acquiring the skills needed to become a successful international manager is a demanding, albeit necessary, process—especially since the global market will continue to expand for the foreseeable future.

APPROACHES TO INTERNATIONAL MANAGEMENT

There are three approaches to international management: ethnocentric, polycentric, and geocentric. Each has its advantages and disadvantages. None of these theories can be successful, however, unless managers understand completely the nuances involved in their applications.

The ethnocentric approach is one in which management uses the same style and practices that work in their own headquarters or home country. Such an approach may leave managers open to devastating mistakes, because what works in the United States, for example, may not necessarily work in Japan. There are many cases in which companies made grievous errors when they attempted to transfer their management styles to foreign countries. For example, Procter & Gamble Co. lost $25 million in Japan between 1973 and 1986 because its managers would not listen to Japanese advisors. The company ran ads for its Camay soap in which a Japanese man meeting a Japanese woman for the first time compared her skin to that of a porcelain doll. That would never happen in Japan, which is exactly what an **advertising** adviser told Procter & Gamble's

managers. Procter & Gamble, however, ignored the advice. They assumed that if a similar ad worked well in the United States and other countries (which it did), it would also be successful in Japan, but it was not. In fact, the ad infuriated the Japanese people, who refused to buy Camay. The Procter & Gamble executives learned a lesson, but at a high cost.

In contrast to ethnocentric management is the polycentric management theory. In this approach, management staffs its **workforce** in foreign countries with as many local people as possible. The theory is simple: local people know best the host country's culture, language, and work ethic. Thus, they are the ideal candidates for management. This approach works well in some countries. However, in countries without well-developed economies, it may not be the best approach because the workers may not always have the necessary business acumen or management skills.

The third style of international management is the geocentric approach. This theory holds that the best individuals, regardless country origin, should be placed in management positions. This philosophy maintains that business problems are the same regardless of where in the world they occur. Therefore, competent managers who are able to apply logic and common sense to resolve them will be successful; specific cultural knowledge is not necessary. This is the most difficult of the three approaches to apply, since managers must be able to understand the local and global ramifications of the business.

The Boeing Corporation provides evidence that the geocentric approach can be successful. When sales of its 737 plane dropped precipitously in the early 1970s, Boeing's senior management asked a group of engineers to bolster sales of the plane. Management indicated that if they were unable to increase sales, production would be discontinued. The engineers seized the opportunity.

Their first step was to examine foreign markets for the aircraft. They recognized that what attracted buyers in the United States may not necessarily lure foreign buyers. So, they visited different countries to determine which characteristics might be useful to incorporate into the redesign of the 737. They found many differences in flight operations. For example, many foreign airports, especially those in developing countries, had shorter runways than those in the United States. Moreover, many were constructed of softer materials than concrete, the standard material used in the United States. As a result of their study, the engineers redesigned the plane's wings to allow for shorter landings on asphalt runways and altered the engines so takeoffs would be quicker. Finally, they designed new landing gears and switched to low-pressure tires. Shortly after they made the changes, 737 sales rose dramatically, and so did sales of Boing's other

models. In fact, the 737 eventually became the largest selling commercial jet in aviation history. The key to the engineers' success lay in their ability to think globally and assess the business environment in different parts of the world.

ASSESSING THE GLOBAL ENVIRONMENT

It is extremely important that managers involved in international business recognize the opportunities available in different countries. They must be prescient enough to recognize potential, as well as immediate opportunities. For example, there are three types of countries with which there are potential business opportunities: developed, less developed, and newly industrialized. Once managers have assessed which group a certain country belongs in, they must then analyze the country's **infrastructure,** too.

Developed countries, such as Canada, Italy, Japan, Germany, the United States, and United Kingdom, are those that have a high level of economic or industrial development. Less developed countries, frequently called third world countries, are relatively poor nations with low per capita income and little industry. Many of these countries, however, have the potential to become lucrative trade partners, so international managers cannot afford to overlook them when analyzing business opportunities. Finally, there are countries labeled as newly industrialized, such as Taiwan, South Korea, and Vietnam. These countries are quickly becoming major exporters of manufactured goods. For example, the Hyundai Corporation has made great inroads into the United States through the sales of its cars. Hyundai's success provides ample evidence that more and more countries are taking their places in the industrialized world—and increasing the need for qualified managers who can oversee the business relations involved. There are also transition economies, primarily in eastern Europe, which have some industrial infrastructure, albeit often outdated, and little experience with market-based economics. The transition economies include those of the former Soviet Union and other ex-communist states in eastern Europe.

WHAT INTERNATIONAL MANAGERS NEED TO KNOW

Managers must be trained in facets of international business that are not normally the concern of domestic managers. On a broad scale, these issues include a knowledge of other countries' infrastructures, business practices, and foreign trade dynamics. In addition, international managers must be knowledgeable about international exchange rates and the legal-political and sociocultural traits of other countries.

BRIBERY AND RELATED PRACTICES.

For example, there is the issue of ethics in international operations. Managers must know when they are confronted with the subtleties of legal and illegal payments, for instance. In some countries, bribes in the form of money or valuables given to influential people are common. So is extortion, or payments made to protect a business against some threatened action, such as the cancellation of a franchise. In such cases, international managers may be torn between U.S. law and foreign culture. However, there is an American law that provides guidance in such cases.

The U.S. Foreign Corrupt Practices Act prohibits most types of questionable payments involving American companies operating in other countries. The law in itself, however, does not make the international manager's job any easier when U.S. legislation and foreign cultures clash. Therefore, international managers are often faced with ethical dilemmas not common to their domestic counterparts. The solutions to these dilemmas can have a major impact on companies' operations and individual managers' careers—which is just one of the disadvantages of an international manager's job.

POLITICAL CLIMATE.

Politics are also an important aspect of the international manager's job. International managers must be able to assess political risks inherent in particular countries. Developed countries tend to be relatively stable from a political and an economic standpoint, while less developed countries may be more susceptible to political strife. Governments may come and go or may decide to nationalize companies. Such was the case in the 1960s when Chile's President Eduardo Frei "Chileanized" the country's copper mines. Many American companies lost their holdings, although they were compensated for their losses. International managers must also be prepared for similar events, such as expropriation.

Expropriation is not unheard of for American industries. For example, Iran seized an estimated $5 billion worth of American companies' holdings in 1979. The companies involved included Xerox Corp., R.J. Reynolds, and United Technologies. Events such as this mandate that international managers learn about the legal-political element of foreign business affairs. Their knowledge in this area must also include such things as tariffs, import quotas, and administrative protections (a type of trade barriers in the form of various rules and regulations that make it more difficult for foreign firms to conduct business in a particular country).

CULTURAL SENSITIVITY.

Equally important to the international manager are sociocultural elements. These include the attitudes, values, norms, beliefs, behaviors, and demographic trends of the host country. Learning these things frequently requires a good deal of self-awareness in order to recognize and control culturally specific behaviors in one's self and in others. International managers must know how to relate to and motivate foreign workers, since motivational techniques differ among countries. They must also understand how work roles and attitudes differ. For instance, the boundaries and responsibilities of occupations sometimes have subtle differences across cultures, even if they have equivalent names and educational requirements. Managers must be attuned to such cultural nuances in order to function effectively. Moreover, managers must keep perspective on cultural differences once they are identified and not subscribe to the fallacy that all people in a foreign culture think and act alike.

The Dutch social scientist Geert Hofstede divided sociocultural elements into four categories: (1) power distance, (2) uncertainty avoidance, (3) individualism-collectivism, and (4) masculinity-femininity. International managers must understand all four elements in order to succeed.

Power distance is a cultural dimension that involves the degree to which individuals in a society accept differences in the distribution of power as reasonable and normal. Uncertainty avoidance involves the extent to which members of a society feel uncomfortable with and try to avoid situations that they see as unstructured, unclear, or unpredictable. Individualism-collectivism involves the degree to which individuals concern themselves with their own interests and those of their immediate families as opposed to the interests of a larger group. Finally, masculinity-femininity is the extent to which a society emphasizes traditional male values, e.g., assertiveness, competitiveness, and material success, rather than traditional female values, such as passivity, cooperation, and feelings. All of these dimensions can have a significant impact on a manager's success in an international business environment.

The inability to understand the concepts Hofstede outlined can hinder managers' capacity to manage—and their companies' chances of surviving in the international arena.

INTERNATIONAL MANAGEMENT
STRATEGY

Equally important is the manager's ability to choose the right strategy and organization applicable to individual companies operating in the international business arena. There are four strategies involved in international management. They include globalization, rationalization, national responsiveness, and the multifocal approach. Whether or not these strategies are implemented depends on a company's size and the number of countries in which it operates. For example, a small export company is not likely to employ a rationalization program. On the other hand, an MNC might utilize all four strategies.

Globalization involves the development of relatively standardized products with worldwide appeal. Rationalization is the process of assigning activities to those parts of the organization best suited to produce specific goods or desired results, regardless of where they are located. National responsiveness allows subsidiaries latitude in adapting products and services to conform to the special needs and political realities of the countries in which they operate. Finally, the multifocal approach tries to achieve the advantages of globalization while attempting to be responsive to important national needs. Competent international managers must be able to analyze the business and political environments endemic to the countries in which they are operating and adapt the strategies, either individually or in combination, that best suit their needs.

INTERNATIONAL ORGANIZATION

Companies operating internationally tend to use the same types of organization they do domestically. They may operate functionally (by task), geographically (by country or region), or by product. Or, they may combine organizational strategies. Again, international managers will make those determinations based on their companies' products or services. Regardless of organizational strategy, international managers must pay particular attention to human resources issues, since there are vast cultural differences among citizens of different countries.

THE INTERNATIONAL MANAGER AND HUMAN RESOURCES

One of the most critical factors in the success of a company's international success is its hiring program. Generally, hiring production workers is not a major problem, companies recruit locals to perform the daily work. In all likelihood, first-level supervisors and possibly some of the middle managers will also be members of the local community. Hiring upper-level management, however, is another matter—one that must be handled with care and sensitivity.

International companies have several primary approaches to recruiting and assigning upper-level managers. For example, they can rely strictly on local residents or use expatriates (individuals who are not citizens of the countries in which they are assigned to work). If they assign expatriates to foreign operations, they must make sure those individuals relate well to the local population. Relying strictly on employees' technical skills, to the detriment of interpersonal skills and sensitivity, can harm a company's reputation and destroy its operation in the process.

Another hiring tactic is to assign people to key managerial positions without regard to their native countries. For instance, they might place a foreign resident who was educated in the United States in a management position simply because that individual is best qualified for the job. Whichever options they choose, companies must be sensitive to local customs and cultures, lest they risk alienating the local community and inhibiting cooperation and productivity.

The bottom line is that international managers must be more cognizant of the differences in local social customs and work ethics than are their domestic counterparts. This is simply one more indication that companies involved in international operations must pay strict attention to the quality of the managers they assign to their overseas facilities. As the global economy expands, it is going to become even more critical that international managers be trained specifically for the special nuances involved in worldwide business activities.

Conclusion

Individuals searching for careers in the field of international management will find numerous opportunities available to them. The field is becoming a specialty of its own. Virtually every management textbook being used in business curricula today has at least one chapter devoted entirely to international management. Colleges and universities are offering degrees ranging from associates to Ph.D.s in the field. As more and more companies enter the international business arena, the number of management opportunities will grow.

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