Global business challenges and opportunities

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Abstract

There was a massive wave of Western multinational investment in the developing world during the first wave of globalization before the 1920s. The subsequent decades of de-globalization saw the proportion of world FDI in developing countries sharply decline, and it has remained far below pre-1914 levels during the second global economy beginning in the 1980s. The working paper shows how management strategies were shaped by context in each historical period which provided a mixture of opportunity and risk. In the first wave of globalization, MNEs sought access to resources, and governments frequently gave them exclusive contracts and favorable deals in order to build businesses. The major management challenge was to overcome logistical challenges to enable minerals and other commodities to be exported into global value chains. During the Great Reversal, the main challenges faced by MNEs were political. Firms needed to build political contacts with assertive host governments, and attempt to strengthen their local identities, especially by localizing their managements. There was little need to adjust products to highly protected markets, or respond to limited local competition. In the contemporary global economy, political risks partially declined with the spread of liberalization and the abandonment of anti-foreign restrictions. However corporate strategies needed to carefully manage relations with governments. Emerging markets, or at least the larger and more fast-growing ones in Asia and Latin America, were increasingly seen as indispensable by MNEs in every industry. They were both a place to assemble manufactured goods and locate activities in the lower end of global value chains, and a fast-growing market. There was a growing need to incorporate local relevance into global products, and to respond to local competitors.

There is no consensus when the contemporary era of globalization began. A good case could be made for dating it to the 1960s, especially because of the appearance and growth of global financial markets, which eventually undermined governmental restrictions on capital movements. However, insofar as political factors had driven de-globalization, it is more appropriate to take China's adoption of market-oriented policies in 1978 as chronological starting point for the new global economy. The subsequent growth of the Chinese economy set off a chain of pressures and events which encouraged developing countries, especially India to 1991, to follow suit. The advent to power of the right-wing, free-market governments in Britain and the United States respectively, in 1979 and 1980, and the collapse of the Soviet Union at the end of the 1980s, fueled the momentum which drove down barriers to global capitalism and foreign investment. During the 1990s globalization was given a further massive push by the advent of the World Wide Web and the digital age. Table 1 shows the subsequent growth of FDI stock and flows, which assumed an unprecedented importance of foreign direct investment in the world economy in 2007, the year before the global financial crisis which has led to nearly a decade of stagnation or even decline in investment levels.

Keywords: *globalization, strategies, FDI, MNE, economy, stagnation. financial crisis, developing countries*

Introduction

Evolution of International Business in Emerging Markets Globalization has a long history. The dramatic geographical expansion of the ancient Roman Empire, or of Islam centuries later, or the Mongol Empire of the thirteenth century, were manifestations of globalization trends. The Voyages of Discovery by Columbus and de Gama from Europe over five hundred years ago saw transfers of technology – and disease – never seen before. Yet a combination of high transport costs, wars and government-imposed barriers handicapped sustained and deep globalization until the nineteenth century.

During that century radical improvements in transport and communications and the withdrawal of the state from economies, including trade regulation, enabled unprecedented flows of people, capital and trade, and unprecedented integration of markets. (O'Rourke and Williamson, 1999) Business enterprises were key to this first wave of globalization. Firms put in place a global banking and trading infrastructure. A global transportation and communications network was built by cable, and telegraph and shipping companies. Manufacturers transferred the production of goods ranging from sewing machines to automobiles and aspirins internationally. While World War 1 (1914-1918) exercised a major political and economic shock, globalization persisted through the 1920s, only to undergo a major meltdown in the wake of the Great Depression.

There followed a sharp downturn of globalization which can be called The Great Reversal. Beginning in the late 1970s, a second wave of globalization took hold which took the integration of global markets much deeper. (Jones, 2005a; Jones 2014; Ghemawat and Jones, 2017). There was massive investment by Western firms in emerging markets during the first wave of globalization. As Table 1 shows, foreign direct investment reached high levels relative to the size of the world economy – and majority of it was in developing countries. Latin America and Asia were especially important as host regions, representing 33 and 21 per cent respectively of the total world stock of FDI.

According to Wilkins (1994), the ten largest hosts included Russia, Argentina, Brazil, South Africa, India, China, Egypt and Mexico. The drivers of this investment in emerging markets are wel1-understood. As the Western world industrialized and urbanized, firms launched a search for the minerals, commodities, and foodstuffs needed by the developed world, and constructed the physical and services infrastructure needed to exploit them.

Objective:

This paper is unravelling the connection between how the world economies engage in business and provide for sustenance. Thus, creating some unavoidable race and means to mitigate the challenges.

Overall perspective of global business

All countries around the globe are part of the global marketplace. As we entered into new millennium, more and more companies are going international. As a result, there are a growing percentage of their overall sales which are coming from other countries. We may argue that there has been considerable historical evolution of international markets, but in the recent years we have witnessing worldwide economic and managerial developments. These developments create the opportunities, challenges, as well as problems for managers in the global arena. The focus of this paper is based on the economic, social, and political issues. It reflects present and future challenges for competitiveness and economic development in the global changing environment. Special attention is given to the cultural context for the international business, managing people in the multinational corporations, and ethics and social responsibility. The primary objectives of this paper are: a) to provide an overall perspective of international business (addresses worldwide developments, foundations for international business, and the cultural context for managing in a global environment); b) to introduce, analyze, and describe a human side of international business (communication, motivation, and leadership); c) to identify main challenges and opportunities in terms of the international business horizons (ethics, social responsibility, and the future of the international business) Based on the above mentiond objectives, this work is organized in three main sections: (i) overall perspective of international business, (ii) human side of international business, and (iii) main challenges and opportunities in terms of the international business horizons.

Worldwide developments

International business has brought the set of changes in the economic activities of almost every country in the world. One of the primary reasons is increase of foreign investment and trade. This trend has forced policy makers, managers, and entrepreneurs to refocus their efforts and look for new opportunities in the international markets. Today, every nation and increasing number of companies buys and sells products and services in the global marketplaces. In the last decade we have seen dramatic worldwide changes and developments which give the new dimensions to economic development in the political and business arena. Some of the major developments are:

1. The increased potential of a United States-Canada-Mexico free trade region through the North American Free Trade Agreement (NAFTA)

2. The emergence of the European Union with 27 member countries and around 480 million people.

3. Continental economic efforts to help rebuild Russia and the other countries of the former Soviet Union.

4. The continued economic power of Japan in the Pacific Rim and renewed progress of Chine.

5. Four Tigers of Hong Kong, Taiwan, South Korea, and Singapore

6. Southeast Asian countries of Malaysia, Thailand, Indonesia, and Vietnam.

Foundations for international business

Although more and more firms are going international, the most powerful and significant multinational corporations (MNCs) are headquartered in the United States, the European Union, and Japan (Hodgestts and Luthans, 1994). Examples stated by Hodgetts and Luthans include Motorola (United States), Royal Dutch /Shell (EU), and Toyota Motor (Japan). Managers from these corporations have a basic understanding of the foundation in international business. Planning for international assignment gives some advantages comparing to those who go international without preparation. The benefits of preparing for working internationally may be viewed as follows: employee and employer can escape or minimize cultural shock by being aware of local language requirements and cultural issues; employee and employer must understand the task to be achieved; recognize own strengths and weaknesses (technical competences for example); get the family and organizational support for going international.

The primary objective of the corporations mentioned above is to develop a sustainable strategy, which can give them corporate advantage. In order to achieve corporate advantage, MNCs must create its strategy to satisfy the local needs. For example, recently the French company Lactalis bought the Croatian diary company Dukat. According to Lactalis' overall strategy, they are going to satisfy local milk suppliers by extending existing contracts, and even increase the prices of milk based on the quality. Why to become Multinational Corporation? In answering this question, it is important to recognize the limitations of the domestic market. In protecting itself from the risk and uncertainties of the domestic business cycle, companies are setting up their operations in other countries and becoming MNCs. This proactive approach may have helped them to secure a hedge against economic volatility in the home country. In addition, domestic companies are targeting growing international markets and consequently become MNCs. European Union, which contains 27 countries with 480 million people, has attracted many MNCs to get an advantage of large population and high buying power. Europeans have a desire for new goods and services. They also have financial capacities to afford new goods and services.

Cultural context for managing in a global environment

Understanding the business in the changing global environment is an issue which, if it is not treated carefully, may produce unexpected problems in adjusting to a new business environment (Kataviċ, 2006). One of the major challenges of doing business internationally is to be aware and be ready to adapt different cultures. As more and more firms engage in international business, the economy of the entire world is becoming a single interdependent system that affects international management. The key issue is in understanding of cultural diversity. One of the key issues facing managers who are going to work in the international settings is to manage different cultures. Cultural diversity is a critical aspect of context which creates other demands from international management.

As international companies begin to compete with each other in the global marketplace, the role of cross-cultural training becomes increasingly important (Bhagat, (2002). Today, entire world becomes a place where cultural diversity work force is becoming a reality. Copeland, L (1985) describes the future challenge to management in developing ability to understand, cooperate with, manage and do business with other cultures: “Success or failure depends upon the degree to which people that has different ways of doing things and different priorities can work together. Intercultural relationships are fragile. Countless hazards are created by communication problems, cultural differences in motivational and value systems, diverse codes of conduct, even differences in orientation to fundamentals such as perception of time and space.” This quotation points out that the quality of the interpersonal relationships is frequently more important than efficiency, costs, timing and deadline. For example, in Central and Eastern European countries, personal relationship is more valued than in Western European countries.

Main challenges and opportunities in terms of the global business horizons

Ethics

Look in the newspaper on virtually any day of the week and you’ll find at least one business scandal in which a company appears to have the rules or standards of behavior generally accepted by society (Newell, 2002). In the changing global environment, business ethics becomes a corner stone of the organizational success. The main objective of any companies which work internationally is to increase an organizational value.

In order to achieve their main objective, companies regularly behave unethically. Therefore, one of the main challenges in the international environment is to find a way how to identify and manage ethical problems. In the process of identifying ethical problems in the changing business environment, we may start with the ethical problems in human resource department. During the selection process of new employees in the international setting, treating people equitable means applying equal standards for all people, no matter of age, gender, sex, skin color, religion and so on. Next, ethical problems may arise due to conflict of interest.

Decision makers may enter into conflict of interest by giving to some people a special treatment. It can be based on the personal relations, or due to the bribe paid to the manager or management team for the contract that favors one contracting party. In addition, common ethical problems may be related to the customer relations. For example, very often we hear or watch advertisement that lie about the product or service in terms of the quality or/and safety or performance. This practice is getting more and more control by the different laws that have intention to protect customers. Finally, there are ethical problems related to expenses made by employees for private purposes. These expenses include usage of the company cars for private purposes, private phone calls from company's phone, and company's credit cards for private expenses.

Social responsibility

What is a relationship between social responsibility and the success of the company? This question raises the issue of the need to be socially responsible in order to be successful, especially in the changing global environment. In attempt to answer this question, there is a need to redefine a basic company's mission in the international settings. This basically means that if the company helps to community, the company would also benefit. Global business environment requires from decision makers new dimension of the social responsibility. They are not only responsible to shareholders in terms of making a profit, but also to society, customers, employees, suppliers, and the environment. Due to the fact that managers' decisions affect the society, it is important to balance the interest of the company and the needs of community. Socially responsible actions can help companies to improve their work place diversity, community involvement, work family balance, employee empowerment, training, and environmental issues. Improvements mentioned above may lead to better relationships between business and society stakeholders and emphasizes ethical consideration in decision-making. Working internationally demands from businesses to be socially aware and gain the trust and respect of the community in which they operate. In order to benefit from the community and employees, as well as to get greater economic opportunities, the company should make positive strategies and policies with respect to environmental awareness and community relations.

The ability of corporations to make a difference in terms of quality of life in the communities, distinguishes socially responsible companies from those who are not. Although Milton Friedman (1970 and 1963) argues against the concept of social responsibility and states that: "There is one and only one social responsibility of business – to use its resources and engage in activities to increase its profits so long as it stay within the rules of the game, which is to say, engages in open and free competition without deception or fraud. we may use Archie Carroll's (1979) four responsibilities of business to prove that there are more responsibilities of managers in the organizations.

1. Economic responsibilities – to produce goods and services of value to society so that the firm can repay its creditors and shareholders.

2. Legal responsibilities – are defined by government in laws that management is expected to obey.

3. Ethical responsibilities – are to follow the generally held beliefs about behavior in a society

4. Discretionary responsibilities – are the poorly voluntary obligations a corporation assumes.

The difference between ethical and discretionary responsibilities, according to Carroll (1991), is that few people expect an organization to fulfill discretionary responsibilities, whereas many expect an organization to fulfill ethical ones.1 Of course, Friedman and Carroll defend their positions in terms of the impact of socially responsible actions on a company profits. However, even though a number of research studies find no significant relationship (McWilliams and Siegel, 2000, Rechner and Roth, 1990, and Aupperle, Carroll, and Hatfield, 1985), an increasing number are finding a positive relationship (Waddock and Graves 1997, Russo and Fouts 1997, and Meyer 2000). Socially responsible companies may have competitive advantage if they behave as environmentally friendly company. The advantage can be measured by reputable image through reduction of pollution, usage of recycling materials, and so on. One study that examined 70 ecological initiatives taken by 43 companies found the average payback period to be 18 months (Harman and Stafford 1997). Some other examples of benefits received from being socially responsible are (Turner and Greening 1997; Preece, Fleisher, and Toccacelli 1995; Barney and Hansen 1994).

• Their environmental concerns may enable them to charge premium prices and gain brand loyalty (Ben & Jerry's Homemade, Inc.).

• Their trustworthiness may help them generate enduring relationship with suppliers and distributors without needing to spend a lot of time and money policing contracts (Maytag)

• They can attract outstanding employees who prefer working for a responsible firm (Procter & Gamble)

• They are more likely to be welcomed into a foreign country (Levi Strauss).

• They can utilize the goodwill of public officials for support in difficult times (for example, Minnesota supported Dayton-Hudson's fight to avoid being acquired by Dart Industries of Maryland).

• They are more likely to attract capital infusion from investors who view reputable companies as desirable long-term investments (Rubbermaid).

Opportunities of the global business

International business has become a dynamic area of study and practice. In the future, more and more companies around the world will be going international. Major changes and trends will be occurring in the business and political arena and it would affect all aspects of business nationally and internationally. To be effective and efficient in the international business, multinational corporations (MNCs) should take advantage of increased investment by the superpowers such as European Union, United States of America and Japan. In the global perspective, it is evident that managers from all around the world are going to become more international managers. They will sell their goods and services throughout the globe, no matter where their headquarters are. Global environments give opportunities as well as challenges to international management. The future challenge is to build strategic capabilities. Bartlett and Ghoshal (1992) have identified these needed capabilities as follows:

(1) the ability to build worldwide efficiency and competitiveness,

(2) the ability to understand and interpret local markets, build local resources and capabilities, and contribute to the development of global strategy; and

(3) the ability to transfer expertise from one unit to another through the use of benchmarking information, cross-pollination among groups, and the championing of innovations with worldwide applications.

But the question is: Does the single manager have these capabilities? Most probably have not. Therefore, it is extremely important to develop groups of specialized managers. Those specialized managers, let's say global managers who are able and willing to accept changes in the changing global environment will be well on their way to understand the nature of international business of the twenty-first century. The world market is viewed by some multinational corporations as one market. Domestic markets are small to absorb the production capacities. Therefore, corporations are going international to find the best source of materials, produce goods at the lowest price, and raise funds for operations. The future of international business depends on knowledge of the customers, competition, and cultures of the local situation. Knowing the customers leads to the knowledge of their preferences of products and services. Also, it is important to know what they will want in the next 2 to 5 years. In addition, knowing the competition's weaknesses and strengths may help to make the right moves. Finally, joining partnering is helping to overcome cultural differences, which may produce an effective way to compete in the global environment.

Conclusion

The purpose of this paper is to show new emerging trends of the international business and give a close attention to many recent developments that present both challenges and opportunities to the international managers who can compete in this ever-changing business world. In order to introduce, analyze, and explain international business in an important emerging light of globalization, there are three main areas from which conclusions have been drawn. \

First, overall perspective of international business presents: a) the worldwide developments that reshaped the world's political and economic arena. International economic activities, from North America to Europe to Pacific Rim to Africa, have increased dramatically and have attracted direct investments and trade. As a result, international sales and profits are on the rise; b) foundations for international business in terms of understanding international business, planning for international assignments, develop sustainable strategy, and be clear with a reason why become MNC; c) cultural context for managing in a global environment, which deals with effective adoption of cultural differences.

Second, human side of international business takes on special importance in the international business in the changing global environment. Using a) communication, as a tool for developing strategy, allows quick response to the worldwide customer needs; b) motivation techniques to motivate employees may improve productivity, quality, and service. It helps to mobilize people to achieve goals, gain a positive perspective, easily accept the change, and manage their own development and help others to develop; c) leadership skills and abilities are necessary to identify new niches, new markets, and promptly run the business activities needed to exploit new opportunities.

Third, main challenges and opportunities in terms of the international business horizons reflect the issues related to: a) ethics, which has become one of the key issues in the international environment. The challenge is to find a way how to identify and manage ethical problems b) social responsibility that demands responsible actions to improve work place diversity, community involvement, work family balance, employee empowerment, training, and environmental issues; c) future of international business, which requires strategic capabilities to build worldwide efficiency and competitiveness, understand and interpret local markets, and to transfer expertise from one unit to another through the use of benchmarking information, cross-pollination among groups, and the championing of innovations with worldwide applications. To sum up, the lesson from this research can be summarized by stating that the speed and number of changes in the global environment are not unique. For business strategies to work in the international business, organizations need to develop and change. Therefore, business people and governments around the world will have to be more knowledgeable about the international dimensions of management than at any time in the past.

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