Critical Issues Confronting Industry Leaders Conducting Business In The Global Environment

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Introduction

Dynamic internationalization brings exciting opportunities for large multinational corporations. Unique resources from different countries, such as cheap labor in China and automobile manufacturing in Japan, can now be linked together to create a maximum profit margin. Increasing number of multilingual and cross-cultural talents makes the effective cooperation possible.

An incredible environment to make more money, also implies more intense competition and potential threats from other big players in the global market.

The challenge remains for the industry leaders to firmly control the world-wide operations and manage them in a globally coordinated manner.

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Why is it a challenge?

A Case Study of Global Retailing Industry

By KPMG Research Group

- Impact of geographical spread on financial performance is analyzed by plotting retailers' IMG (integrative measure of globalization) against profitability, earning volatility, and stock market returns.

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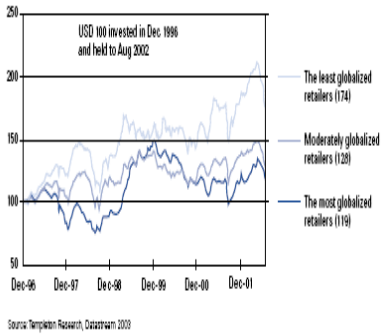
Figure 4 – International Spread and Portfolio Performance



Source: Templeton Research, Datastream 2003

Issues of International Operations

- High financial risk on foreign investments, especially risky to expand in new countries. However, it is necessary and important for global business' long-term survival.
- Diverse business cultures, variance in consumer behaviors, political environment, local infrastructures.
- Internal cross-cultural management: employees from different cultures have different mind-sets and require corresponding management to achieve efficient operations.
- More intense competition from a greater number of competitors world-wide with unique competing edges, making it difficult to maintain a dominating market share.

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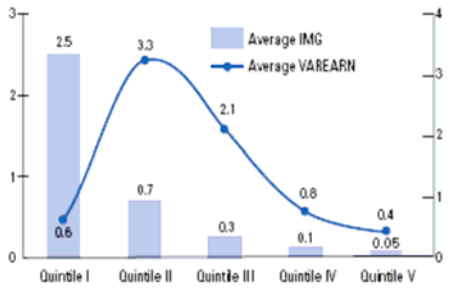
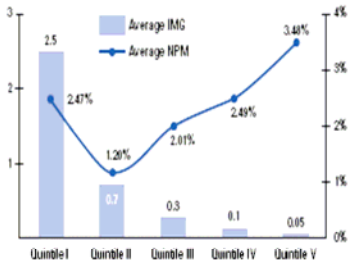
Figure 3 – International Spread and Earnings Volatility



Source: Templeton Research, Datastream 2003
Abbreviations: IMG – integrative measure of globalization
VAREARN – variance of earnings

Figure 2 – International Spread and Profit Margin



Source: Templeton Research, Datastream 2003
Abbreviations: IMG – integrative measure of globalization
NPM – net profit margin

Five equal quintiles (26 companies in each quintile) are depicted, ranging from the most globalized (Quintile I) to the least (Quintile V).

Discussion/Possible Solutions

- IT platforms → more effective communication system and management structure
- Adjust business format according to local business environment.
- Decentralized control management structure or not? Its theoretical advantages and its actual drawbacks.
- More accurate prior assessments of local business environment before setting up new operations.
- Local hiring and more cross-cultural managers.

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Study Conclusions

- Expand in foreign markets while maintaining domestic market share.
- Continue successful practices while inventing more efficient management structure and adjusting business strategies.
- View the global market as a whole, effectively incorporate unique regional resources to maximize profit margin.
- Study other major competitors' strengths and weaknesses, watch out for potential threats.
- Make it clear on the future investment focus: where are the emerging markets, and which markets are opportunities for further growth?

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Engineering Course Information

Topics in Global Leadership and Technology

Engr 1600 and ENGI 205

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