III UNIT – GLOBAL ENTRY

Syllabus: Strategic compulsions – Strategic options – Global portfolio management- Global entry strategy, different forms of international business, advantages - Organizational issues of international business – Organizational structures – Controlling of international business, approaches to control – Performance of global business, performance evaluation system.

International Strategic Planning

International strategic planning is a process of evaluating the internal and external environment by multinational organizations, through which they set their long-term and short-term goals and then they implement a specific plan of action in order to achieve those objectives.

Strategic management is the process of systematically analyzing various opportunities and threats vis-à-vis organizational strengths and weaknesses, formulating and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organization.

Strategic Compulsions

It means that the companies face the compulsion to be global if they want to gain the global market and more values. But in the modern context strategic management faces many compulsions. The present and future development of the field of strategic management is likely to be driven by compulsions like contemporary developments in social and economic theory and recent changes in the nature of the business and economic context.

To survive in the world of cut-throat competition, companies must sell their products in the global market. It is necessary to come up with new strategies to win more customers. Effective strategic management requires strategic estimation, planning, application and review/control.

The path for strategic management is activated by compulsions like modern developments in the societal and economic theory and the recent changes in the form of business, apart from the economic context.

Areas of Strategic Compulsions

Here is a list of some compulsions that a global business might have to face −

- **E-commerce and Internet Culture** − Expansion of internet and information technology made the business move towards e-commerce. Online shopping /Selling and Advertising are important issues. These factors compel the businesses to go modern.
- **Hyperactive Competition** − Businesses now are hyper-competitive which compel them to draw a competitive strategy that includes general competitive intelligence to win the market share.
- **Diversification** − Uncertainty and operational risks have increased in the current global markets. Companies now need to protect themselves by diversifying their products and operations. Businesses now are compelled to focus on more than one business, or get specialized in one business.
- **Active Pressure Groups** − Contemporary pressure groups direct businesses to be more ethical in their operations. Most of the multinationals are now spending a good deal to address their Corporate Social Responsibility (CSR).

Strategic Options

Strategic Options include a set of strategies that helps a company in achieving its organizational goals. It is important to do a SWOT analysis of the internal environment and also the external environment to get the list of possible strategic alternatives.

A business can't run on gut feeling and hence, strategic options are indispensable tools for every international business manager. The following diagram shows the very basic options to choose – whether to go global or act local while improving the business in a holistic manner.

Strategic options/choice involves the selection of a strategy or set of strategies that helps in achieving organizational objectives.

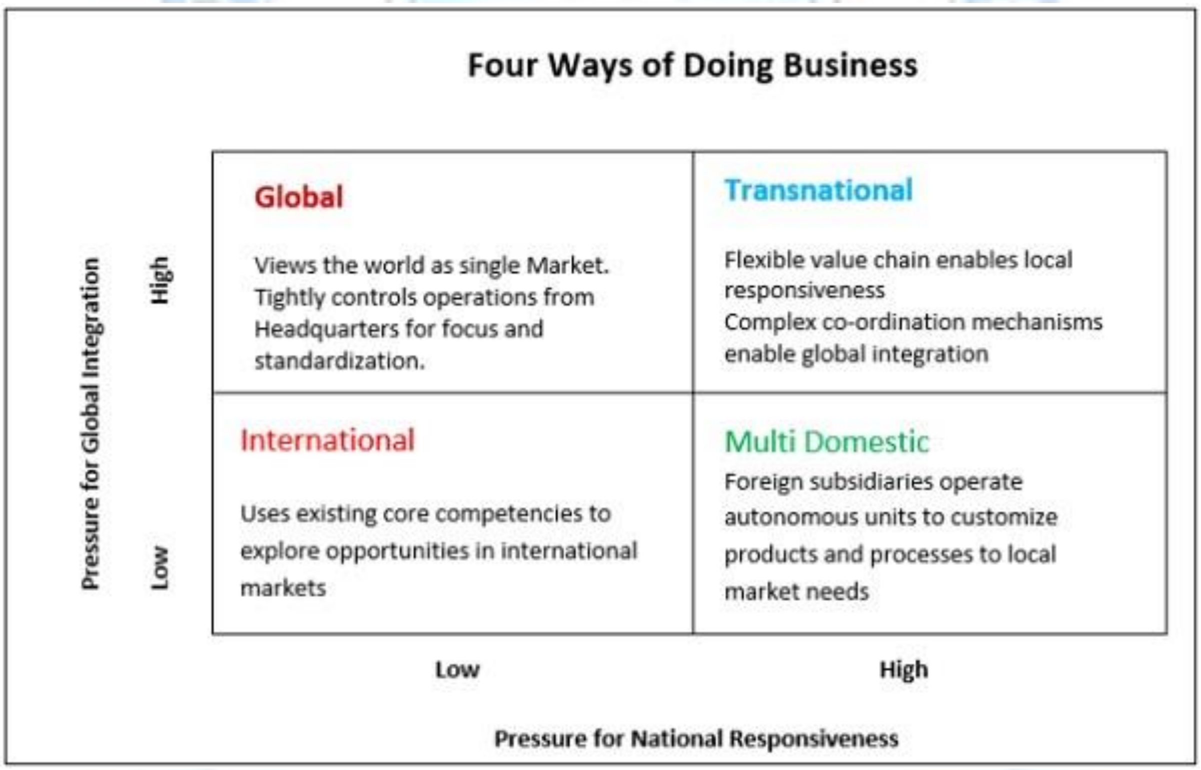
- Global strategy
- International strategy
- Transactional strategy
- Multi-domestic strategy

Global strategy: It views the world as a single market. Tightly controls global operations from headquarters to preserve focus on standardization.

International strategy: In this strategy company extends marketing, manufacturing and other activities outside the home country.

Multi-domestic strategy: the international company discovers that differences in markets around the world demand an adaptation of its marketing mix in order to succeed.

Transactional strategy: this is company that thinks globally and acts locally. The transactional corporation is much more than a company with sales, investments and operations in many countries.



Factors that Affect Strategic Options

There are many factors that need to be taken care of while choosing the best possible strategic options. The most influential ones are the following −

- **External Constraints** − The survival and prosperity of a business firm is fully dependent on interaction and communication with the elements that are intrinsic to the business. It includes the owners, customers, suppliers, competitors, government, and the stakeholders of the community.
- **Intra-organizational Forces** − The big decisions of a company are often influenced by the power-play among various interest groups. The strategic decision-making processes are no exception. It depends on the strategic choices made by the lower Management and top notch strategic management people.
- **Values and Preferences towards Risk** − Values play a very important role, It has been observed that the successful managers have a more pragmatic, interactive and dynamic progressive and achievement seeking values. The risk takers in the high-growth less-stable markets prefer to be the pioneers or innovators. They seek an early entry into new, untapped markets.
- **Impact of Past Strategies** − A strategy made earlier may affect the current strategy too. Past strategies are the starting point of building up a new strategies
- **Time Constraints** − There may be deadlines to be met. There may be a period of commitment, which would require a company to take immediate action.
- **Information Constraints** − The choice of a strategy depends heavily on the availability of information. A company can deal with uncertainty and risks depending on the availability of information at its disposal. Lesser the amount of information, greater the probability of risks.
- **Competitor's Risk** − It is important to weigh the strategic choices the competitors may have. A competitor who adopts a counter-strategy must be taken into account by the management. The likelihood of a competitor's strength to react and its probable impact will influence the strategic choices.

Global Portfolio Management

Global Portfolio Management, also known as **International Portfolio Management** or **Foreign Portfolio Management,**refers to grouping of investment assets from international or foreign markets rather than from the domestic ones. The asset grouping in GPM mainly focuses on securities. The most common examples of Global Portfolio Management are −

- Share purchase of a foreign company
- Buying bonds that are issued by a foreign government
- Acquiring assets in a foreign firm

Factors Affecting Global Portfolio Investment

Global Portfolio Management (GPM) requires an acute understanding of the market in which investment is to be made. The major financial factors of the foreign country are the factors affecting GPM. The following are the most important factors that influence GPM decisions.

Tax Rates

Tax rates on dividends and interest earned is a major influencer of GPM. Investors usually choose to invest in a country where the applied taxes on the interest earned or dividend acquired is low. Investors normally calculate the potential after-tax earnings they will secure from an investment made in foreign securities.

Interest Rates

High interest rates are always a big attraction for investors. Money usually flows to countries that have high interest rates. However, the local currencies must not weaken for long-term as well.

Exchange Rates

When investors invest in securities in an international country, their return is mostly affected by −

- The apparent change in the value of the security.
- The fluctuations in the value of currency in which security is managed.

Investors usually shift their investment when the value of currency in a nation they invest weakens more than anticipated.

Modes of Global Portfolio Management

Foreign securities or depository receipts can be bought directly from a particular country's stock exchange. Two concepts are important here which can be categorized as **Portfolio Equity** and**Portfolio Bonds**. These are supposed to be the best modes of GPM. A brief explanation is provided hereunder.

Portfolio Equity

Portfolio equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors.

Portfolio Bonds

Bonds are normally medium to long-term investments. Investment in Portfolio Bond might be appropriate for you if −

- You have additional funds to invest.
- You seek income, growth potential, or a combination of the two.
- You don't mind locking your investment for five years, ideally longer.
- You are ready to take some risk with your money.
- You are a taxpayer of basic, higher, or additional-rate category.

Global Mutual Funds

Global mutual funds can be a preferred mode if the Investor wants to buy the shares of an internationally diversified mutual fund. In fact, it is helpful if there are open-ended mutual funds available for investment.

Closed-end Country Funds

Closed-end funds invest in internationals securities against the portfolio. This is helpful because the interest rates may be higher, making it more profitable to earn money in that particular country. It is an indirect way of investing in a global economy. However, in such investments, the investor does not have ample scope for reaping the benefits of diversification, because the systematic risks are not reducible to that extent.

Drawbacks of Global Portfolio Management

Global Portfolio Management has its share of drawbacks too. The most important ones are listed below.

- **Unfavorable Exchange Rate Movement** − Investors are unable to ignore the probability of exchange rate changes in a foreign country. This is beyond the control of the investors. These changes greatly influence the total value of foreign portfolio and the earnings from the investment. The weakening of currency reduces the value of securities as well.
- **Frictions in International Financial Market** − There may be various kinds of market frictions in a foreign economy. These frictions may result from Governmental control, changing tax laws, and explicit or implicit transaction costs. The fact is governments actively seek to administer

international financial flows. To do this, they use different forms of control mechanisms such as taxes on international flows of FDI and applied restrictions on the outflow of funds.

- **Manipulation of Security Prices** − Government and powerful brokers can influence the security prices. Governments can heavily influence the prices by modifying their monetary and fiscal policies. Moreover, public sector institutions and banks swallow a big share of securities traded on stock exchanges.
- **Unequal Access to Information** − Wide cross-cultural differences may be a barrier to GPM. It is difficult to disseminate and acquire the information by the international investors beforehand. If information is tough to obtain, it is difficult to act rationally and in a prudent manner.

Global Entry Strategy - Global market entry strategies

How you enter your new market will be determined by the nature of your product and/or service, and the conditions and requirements of your chosen market segment and location.

Exporting strategies

Direct strategies

When you sell directly to end-users, you eliminate the middlemen making it easier to customize your market entry strategy to reflect the market conditions you may face.

Sales can be made directly between you and end-users, or they can be made through local sales representatives who promote your product and/or service without taking ownership. You can use a distributor to sell your products directly to buyers.

When you sell directly to end-users, you'll be responsible for:

- market research
- marketing
- distribution
- warehousing and delivery of your product and/or service
- customer and after-sales service
- Sales order, and billing.

Indirect strategies

When you sell indirectly to end users, exports are not handled directly by the manufacturer or producer, but through intermediaries such as agents, export management and trading companies.

In most cases, the exporting process is simplified and export management companies are usually responsible for:

- providing market information
- appointing sales representatives in the importing country
- devising promotional strategies
- organizing shipping
- export documentation

Export trading companies usually provide support services such as distribution, warehousing, shipping, billing and insurance.

Countertrade

A countertrade is a form of exporting where goods and services are paid for in full, or in part, with other goods and services.

Selling online

There are a few different approaches to selling online. You can:

- set up your own website in the export destination country which incorporates an online store, known as Business-to-Consumer
- sell your product wholesale to major e-commerce sites, which will then manage the marketing, sales and distribution to customers, known as Business-to-Business
- set up an online store within a major e-commerce site, known as Business-to-Consumer
- Sell your product through a third-party store or online supermarket, known as Business-to-Business-to-Consumer.

Contractual entry modes

Licensing

Licensing allows an individual or a company that owns intangible property (such as copyright or a trademark) to grant another party the right to use that property for a specified period of time, and under specified conditions. Payment is received in the form of royalties.

Pros	Cons
Can reduce risk and be an effective way to finance international expansion.	Your licensing agreement may restrict any future activities, or reveal information to a possible future competitor.

Franchising

Franchising is when the owner of the business providing a product and/or service (the franchiser) assigns to independent people (the franchisees) the right to market and distribute the franchiser's products and/or service, and to use the business name for a specified period of time, and under specified conditions.

Pros	Cons
It's a low-cost, low-risk mode of entry into new markets allowing you to use the cultural knowledge and know-how of local managers.	As a franchiser, you're obliged to continue to support the franchisee after the initial one-time transfer of property is complete.

Investment entry modes

Joint ventures

A joint venture is when a separate company is created, and jointly owned by two or more independent entities to achieve an objective.

Pros	Cons
Can be a good way to penetrate international markets while reducing risk.	There's always the possibility of conflict between partners, and potential loss of control by one of the parties.
Can allow you to access the international distribution network of the entities you've partnered with.	

Strategic alliances

A strategic alliance is when two or more entities cooperate to achieve a strategic goal. Depending on the goals, alliances can be formed between a company and its suppliers, customers, or even its competitors in some instances, for short, medium or long-term periods.

Pros	Cons
You can share costs and utilise member strengths.	There's risk of conflict between partners, not to mention the creation of a future local or international competitor.

Wholly owned subsidiaries

A wholly owned subsidiary is a company that is completely owned and controlled by a single parent company.

Pros	Cons
You have complete control over the day-to-day operations in markets overseas, while at the same time acquiring valuable processes and technologies.	It requires substantial resources, so the exposure to risk is high.

Forms of International Business

1. **Exporting**: Exporting means producing/procuring in the home market and selling in the foreign market. Exporting is not an activity just for large multinational enterprises; small firms can also make money by exporting. In recent days, exporting has become easier though it remains a challenge for many firms.
2. **Licensing:** A licensing is an agreement whereby a licencor grants the rights to intangible property (patents, intentions, formulas, processes, designs, copyrights and trademarks) to another entity (licensee) for a specified period and in return the licencor receives a royalty/fee from the licensee.
3. **Franchising:** Franchising is basically o specialized form of licensing in which the franchiser not only sells intangible property to the franchisee but also insists that the franchisee agrees to abide by strict rules as to how it does business.

4. **Joint venture:** A joint venture entails establishing a firm that is jointly owned by two or more independent firms.
5. **Management Contracts:** A firm in one country agrees to operate facilities or provide other management services to a firm in another country for an agreed upon fees.
6. **Turnkey projects:** In a turnkey project, the contractor agrees to handle every details of the project for a foreign client, including the training of operating personnel. At completing of the contract the foreign client handles the 'key' of a plant that is ready for full operation
7. **Strategic international alliances:** A strategic international alliance is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective.
8. **Direct foreign investment:** Direct foreign investment is another important form of international business. Companies may manufacture locally to capitalize on low cost labor, to avoid high import taxes, to reduce the high cost of transportation to market, to gain access to raw materials or gaining market entry.

Advantages of DifferentForms of IB

Direct Exporting

- You can select your foreign representatives in the overseas market.
- You can utilize the direct exporting strategy to test your products in international markets before making a bigger investment in the overseas market.
- This strategy helps you to protect your patents, goodwill, trademarks and other intangible assets.

Licensing and Franchising

- Low cost of entry into an international market
- Licensing or Franchising partner has knowledge about the local market
- Offers you a passive source of income
- Reduces political risk as in most cases, the licensing or franchising partner is a local business entity
- Allows expansion in multiple regions with minimal investment

Joint Venture

- Both partners can leverage their respective expertise to grow and expand within a chosen market
- The political risks involved in joint-venture is lower due to the presence of the local partner, having knowledge of the local market and its business environment
- Enables transfer of technology, intellectual properties and assets, knowledge of the overseas market etc. between the partnering firms

Strategic Acquisitions

- Your business does not need to start from scratch as you can use the existing infrastructure, manufacturing facilities, distribution channels and an existing market share and a consumer base
- Your business can benefit from the expertise, knowledge and experience of the existing management and key personnel by retaining them
- It is one of the fastest modes of entry into an international business on a large scale

Foreign Direct Investment

- You can retain your control over the operations and other aspects of your business

- Leverage low-cost labour, cheaper material etc. to reduce manufacturing cost towards obtaining a competitive advantage over competitors
- Many foreign companies can avail for subsidies, tax breaks and other concessions from the local governments for making an investment in their country

Organisational Issues of IB

Expanding business overseas means reaching new clients or customers and potentially boosting profits. Despite all the uncertainty and the challenges that have yet to reveal themselves, there are some guidelines for conducting business on a global scale that we should always consider before leaping into new international operations. Here is some advice on how to tackle the 11 biggest challenges for international business:

1. International company structure
2. Foreign laws and regulations
3. International accounting
4. Cost calculation and global pricing strategy
5. Universal payment methods
6. Currency rates
7. Choosing the right global shipment methods
8. Communication difficulties and cultural differences
9. Political risks
10. Supply chain complexity and risks of labor exploitation
11. Worldwide environmental issues

1. International Company Structure

If your aim is to be competitive globally, you must have a team in place that's up for the challenge. One fundamental consideration is the structure of your organization and the location of your teams.

For instance, will your company be run from one central headquarters? Or will you have offices and representatives "on the ground" in key markets abroad? If so, how will these teams be organized, what autonomy will they have, and how will they coordinate working across time zones? If not, will you consider hiring local market experts who understand the culture of your target markets, but will work centrally?

Coca-Cola offers one example of effective multinational business structure. The company is organized into continental groups, each overseen by a President. The central Presidents manage Presidents of smaller, country-based or regional subdivisions. Despite its diverse global presence, the Coca-Cola brand and product is controlled centrally and consistent around the world.

While Coca-Cola is a vast international brand, the structure of your business and the number, nationality, and level of expertise of your team will vary depending on your industry, product, and the size of your business.

2. Foreign Laws and Regulations

Along with getting your company structure in place, gaining a comprehensive understanding of the local laws and regulations governing your target markets is key. From tax implications through to trading laws, navigating legal requirements is a central function for any successful international business. Eligibility to trade is a significant consideration, as are potential tariffs and the legal costs associated with entering new markets.

It's important to note that employment and labor requirements also differ by country. For instance, European countries stipulate that a minimum of 14-weeks maternity leave be offered to employees, while on the other hand, there is no such requirement for U.S. employers.

3. International Accounting

Of the main legal areas to consider when it comes to doing international business, tax compliance is perhaps the most crucial. Accounting can present a challenge to multinational businesses who may be liable for corporation tax abroad. Different tax systems, rates, and compliance requirements can make the accounting function of a multinational organization significantly challenging.

Accounting strategy is key to maximizing revenue, and the location where your business is registered can impact your tax liability. Mitigating the risk of multiple layers of taxation makes good business sense for any organization trading abroad. Being aware of tax treaties between countries where your business is trading will help to ensure you're not paying double taxes unnecessarily.

4. Cost Calculation and Global Pricing Strategy

Setting the price for your products and services can present challenges when doing business overseas and should be another major consideration of your strategy. You must consider costs to remain competitive, while still ensuring profit. Researching the prices of direct, local-market competitors can give you a benchmark, however, it remains essential to ensure the math still works in your favor. For instance, the cost of production and shipping, labor, marketing, and distribution, as well as your margin, must be a taken into account for your business to be viable.

Pricing can also come down to how you choose to position your brand — should the cost of your product reflect luxury status? Or will low prices help you to penetrate a new market?

Swedish furniture giant Ikea, known in Europe for its low-cost value, struggled initially in China due to local competitor costs of labor and production being much cheaper. By relocating production for the Chinese market and using more locally sourced materials, the company was able to successfully cut prices to better reflect its brand and boost sales among target consumers.

5. Universal Payment Methods

The proliferation of international e-commerce websites has made selling goods overseas easier and more affordable for businesses and consumers. However, payment methods that are commonly accepted in your home market might be unavailable abroad. Determining acceptable payment methods and ensuring secure processing must be a central consideration for businesses who seeks to trade internationally.

Accepting well-known global payment methods through companies like Worldpay, as well as accepting local payment methods, such as JCB in Asia or Yandex Money in Russia, can be a good option for large international businesses. Accepting wire transfers, PayPal payments, and Bitcoin, are other possibilities.

6. Currency Rates

While price setting and payment methods are major considerations, currency rate fluctuation is one of the most challenging international business problems to navigate. Monitoring exchange rates must therefore be a central part of the strategy for all international businesses. However, global economic volatility can make forecasting profit especially difficult, particularly when rates fluctuate at unpredictable levels.

Major fluctuations can seriously impact the balance of business expenses and profit. One way to protect yourself against large fluctuations in currency is to pay suppliers and production costs in the same currency as the one you're selling in.

Another option for mitigating the risk of unpredictable currency rates can be setting up a forward contract and agreeing a price in advance for future sales. Of course, this potentially means missing out on greater profit should rates shift in your favor. However, it can protect your sales from the risk presented by unstable currency.

7. Choosing the Right Global Shipment Methods

The potential of online sales presents a huge international business opportunity for retailers in the 21st century, but finding reliable, fast, and cost-effective shipment and distribution methods can be a difficult balance in some markets. Depending on the volume and destination of your shipments, will you send by land, sea, air, or a combination. Your choice of shipping method can be a major influence on your revenue and may be a limiting factor to the products you can viably sell overseas.

Other considerations to address according to your company's products and your target markets include customs fees, the need and cost of storage, and local methods of distribution. There are also country-specific regulations and shipping requirements to take into account.

8. Communication Difficulties and Cultural Differences

Good communication is at the heart of effective international business strategy. However, communicating across cultures can be a very real challenge.

Effective communication with colleagues, clients, and customers abroad is essential for success in international business. And it's often more than just a language barrier you need to think about — nonverbal communication can make or break business deals too. Do your research and know how different cultural values and norms — such as shaking hands — can and should influence the way you communicate in a professional context. Being aware of acceptable business etiquette abroad, and how things like religious and cultural traditions can influence this, will help you to better navigate potential communication problems in international business.

Cultural differences can also influence market demand for your product or service. The need your business may address at home may already be met or not exist at all overseas. Local market insight is key, and there are a number of successful brands whose business models simply weren't viable in overseas markets. For instance, American coffee company Starbucks seriously struggled in Australia, where the demand for local, independent cafes and coffee shops vastly outweighed the appeal of the corporate giant.

9. Political Risks

An obvious risk for international business is political uncertainty and instability. Countries and emerging markets that may offer considerable opportunities for expanding global businesses may also pose challenges, which more established markets do not. Before considering expansion into a new or unknown market, a risk assessment of the economic and political landscape is critical.

Issues such as ill-defined or unstable policies and corrupt practices can be hugely problematic in emerging markets. Changes in governments can bring changes in policy, regulations, and interest rates that can prove damaging to foreign business and investment.

10. Supply Chain Complexity and Risks of Labor Exploitation

When it comes to sourcing products and services from overseas, managing suppliers and supply chains can also be a tricky process. Unfortunately, the length and complexity of supply chains increases the chance of working with suppliers who have unethical — and even illegal — business practices. Of growing concern is the risk in international business of forced labor and worker exploitation.

11. Worldwide Environmental Issues

As the environmental risks and effects of climate change are becoming better understood, sustainability is high on the agenda of many major global corporations. Recent international legislations and proposals, such as the UN's Sustainable Development Goals, have put environmental issues at the forefront of international business development.

On a practical level, if you're considering expanding your business overseas, it's important to be aware of the country-specific environmental regulations and issues associated with your industry. Some key considerations include how your production methods might impact the local environment through waste and pollution.Beyond a legal or ethical incentive to be more eco-friendly, establishing environmentally conscious business practices can attract new, forward-thinking consumers to your company.

Organizational Structures

Every international business firm has to face various issues related to organizational policies. These organizational issues are to be addressed carefully in order to keep the business healthy and profitable. Although there are numerous issues, both small and big, we will primarily concentrate only on the major issues that need to be addressed.

Centralization vs. Decentralization

Centralization is the systematic and consistent reservation of authority at central points in the organization. In **centralization,**the decision-making capability lies with a few selected employees. The implications of centralization are

- Decision making power is reserved at the top level.
- Operating authority lies with the mid-level managers.
- Operation at lower level is directed by the top level.

Almost every important decision and operational activities at the lower level are taken by the top management.

Decentralization is a systematic distribution of authority at all levels of management. In a decentralized entity, major decisions are taken by the top management to build the policies concerning the entire organization. Remaining authority is delegated to the mid- and lower-level managers.

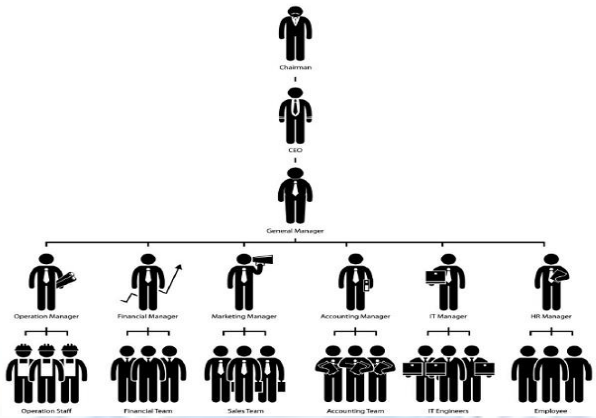
Use of Subsidiary Board of Directors

International firms, especially the fully-owned ones, usually have a board of directors to oversee and direct the top-level management. The major responsibilities of board-members are to −

- Advice, approve, and appraise local management.
- Help the management unit in providing response to local conditions.
- Assist the top management in strategic planning.
- Supervise the firm's ethical issues.

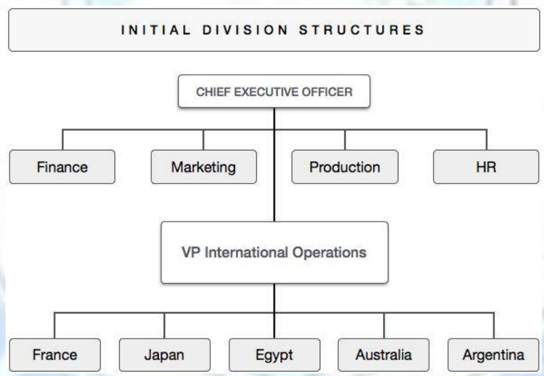
Organizational Structures

Any international business organization, depending on its requirements and operations, would have an organization structure to streamline all its processes. In this section, we will try to understand some of the major types of organizational structures.



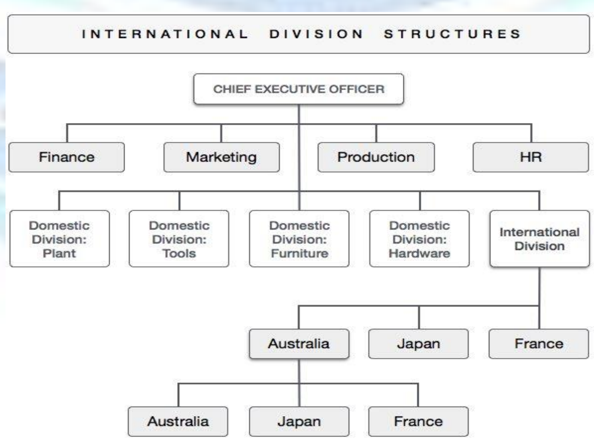
Initial Division Structures

Initial division structures are common in subsidiaries, export firms, and on-site manufacturers. **Subsidiaries** that follow this kind of organization structure include firms where the main export is expertise, for example, consultants and financial firms. **Export firms** include those having technologically advanced products and manufacturing units. Companies having **on-site manufacturing operations** follow this structure to cut down their costs.



International Division Structure

This structure is built to handle all international operations by a division created for control. It is often adopted by firms that are still in the development stages of international business operations.



Advantages

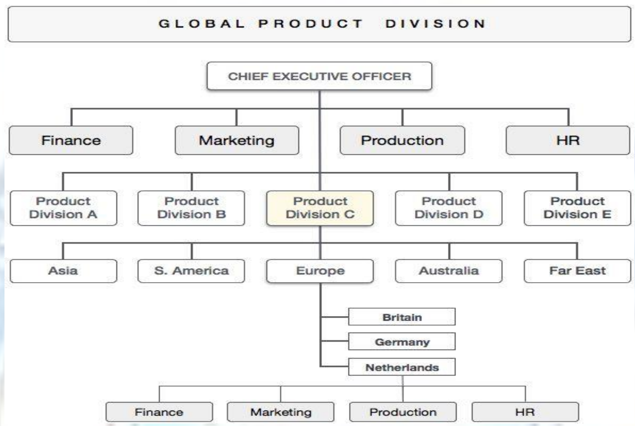
- International attitude gets the attention of top management
- United approach to international operations

Disadvantages

- Separates domestic managers from their international counterparts
- Difficulty in ideating and acting strategically and in allocating resources globally

Global Product Division

Global product divisions include domestic divisions that are allowed to take global responsibility for product groups. These divisions operate as profit centers.



Advantages

- Helps manage product, technology, customer diversity
- Ability to cater to local needs
- Marketing, production, and finance gets a coordinated approach on a product-by-product, global basis

Disadvantages

- Duplication of facilities and staff personnel within divisions
- Division manager gets attracted to geographic prospects and neglects long-term goals
- Division managers spending huge to tap local, not international markets

Global Area Division

Global area division structure is used for operations that are controlled on a geographic rather than a product basis. Firms in mature businesses with select product lines use it.

Advantages

- International operations and domestic operations remain at the same level

- Global division managers manage business operations in selected geographic area
- Ability to reduce cost per unit and price competitively

Disadvantages

- Difficult to align product emphasis in a geographically oriented manner.
- New R&D efforts are often ignored, as sale in mature market is where the focus is.

Global Functional Division

This structure is to primarily organize global operations based on function; product orientation is secondary for firms using global function division structure.

Advantages

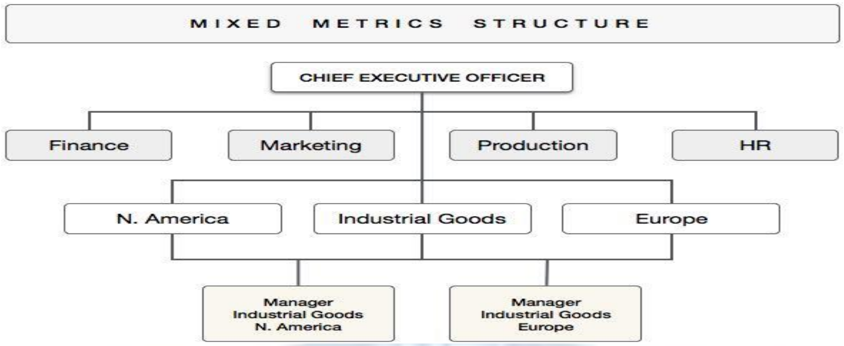
- It emphasizes on functional leadership, centralized-control, and leaner managerial staff
- Favorable for firms that require a tight, centralized coordination and control over integrated production mechanisms
- Helps those firms that need to transport products and raw materials between geographic areas

Disadvantages

- Not suitable for all types of businesses. Applicable to only oil and mining firms
- Difficult to coordinate manufacturing and marketing processes
- Managing multiple product lines can be challenging, as production and marketing are not integrated.

Mixed Matrix

This structure combines global product, area, and functional arrangements and it has a cross-cutting committee structure.



Advantages

- Can be designed to meet individual needs
- Promotes an integrated strategic approach tailored to local needs and priorities

Disadvantages

- Complex structure, coordinating and getting everyone to work toward common goals becomes difficult.
- Too many independent groups in the structure

Controlling of International Business

There are three main levels at which control can be implemented and managed in an international business. These three key levels of control are as follows:

Strategic

Organizational

Operational

Strategic Control:

Strategic control in intended both how well an international business formulates strategy and how well it goes about implementing it. Thus strategic control focuses on how well the firm defines and maintains its desired strategic alignment with its environment and how effectively it is setting and achieving its strategic goals.

Strategic control also play a major role in the decisions firms make about foreign-market entry and expansion and most critical aspect of strategic control is control of an international firm's financial resources.

Organizational Control:

Organizational control focuses on the design of the organization itself. There are many different forms of organizational design an international firm can use. But selecting and implementing a particular design does not necessarily end the organization design process.

International firm generally use one or more of three types of organizational control systems:

i. **Responsibility Centre Control:**

The most common type of organizational control system is a decentralized one called responsibility centre control. Using this system, a firm first identifies fundamentals responsibility centers within the organization. Strategic business units are frequently defined as responsibility centers, as are geographical regions or product groups.

ii. Generic Organizational Control:

A firm may prefer to use generic organizational across its entire organization; that is, the control systems used are the same for each unit or operation, and the locus of authority generally resides at the firm's headquarters.

iii. Planning Process Control:

A third type of organizational control, which could be used in combination with either responsibility center control or generic organizational control, focuses on the strategic planning process itself rather than on outcomes. Planning process control calls for a firm to concentrate its organizational control system on the actual mechanics and processes its uses to develop strategic plans.

Operations Control:

The third level of control in an international firm is operations control. Operations control focuses specifically on operating processes and systems within both the firm and its subsidiaries and operating units. Thus a firm needs an operation control system within each business unit and within each country or market in which it operates.

Establishing International Control Systems

Control systems in international business are established through four basic steps:

Set Control standards for performance

Measure actual performance

Compare performance against standards

Respond to deviations

i. Set Control Standards for Performance

The first step in establishing an international control system is to define relevant control standards. A control standards in this context is a target, a desired level of performance component the firm is attempting control.

Control standards need to be objective and consistent with firm's goals. Suppose a firm is about to open its first manufacturing facility in Thailand. It might set the following three control standards for the plant:

Productivity and quality in the new plant will exceed the levels in the firm's existing plants.

After an initial break-in period, 90% of all key management positions in the plant will be filled by local managers.

The plant will obtain at least 89% of its resources from local suppliers.

ii. Measure Actual Performance

The second step in creating an international control system is to develop a valid measure of the performance component being controlled. For the firm introducing a new product in a foreign market, performance is based on the actual number of units sold. For the new plant in Thailand used as an example earlier, performance would be assessed in terms of productivity, quality, and hiring and purchasing practices.

iii. Compare Performance Against Standards

The next step in establishing an international control system is to compare measured performance against the original control standards. Again, when control standards are straightforward and objective and performance is relatively easy to asses, this comparison is easy. But when control standards and performance measures are less concrete, comparing one against the other is considerably more complicated.

iv. Responding to Deviations

The final step in establishing an international control system is responding to deviations observed in step 3. Three different outcomes can result when comparing a control standard and actual performance:

The control standard has been met.

It has not been met.

It has been exceeded.

Depending on the circumstances, managers have many alternative responses to these outcomes. If a standard has not been met and the manager believes it is because of performance deficiencies on the part of employees accountable for the performance, the manger may mandate higher performance, increase incentives to perform at a higher level, or discipline or even terminate those employees.

Approaches to Control Mechanisms

There are seven major approaches for controlling a business organization. These are discussed below −

1. **Market Approach**

The market approach says that the external market forces shape the control mechanism and the behavior of the management within the organizational units of an MNC. Market approach is applied in any organization having a decentralized culture. In such organizations, transfer prices are negotiated openly and freely. The decision-making process in this approach is largely directed and governed by the market forces.

2. **Rules Approach**

The rules approach applies to a rules-oriented organization where a greater part of decision-making is applied to strongly impose the organizational rules and procedures. It requires highly developed plan and budget systems with extensive formal reporting. Rules approach of control utilizes both the input and output controls in an organized and exclusively formalized manner.

3. **Corporate Culture Approach**

In organizations that follow the corporate culture approach, the employees internalize the goals by building a strong set of values. This value-syndication influences the operational mechanism of the organization. It has been observed that even when some organizations have strong norms of behavioural controls, they are informal and less explicit. Corporate culture approach requires more time to bring the aimed changes or adjustments in an organization.

4. **Reporting Culture**

Reporting culture is a powerful control mechanism. It is used while allocating resources or while the top management wants to monitor the performance of the firm and the employees. Rewarding the personnel is a common practice in such approaches of control. However, to get the maximum out of reporting approach, the reports must be frequent, correct, and useful.

5. **Visits to Subsidiaries**

Visiting the subsidiaries is a common control approach. The disadvantage is that all the information cannot be exchanged via visits. Corporate staff usually and frequently visit subsidiaries to confer and socialize with the local management. Visits can enable the visitors to collect information about the firm which allows them to offer advice and directives.

6. **Management Performance Evaluation**

Management performance Evaluation is used to evaluate the subsidiary managers for the subsidiary's performance. However, as decision-making authority is different from the operational managers, some aspects of control cannot be managed via this approach. Slow growth rates of firms and risky economical and political environment requires this kind of approach.

7. **Cost and Accounting Comparisons**

Cost and Accounting Comparisons is a financial approach. It arises due to the difference in expenditure among various units of the subsidiaries. A meaningful comparison of the operating performances of the units is necessary to get the full output from this approach. Cost accounting comparisons use a set of rules that are applicable to the home country principles to meet local reporting requirements.

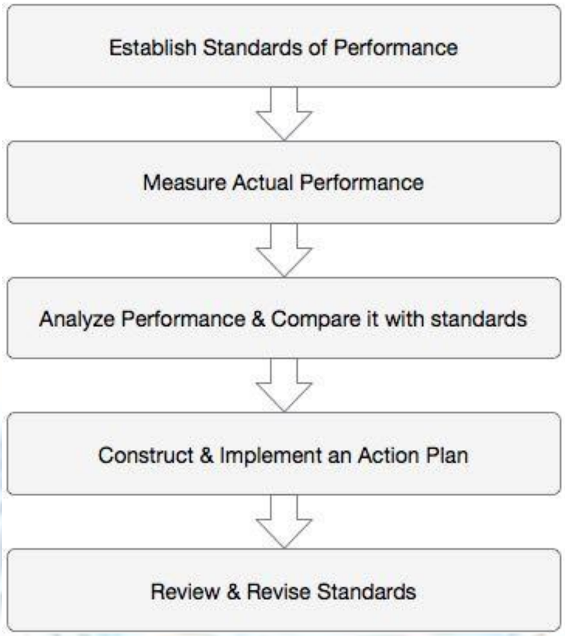
Constraints of Control Approaches

Control mechanisms can never be uniform in every country. International firms have to face severe constraints based on which they modify their control mechanisms in every country. Here is a list of major constraints that affect an organization in setting its managerial control mechanism −

- **Distance** − Geographical distances and various forms of cultural disparities is a big constraint of control systems. Nowadays, email and fax transmissions have replaced the human communication, changing the meaning of distance among units and employees of an organization.
- **Diversity** − It is hard to apply a common control system to everyone due to diversity. It requires the managers to be locally responsive to address the needs of the country in which the firm operates. Diverse attributes may exist in the form of labor, cost, currency, economic factors, business standards, etc.
- **Degree of Uncertainty** − Data relating to the reporting mechanism may be inaccurate and incomplete, raising serious challenges to control mechanisms. Due to uncertainities, control mechanisms must focus on setting goals and developing plans to meet the goals.

Performance of Global Business

It is an important part of every business organization to measure the performance of both employees and the firm as a whole. We will, however, restrict our focus on organizational performance measurement. The standard process of measuring the performance of a global business is as shown in the following diagram −



The prominent features of each stage are discussed below.

Establish Standard of Performance

Standard of performance is applicable to cost, quality, and customer service. More than one standard may be necessary because they reflect expected levels of various units of the manufacturing performance. This includes process yields, product quality, overhead spending levels, etc.

Measure Actual Performance

To measure actual performance, the use of automated data collection systems is suggested to gather information. A standard cost measurement system includes man-hours, machine-hours, and material usage.

Analyze the Performance and Compare it with standards

There must be some set standards to compare the actual performance. The standards should be realistic and achievable. The results of the comparison can be used to apply further rules, targets, and reporting.

Construct and Implement an Action Plan

Constructing and implementing an action plan is key to success. **Variance analysis** can be used to detect potential problem areas. Finding the source of the problem and improving the situation may be useful. Its effectiveness depends on the management's adaptability to the information obtained.

Review and Revise Standards

Review and revise is an important step, as modern organizations are in a constant state of change. If the variances are significant, the performance standards can be adjusted. Effective Performance Measurement must be integrated with the overall strategy. This step requires various financial and non-financial indicators.

Effective Performance Measurement System

For getting an effective performance measurement system −

- The measurement objectives must be owned and supported throughout the organization.
- The process must be applied top-down for maximum benefits. The measures applied must be fair and achievable.
- The measurement system and the reporting structure must be simple, clear, and recognizable.

- The firms need to prioritize and focus to address only the key performance indicators.

Performance Evaluation System

A performance evaluation system must contain periodic review of operations so that the objectives of the firm are accomplished. It is important to have the accounting information to evaluate domestic and foreign operations' costs and profitabilities.

It is not all that simple to measure the performance of an individual, a division, a subsidiary, or even a company as a whole. It is a lengthy and hectic process. The objectives of performance evaluation are to −

- Find the economic performance of the firm
- Analyze each unit's management performance
- Monitor the progress of objectives, including the strategic goals
- Assist in appropriate allocation of resources

Financial and Non-Financial Measures of Evaluation

ROI (Return on Investment) − ROI is the most common method to evaluate the performance of an international firm. It shows the relationship between profit to invested capital and encompasses almost all important factors related to performance. An improved ROI can act as a logical motivator of the managers.

Budget as Success Indicator − Budget is an accepted tool for measuring and controlling the operations. It is also used to forecast future operations. A budget is a clearly expressed set of objectives that guide the managers to set their individual performance standards. A good local or regional budget helps the company to facilitate its strategic planning process smoothly.

Non-Financial Measures − The major non-financial measures that can be used to evaluate performance are − Market Share, Exchange Variations, Quality Control, Productivity Improvement, and Percentage of Sales.

Types of Performance Evaluation Systems

Performance evaluation systems can be of the following types −

- **Budget Programming** − Budget programming is prepared for operational planning and financial control. It is an easy-to-calculate system to evaluate the variance. It is used to measure the current performance in relation to some comparable performance metric from the past.
- **Management Audit** − It is an extended form of financial audit system which monitors the quality of management decisions in financial operations. It is used for appraisal and performing audit for management.
- **Programme Evaluation Review Technique (PERT)** − Based on CPM, PERT delineates a given project or program into network of activities or sub-activities. The goal is to optimize the time spent by the managers. In this process, performance is measured by comparing the scheduled time and the cost allocated with the actual time and the cost.
- **Management Information System (MIS)** − MIS is an ongoing system designed to plan, monitor, control, appraise, and redirect the management towards pre-defined targets and goals. It is a universally acceptable practice which encompasses the financial, budgeting, audit and control systems of the PERT.
