

Warm-Up Session

What is 'International Management'?

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What is 'International Management'?



■ Learning Objectives

- ❖ The broad concept of **international management**;
- ❖ **G7 vs E7** future projection;
- ❖ The **rising power** of **large MNEs** against local governments;
- ❖ Acceleration of MNE **internationalization** speed/intensity/scale;
- ❖ Ghemawat's **CAGE** framework; &
- ❖ Ghoshal's framework - strategic goals & sources of competitive advantage.

What is 'International Management'?



■ Introduction

- ❖ Why is it important to **learn international business**?
- ❖ What is '**true**' **internationalization** at the individual-, firm-, & country-specific level?
- ❖ How to **measure** this concept?
- ❖ Do you think that **Italian or your home-country companies** are **international enough**? (**If yes, why? If not, why not?**)
- ❖ What are the **key elements** of **international business**?
- ❖ What are the **benefits & risks** to companies by **going abroad**?
- ❖ **How** do companies **tap into foreign markets**?

What is 'International Management'?



What is 'International Management'?

What is 'International Management'?



■ Significance of 'International Management'

- ❖ *'International', 'global', 'multinational', 'regional' ...*
- ❖ Universities put an emphasis on nurturing
 - Language education, study & internship abroad programs etc.
- ❖
- ❖ Number of foreign businesses (↑) = The number of home-country nationals living abroad (↑)
- ❖ **Italy's market size: 60 millions people (only 0.78%)**
 - **The growth potential is limited**; the growth of the domestic consumer market has peaked; the relocation of production bases to foreign markets speeds up etc. → Italian companies have no choice but to seek overseas markets if they desire to achieve further business growth & development.

What is 'International Management'?



■ Significance of 'International Management'

❖ What resources are necessary for companies doing business with foreign partners?

❖ International management?

- To manage a variety of business activities across borders.
- To organize & govern the complex process to coordinate, & configurate beyond geography.
- Strategic analysis, strategic formulation, strategic execution (**See next slide!**).

❖ Who is the central actor in international business?

- **MNCs**: Multinational corporations.

❖ MNCs?

- Those engaging in business activities & managing entities which yield profits in **2 countries or more** (including the home country) (Jones, 2005).

What is 'International Management'?



■ The Strategic Management Process in the Global Context

- > Analyzing organizational goals & objectives.
- > Analyzing the external environment of the firm.
- > Analyzing the internal environment of the firm.
- > Analyzing a firm's intellectual assets.

Strategic Analysis

- > Strategic control & corporate governance.
- > Creating effective organizational designs.
- > Creating a learning organization & an ethical organization.
- > Fostering an entrepreneurial culture.

- > Formulating business strategy.
- > Formulating corporate strategy.
- > Entrepreneurial strategy & competitive dynamics.

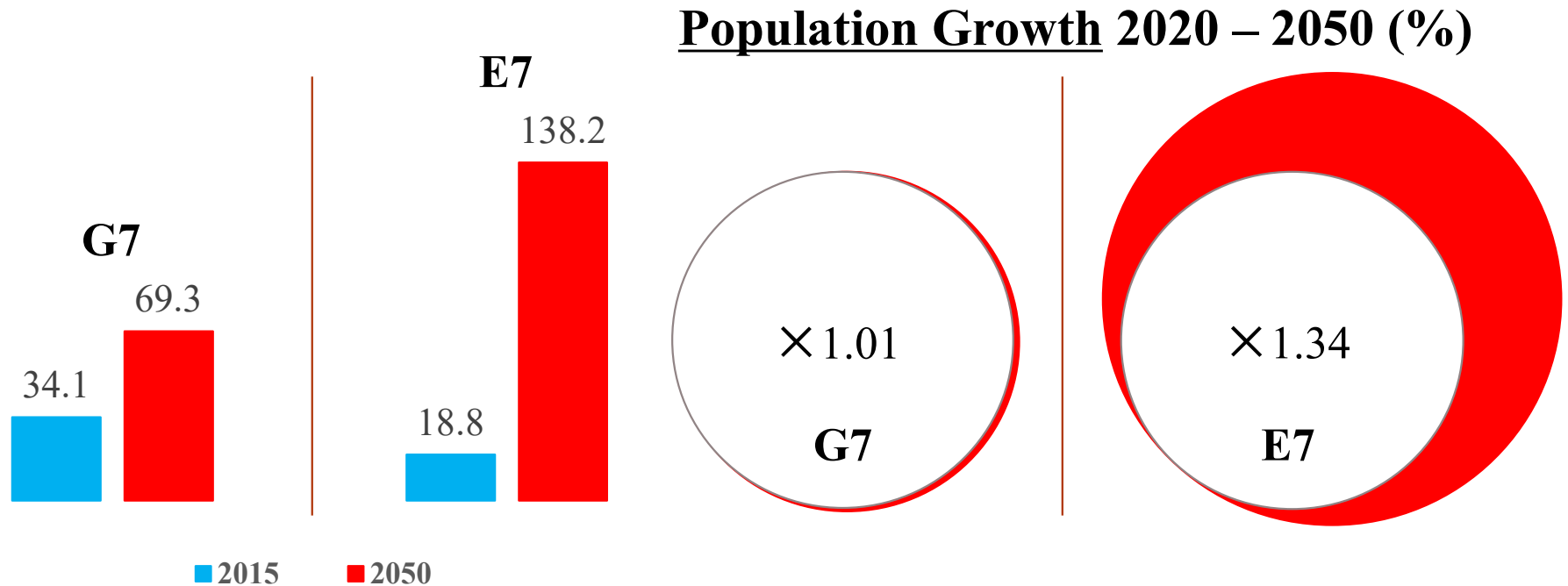
Strategic Formulation Implementation



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■ G7 vs E7 Future Projection



Aggregate GDP Totals (US\$ Trillion)



Source: <https://databank.worldbank.org/>

What is 'International Management'?



■ The World is Changing so Fast & Dynamically

Rise and fall

Economic growth

GDP at purchasing power parity (PPP) rankings

2009 rank	Country	GDP at PPP*	2050 rank	Country	Projected GDP at PPP*
1	US	\$14,256bn	1	China	\$59,475bn
2	China	\$8,888bn	2	India	\$43,180bn
3	Japan	\$4,138bn	3	US	\$37,876bn
4	India	\$3,752bn	4	Brazil	\$9,762bn
5	Germany	\$2,984bn	5	Japan	\$7,664bn
6	Russia	\$2,687bn	6	Russia	\$7,559bn
7	UK	\$2,257bn	7	Mexico	\$6,682bn
8	France	\$2,172bn	8	Indonesia	\$6,205bn
9	Brazil	\$2,020bn	9	Germany	\$5,707bn
10	Italy	\$1,922bn	10	UK	\$5,628bn
11	Mexico	\$1,540bn	11	France	\$5,344 bn
12	Spain	\$1,496bn	12	Turkey	\$5,298bn
13	South Korea	\$1,324bn	13	Nigeria	\$4,530bn
14	Canada	\$1,280bn	14	Vietnam	\$3,939bn
15	Turkey	\$1,040bn	15	Italy	\$3,798bn
16	Indonesia	\$967bn	16	Canada	\$3,322bn
17	Australia	\$858bn	17	South Korea	\$3,258bn
18	Saudi Arabia	\$595bn	18	Spain	\$3,195bn
19	Argentina	\$586bn	19	Saudi Arabia	\$3,039bn
20	South Africa	\$508bn	20	Argentina	\$2,549bn

Projected average annual real growth in GDP, 2009-2050

Vietnam	8.8%
India	8.1%
Nigeria	7.9%
China	5.9%
Indonesia	5.8%
Turkey	5.1%
SouthAfrica	5.0%
SaudiArabia	5.0%
Argentina	4.9%
Mexico	4.7%
Brazil	4.4%
Russia	4.0%
Korea	3.1%
Australia	2.4%
US	2.4%
UK	2.3%
Canada	2.2%
Spain	1.9%
France	1.7%
Italy	1.4%
Germany	1.3%
Japan	1.0%

SOURCE: WORLD BANK ESTIMATES FOR 2009, PwC MODEL ESTIMATES FOR 2050

Constant 2009 US\$

SOURCE: PwC MODEL ESTIMATES

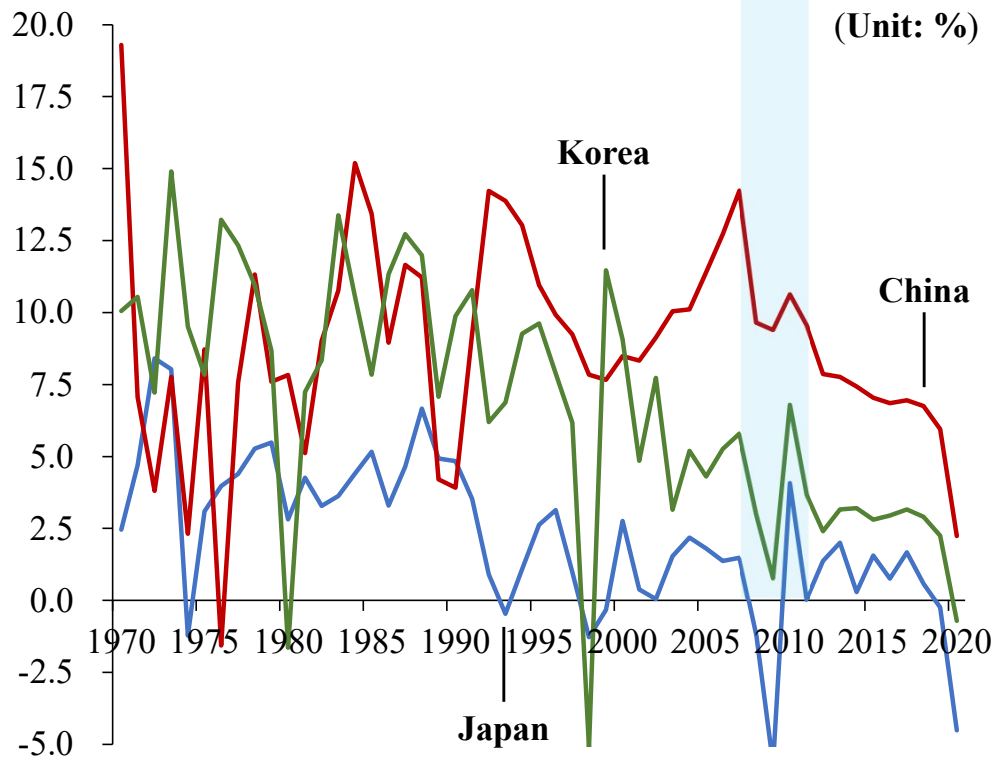
Source: www.gurdian.co.uk based on World Bank for 2009, PwC main scenario model projections for 2010-50.

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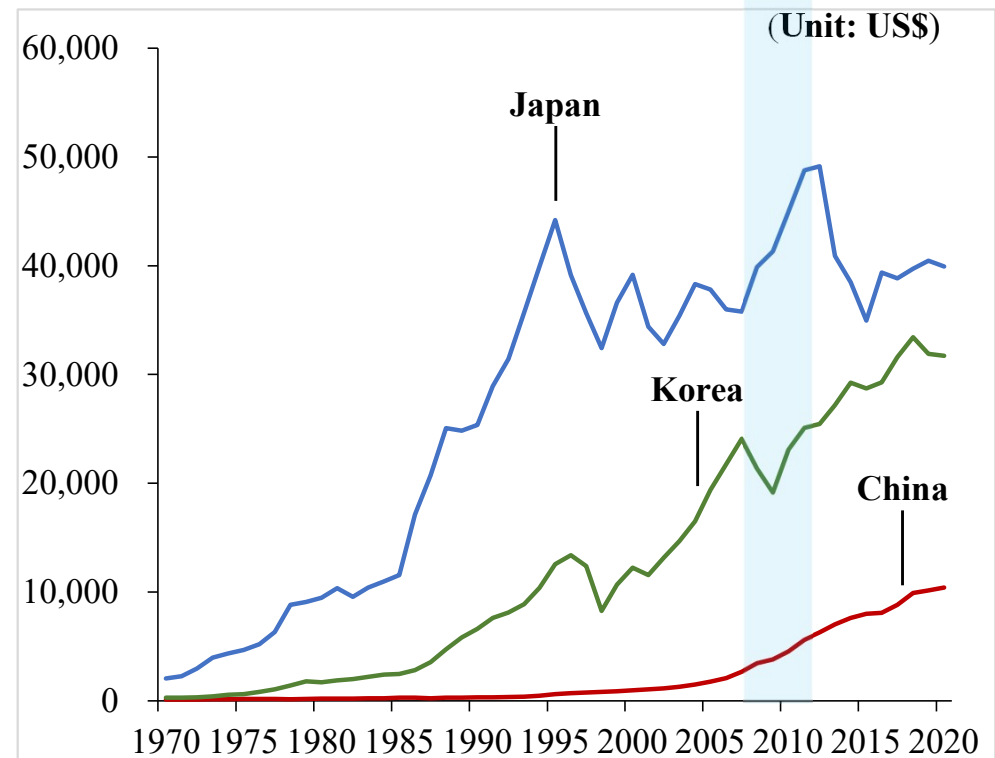


Asian Market Potential

GDP Growth



GDP per Capita



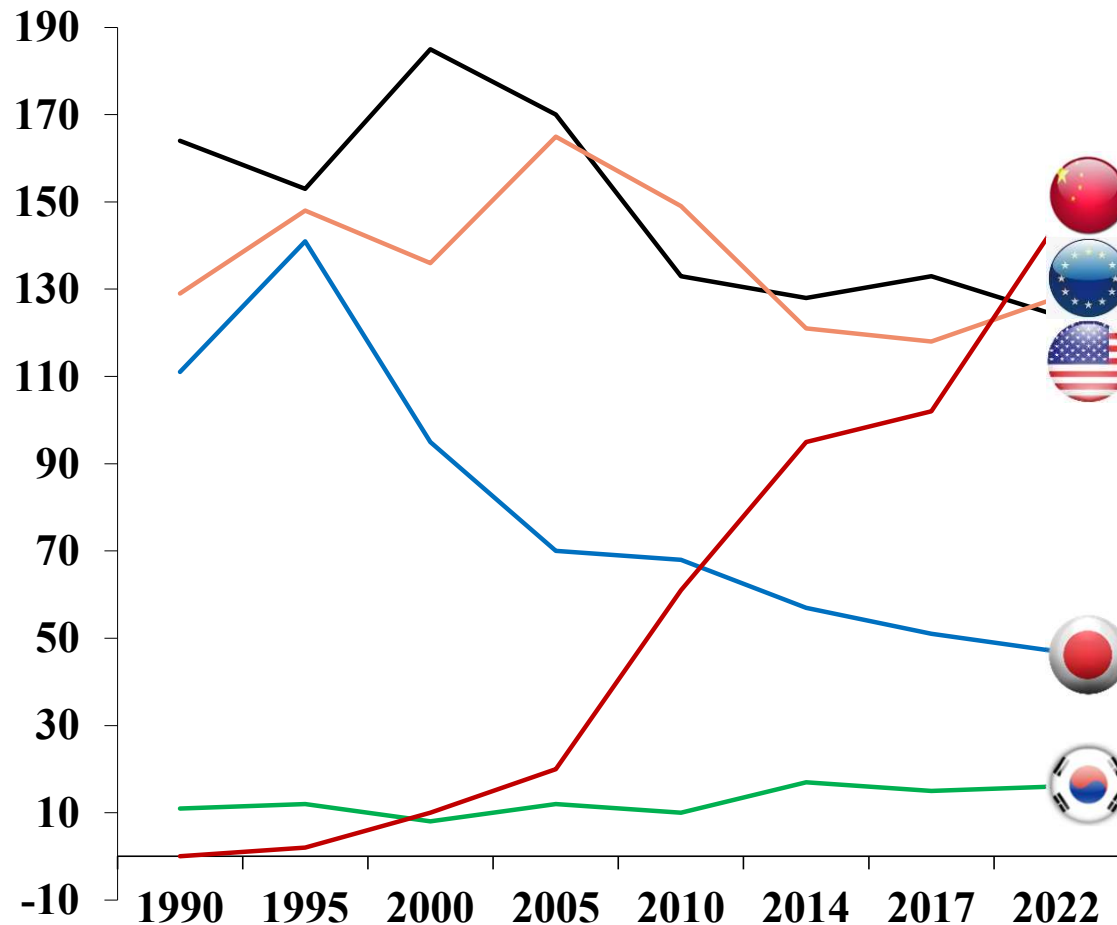
❖ Japan has been struggling through sluggish growth with a shrinking workforce.

Source: Own illustration based on data.worldbank.org.

What is 'International Management'?



■ Global Fortune 500, 1990-2022



Source: Fortune Global 500.

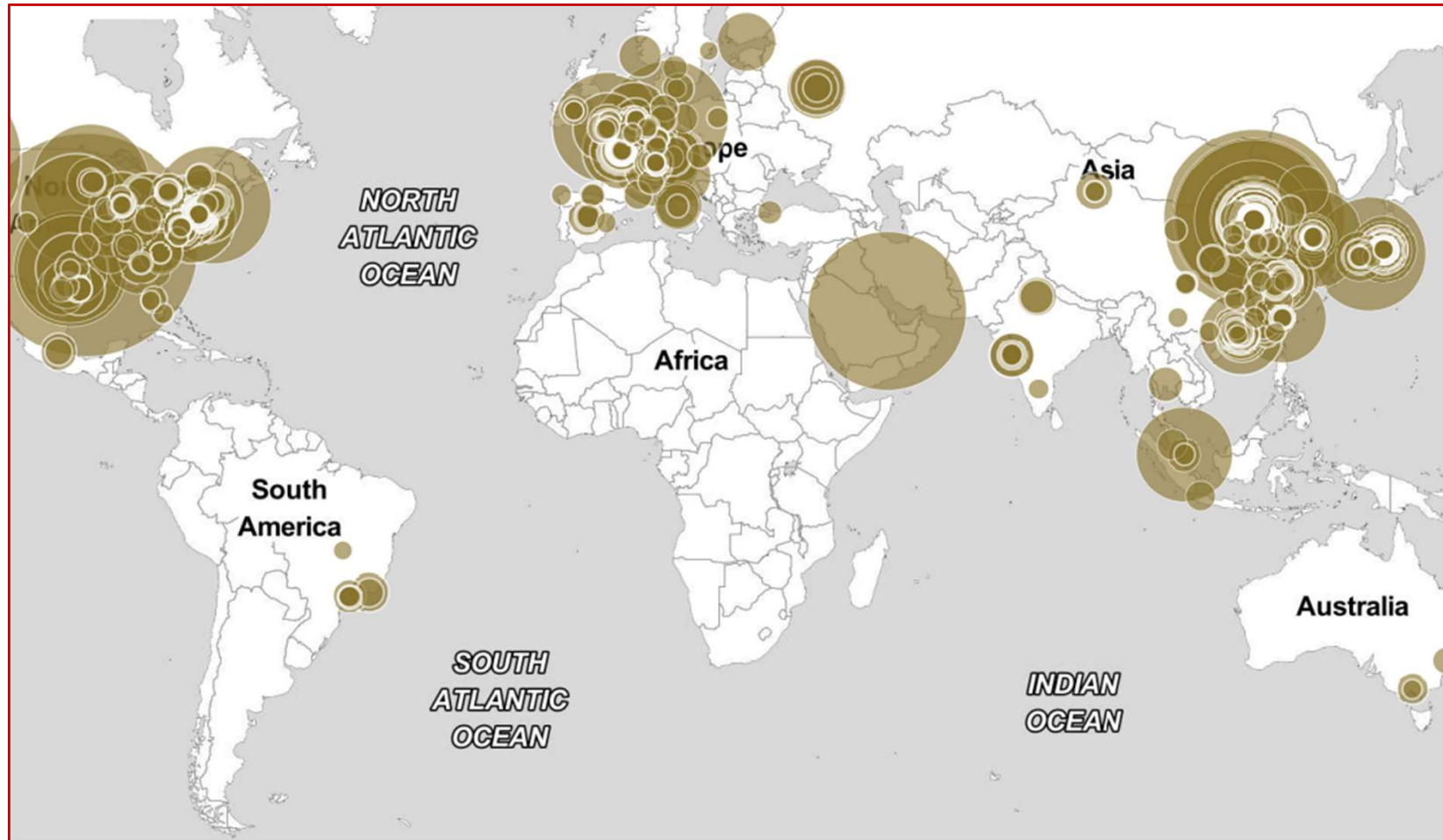
KEY POINTS

- > MNCs from **Triad countries** account for **60%** of Fortune Global 500.
- > The number of **Japanese MNCs** has declined (**111 in 1990 to 47 in 2022**).
- >
- > **16 Korean MNCs** are ranked in Fortune Global 500 as of **2022**.
- > **Japanese firms** maintain strong competitiveness in **capital goods & intermediate goods**.
- > Korean & Chinese companies still rely heavily on **highly added-value components made by Japanese companies**.

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■ Mapping Global Fortune 500 (As of 2022)



Source: Fortune Global 500.

What is 'International Management'?



■ Why Does FDI Matter to Italy?



Source: Financial Times; <https://italy.altios.com/>.

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■ Comparison of Top MNCs & Selected Countries in 2016

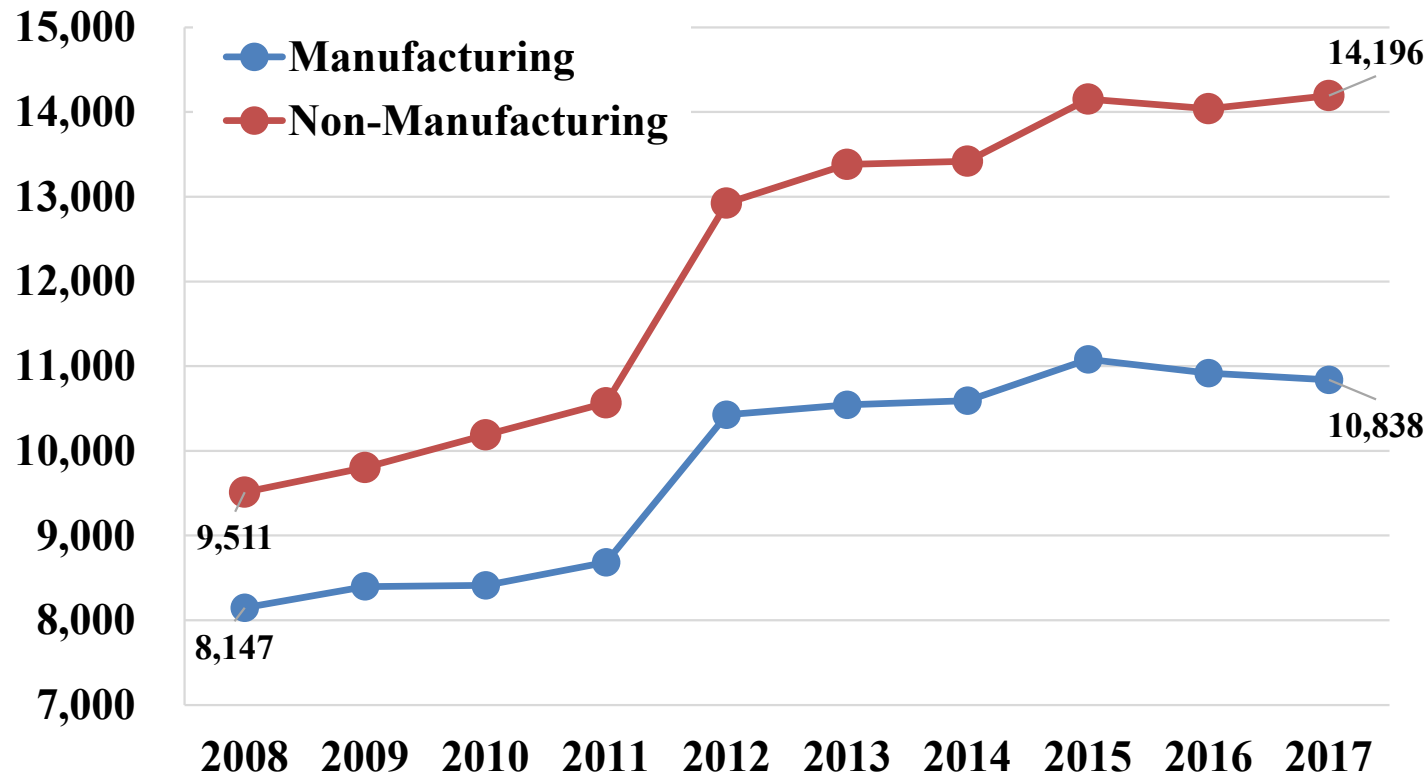
Company	Revenues (US\$ Millions)	Company Rank	Country	GDP (Current US\$ Millions)	Country GDP Rank
Walmart	482,130	1	United States	18,036,648	1
State Grid	329,601	2	China	11,007,721	2
China National Petroleum	299,271	3	Japan	4,123,258	3
Sinopec Group	294,344	4	German	3,363,447	4
Royal Dutch Shell	272,156	5	Nigeria	481,066	23
ExxonMobil	246,204	6	South Africa	314,572	31
Volkswagen	236,600	7	Denmark	295,091	35
Toyota Motor	236,592	8	Finland	231,950	42
Apple BP	233,715	9	Hungary	121,715	55
BP	225,982	10	Jamaica	14,262	112
Samsung Electronics	177,440	13	Moldova	6,568	142

Source: Bartlett & Beamish (2018: 16).

What is 'International Management'?



■ The Number of MNCs' Foreign Subsidiaries



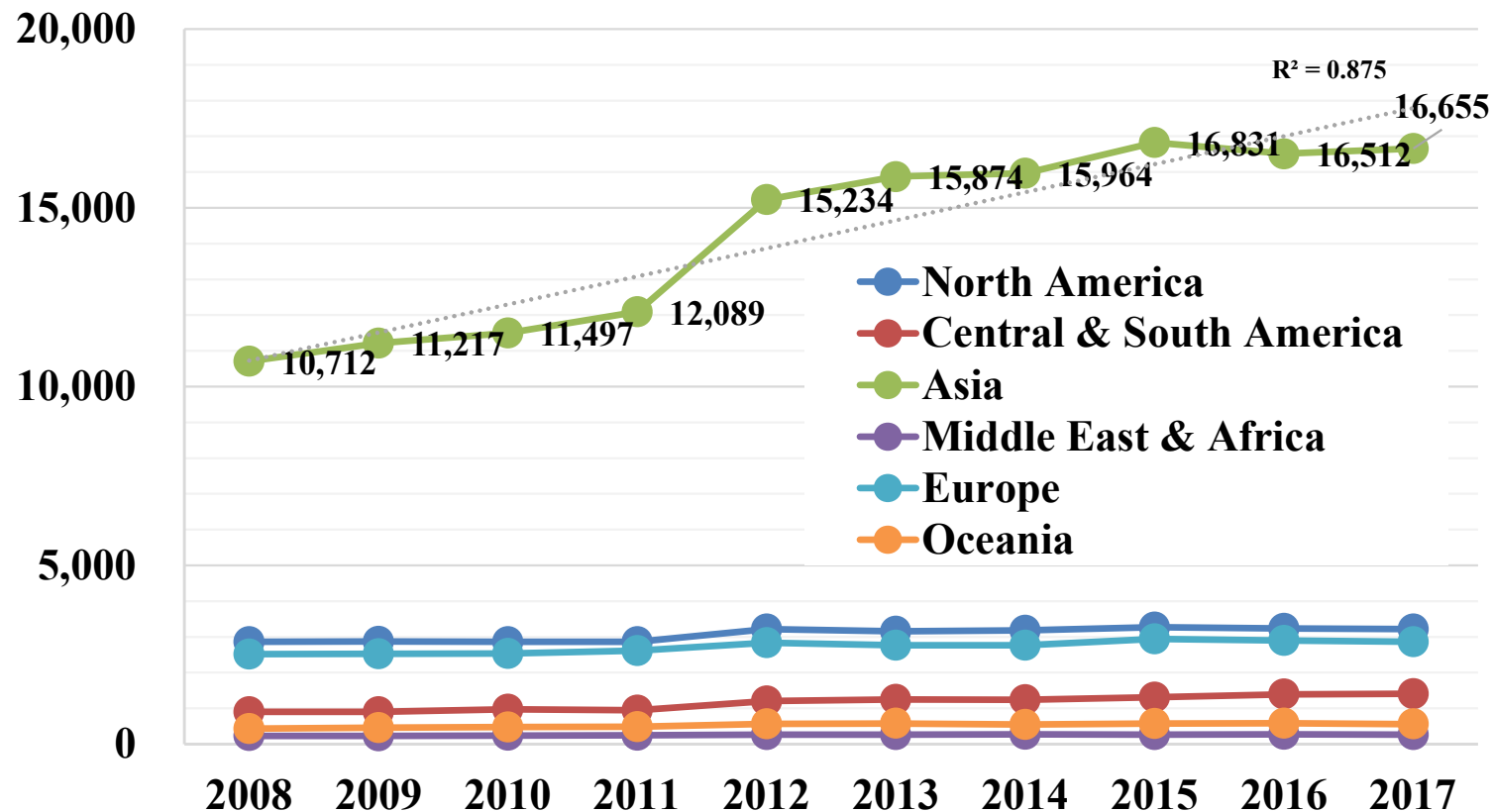
❖ The number of foreign subsidiaries of Japanese MNCs was 25,034 in the fiscal year 2017 (Manufacturing: 10,838; Non-manufacturing: 14,196.)

Source: Ministry of Economy & Industry 'A Survey of Japanese Manufacturing Affiliates Abroad'.

What is 'International Management'?



■ The Number of Japanese MNCs' Subsidiaries by Region



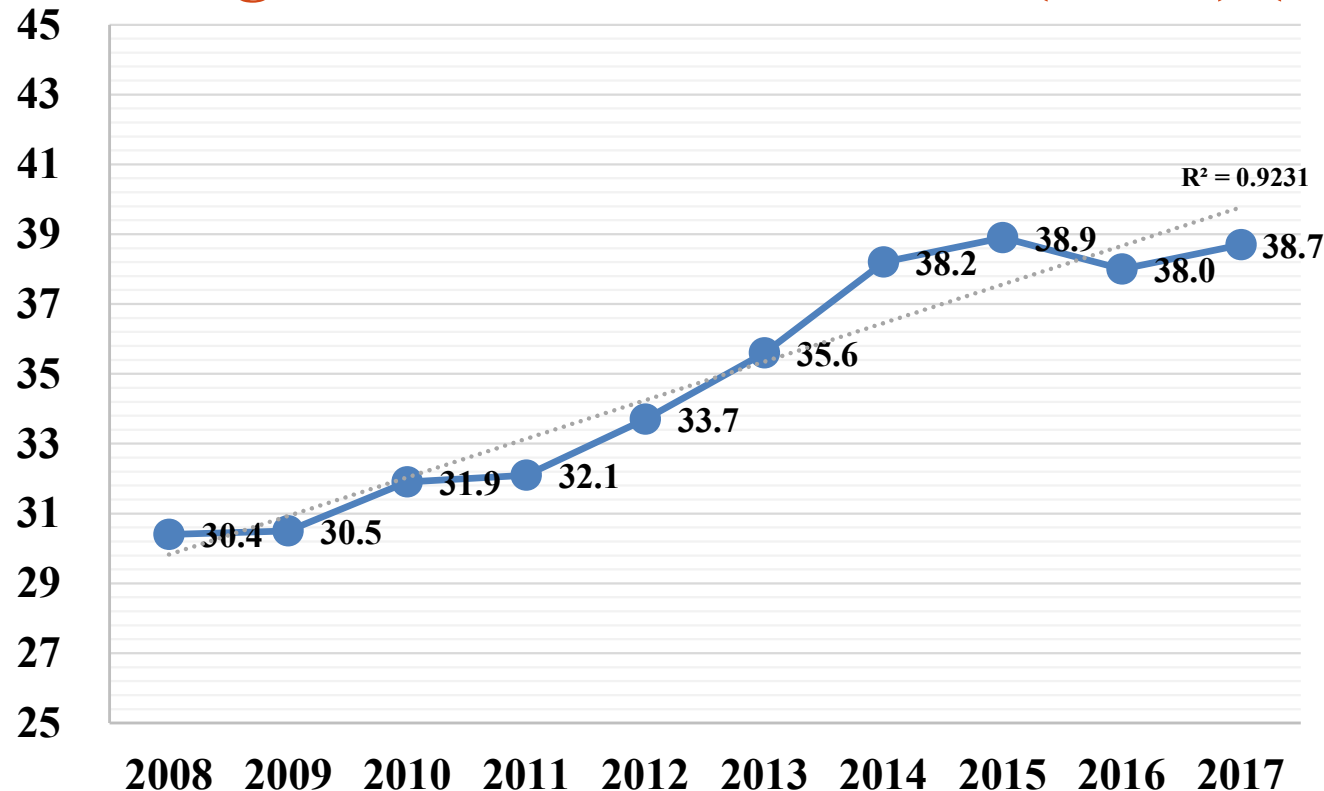
❖ JMNCs tend to tap into the Asian market. BRICS accounts for 29% in 2017.

Source: Ministry of Economy & Industry 'A Survey of Japanese Manufacturing Affiliates Abroad'.

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■ JMNCs' Foreign Sales/Total Sales Ratio (FSTS) (Unit: %)



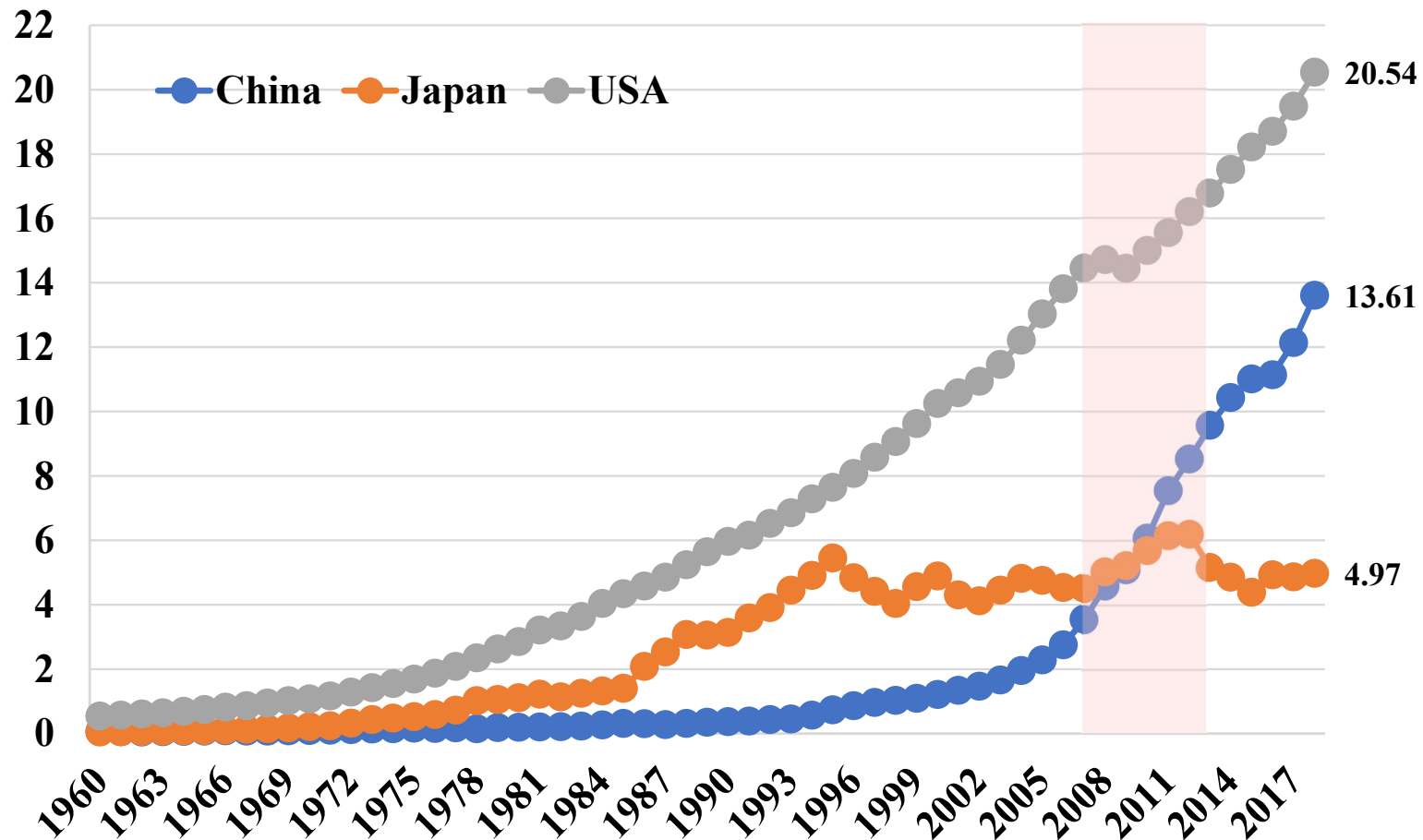
❖ Japanese manufacturing MNCs are intensifying their efforts to expand international operations over time. The FSTS ratio reached 38.7% in 2017.

Source: Ministry of Economy & Industry 'A Survey of Japanese Manufacturing Affiliates Abroad'.

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■ Changes in GDP (Unit: US\$ Trillion)



Source: World Bank.

What is 'International Management'?



■ What Does it Mean by Crossing Borders?

❖ Ghemawat's CAGE Framework

– Cultural Distance

- ◆ Differences in languages, tribes, ethnic groups, religious practices etc.

❖ It is inevitable to consider various differences between the host & home countries very carefully when running foreign operations !

they may also encounter unanticipated policy changes & corruptions.

❖ We should not forget that distance (*i.e.*, regulatory quality, cultural elements) also exists even within the same country !

– Economic Distance

- ◆ Differences in GDP/GDP per capita, the quality of infrastructure, education, IT standards, access to different resources (*e.g.*, human, financial social capital etc.)

What is 'International Management'?



■ Key Questions

What is 'culture'?

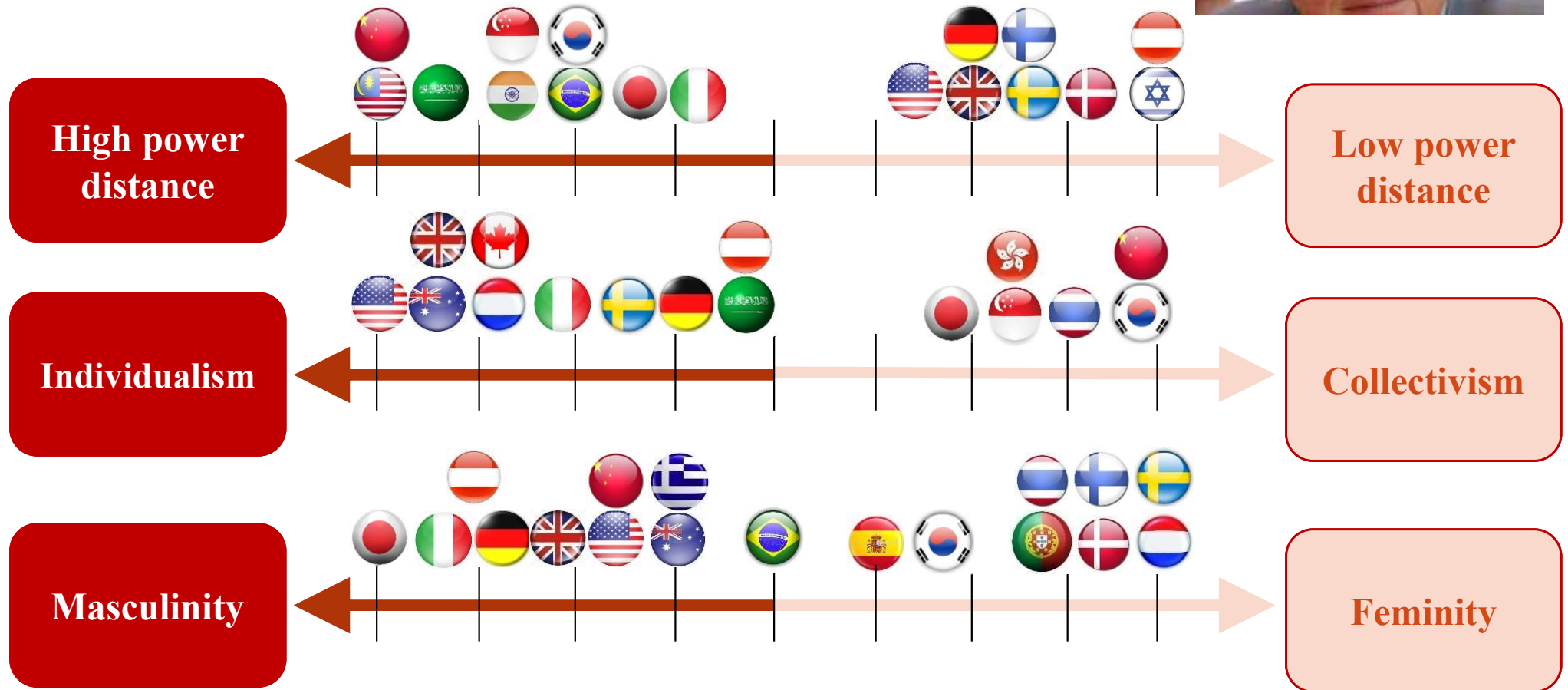
Why do you think that 'culture' is important?

What is the major cost of ignoring 'culture' in practice?

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■ Culture - The Dimension Approach

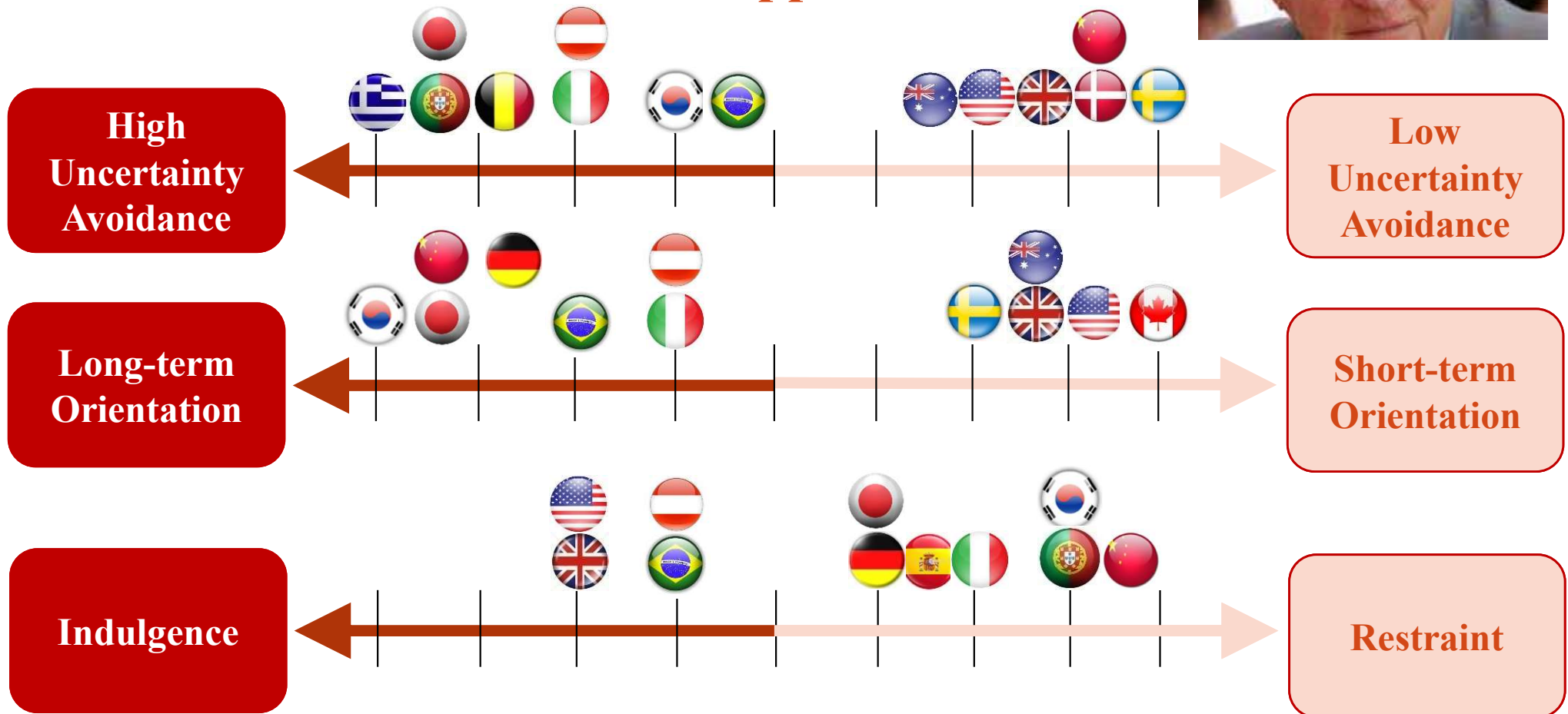


Source: Own illustration based on <https://geert-hofstede.com/countries.html>

What is 'International Management'?



■ Culture - The Dimension Approach



Source: Own illustration based on <https://geert-hofstede.com/countries.html>

What is ‘International Management’?



■ How to Calculate “Cultural Distance”?

❖ Example: Distance between Japan & European Countries?

$$CD (GLOBE)_m = \frac{\sum_{i=1}^9 (L_{im} - L_{ij})^2 / V_i}{9}$$

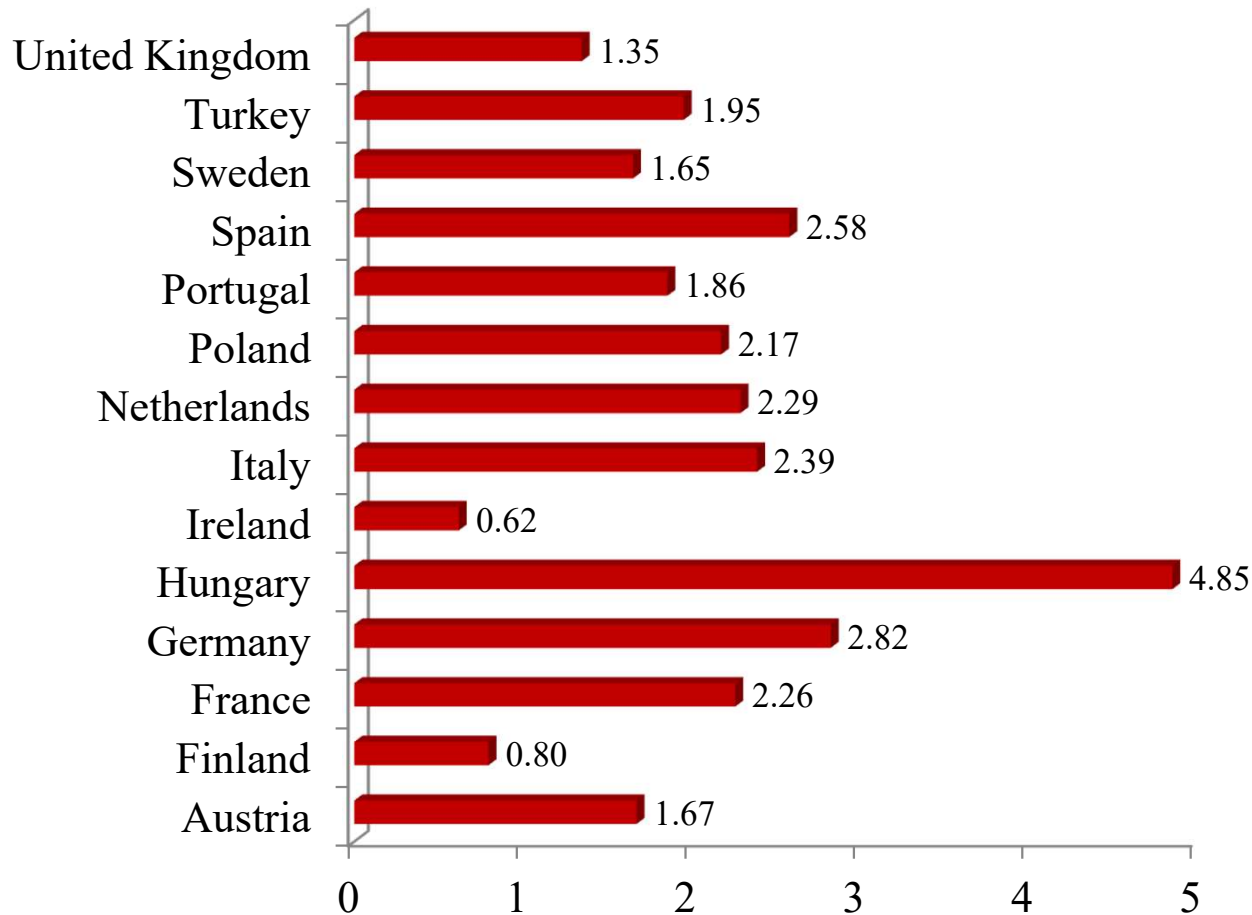
GLOBE’s (2004) national cultural distance index integrates Hofstede’s (1980) national cultural scores in 9 cultural dimensions: (1) assertiveness, (2) institutional collectivism, (3) in-group collectivism, (4) future orientation, (5) gender egalitarianism, (6) human orientation, (7) performance orientation, (8) power distance, & (9) uncertainty avoidance.

Source: Kogut & Singh (1988). The Effect of National Culture on the Choice of Entry Mode, *Journal of International Business Studies*, 19(3): 411-432.

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■ How to Calculate "Cultural Distance"?



KEY POINTS

- > Which European countries are culturally distanced from Japan?
- > **Ireland** is the culturally closest country to Japan, followed by **Finland** & the **United Kingdom**.
- > **The largest cultural distance between Japan & Hungary** is observed.
- > How can we use this information in the contexts of international business & global strategy?

Source: Own calculation based on Kogut & Singh's (1988) cultural distance index using GLOBE data.

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■ Key Cultural Attributes Inherent in East Asia (Example)

Speed

High Context

More Meaning as

Time Evolves

Age

Patience & Politeness



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■ Cultural Differences Between Korean & Japanese?

❖ *Monozukuri* (=Philosophy of Manufacturing)

- Japanese are inclined to pay attention to the quality of goods & its underlying technology while Korean consider formal rules/learning embedded in Confucian culture as superior than *monozukuri*.
- **KOREA: Theory** > Skills & Experience.
- **JAPAN:** > Theory.

現地現物
GENCHI GENBUTSU

❖ Feeling of Public & Private

- **KOREA:** Individual-Individual Relationships.
- **JAPAN:** Organization-Organization Relationships.

改善
Kai = Change Zen = Good

❖ Credibility

- **KOREA:** The idea of keeping a promise is very flexible in society.
- **JAPAN:** The idea of keeping a promise is well-established in society.

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■ Ghoshal's Framework

❖ How to fulfill the goal of 'winning your rivals'?

- : What do you aim for by internationalization to beat your competitors?
- **Source of Competitive Advantage:** A means of achieving strategic goals gained by internationalization.
- **3-by-3 Matrix (See next slide!)**
- **Vertical axis: Strategic goals**
 - ◆ (1) Efficiency, (2) Risk management, (3) Innovation / learning / adaptation.
- **Horizontal axis: Source of competitive advantage**
 - ◆ (1) Country differences, (2) Economies of scale, (3)

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■ Strategic Goals & Sources of Competitive Advantage

Sources of Competitive Advantage				
	Country Differences	Scale Economy	Scope Economy	
Strategic Goals	Efficiency	Factor costs (costs for activities including labor costs, land costs, & material costs).	Expansion of scale by expanding overseas.	Share investment & costs among products, markets & businesses.
	Risk Control	Hedging country-specific risks in multiple countries.	Balance of scale & flexibility.	Diversification of risk portfolio.
	Innovation Learning	Learning from cross-societies.	Learning from cost savings & innovation experience.	Learning from different organizational components.

Source: Ghoshal (1987: 428)

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How to Calculate the Degree of Internationalization?

What is 'International Management'?



■ How to Calculate the 'Degree of Internationalization'?

❖ Geringer et al. (1989).

- = The proportion of a firm's revenue in foreign countries to its total revenue in a given year (= **FSTS**).

❖ Vermeulen & Barkema (2002).

- = Total number of countries in which a firm established foreign subsidiaries during its international expansion.
- **Speed** = Total number of foreign subsidiaries **divided by** the number of years since the firm's first foreign expansion.

❖ Hsieh et al. (2019).

- **Speed of geographic diversification** = Total number of geographic regions excluding the home region of firms **divided by** the number years operating.

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■ How to Calculate the 'Degree of Internationalization'?

❖ Reuber & Fischer (1997).

$$\text{DOI} = \frac{\text{proportion of foreign sales}}{(\text{proportion of sales in South East Asia})^2 + (\text{proportion of sales in rest of Asia})^2 + (\text{proportion of sales in Europe})^2 + (\text{proportion of sales in Americas})^2 + (\text{proportion of sales in rest of the world})^2}$$

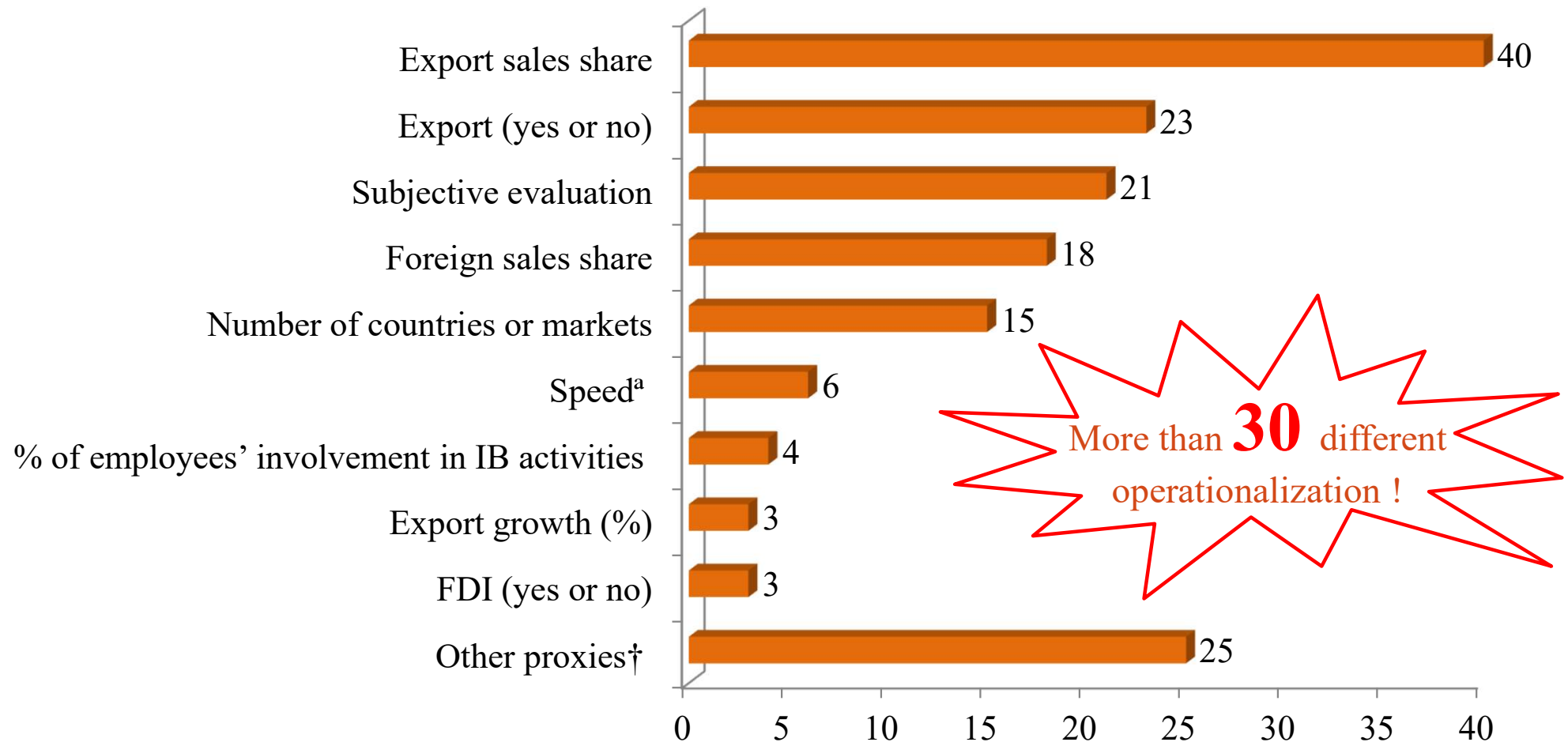
Case 1: Firm A derives all of its sales from domestic markets; the DOI for firm A will assume a value of 0.

Case 2: Firm B derives **50% of sales** from **5 different foreign markets** (spread equally); $\text{DOI} = 0.50 / [(0.2)^2 + (0.2)^2 + (0.2)^2 + (0.2)^2 + (0.2)^2] = 0.50 / 0.2 = 2.5$.

What is 'International Management'?



■ How to Calculate the 'Degree of Internationalization'?

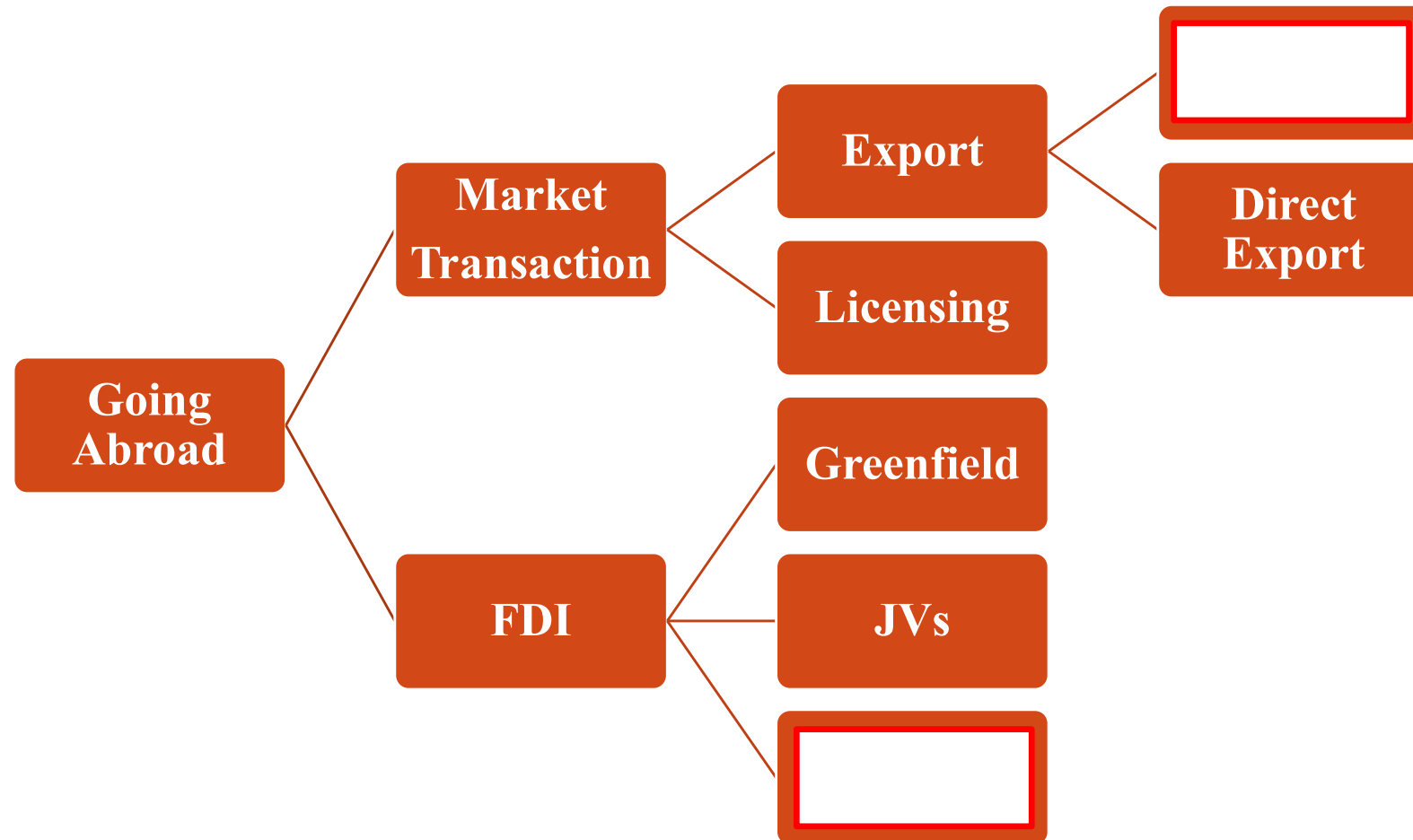


Note: ^a Establishment year minus initial year; [†] 23 other indicators available

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■ How to Invest Abroad?

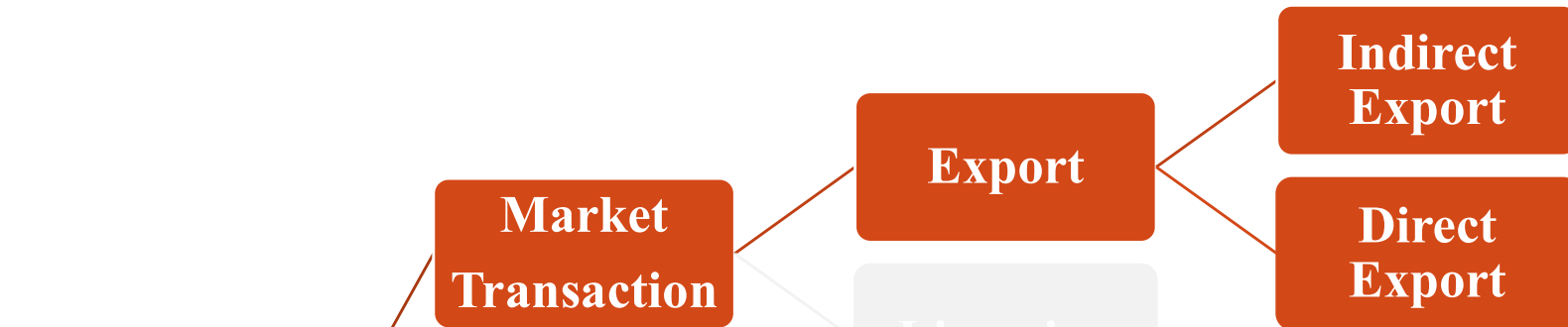


Source: Oki (2017)

What is 'International Management'?



■ How to Invest Abroad?



□ **Indirect Export:** Producers appoint third parties (e.g., who know & have access to the local market to represent them & their products abroad.

□ **Risks:** Lose control over foreign sales → Close frequent communications with them are required.

□ **Direct Export:** Direct sales to a customer abroad. The invoice is sent to the customer directly. → High profit margins & independence from foreign partners.

□ **Advantages:** Able to develop close ties with their customers. Relatively ease to gain knowledge of local markets → Quick responses to changes in customers' interests.

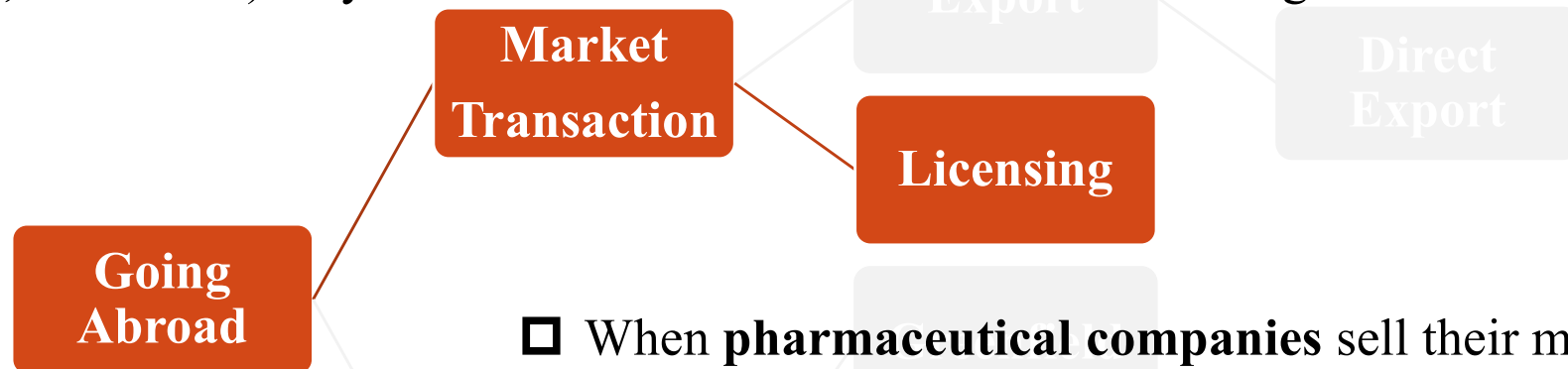
Source: Oki (2017)

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■ How to Invest Abroad?

- **Licensing:** Firm A's agreement to give Firm B the rights to use A's proprietary technology or trademark for paid to A by B. Software developers (*e.g.*, **SAP, Microsoft**) may license their software to other firms who sign the contract.



- When **pharmaceutical companies** sell their medical products abroad, they often make a licensing agreement with local companies who already overcame legal requirements. → The company granting the license can minimize a lot of costs.
- **Risks:** Significant monitoring & enforcement costs due to the critical issue of technology leakage.

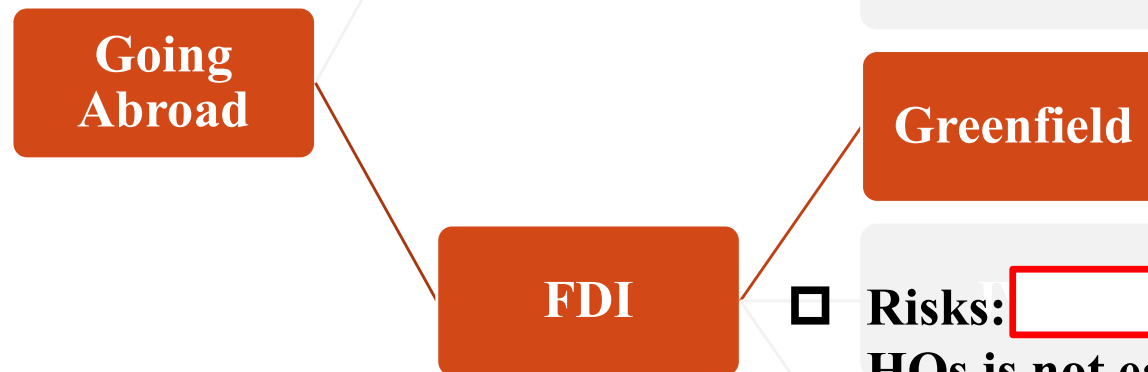
Source: Oki (2017)

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■ How to Invest Abroad?

- **Greenfield:** Set up a foreign unit from scratch.
- **Advantages:** No partner gets involved in the foreign operation → **No opportunistic problems**. Various local knowledge resources (*e.g.*, information, expertise, knowhow etc.) can be , although **initial costs** (↑) are usually significant.



- **Risks:** **from the HQs is not easy**. At the same time, new transferring knowledge gained from the local market to the HQs (**reverse knowledge transfer**) is also **challenging**.

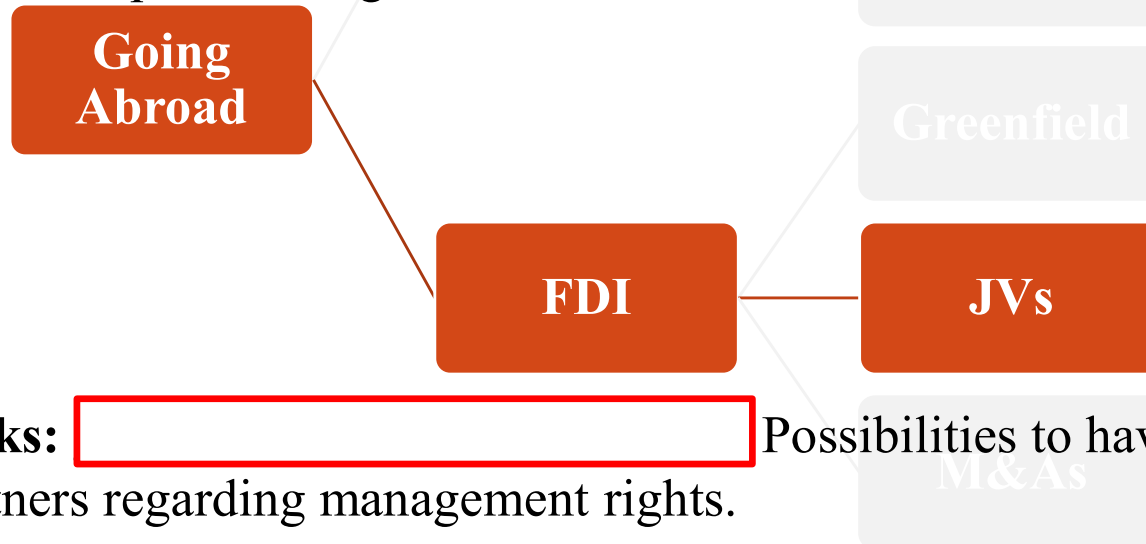
Source: Oki (2017)

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■ How to Invest Abroad?

- **JVs:** A business arrangement in which **2 or more parties** agree to **pool their resources**. This entry model is suitable for a company aspiring to explore a foreign market without taking on the full-responsibilities of cross-border business transactions.
- **Advantages:** in terms of financial capital. **Mutual learning opportunities**. Rich access to local markets. **Acquisition of political ties** with local central & provincial governmental officials.



- **Risks:** Possibilities to have a conflict with local partners regarding management rights.

Source: Oki (2017)

What is 'International Management'?



■ How to Invest Abroad?

- **M&As: Acquisition of independent legal entities** operating abroad & integrate them into the MNC network.
- **Advantages:** (*i.e.*, human resources, property, & equipment etc.) from a scratch → **Speedy entry**.
- **Risks: Complexity** inherent in integrating different organizations in terms of HR systems, management style, & employees' work behaviors etc.

Going
Abroad

FDI

M&As

- **Example: Bridgestone (JP) acquired Firestone (US)** ranked the 2nd in the market in 1988. However, this acquired firm was **financially in trouble & caused a series of recalls due to product defects.**

Source: Oki (2017)

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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