

International business management essay example

[Business](#), [Company](#)



International Business Management

With the increase in globalization of economies, most business enterprises have embarked on the process of becoming multinational enterprises. A multinational enterprise is an organization controlling or owning activities that add value in more than one nation. Multinational enterprises have different objectives ranging from search for foreign wealth, scarce and new technologies, knowledge and skills. Corporations, medium and small enterprises can morph into multinational companies. This is by investing in foreign countries or by opening up subsidiary companies. Companies could become multinational enterprises due to capital arbitrage that does not identify differences between multinational and national companies apart from the capital costs in a firm that is capital intensive.

Some companies look to become multinational enterprises in a competitive environment so as to survive and remain competitive against its rivals. Therefore, the size and capabilities of a company are important for its success. Some firms seek to become multinational companies to gain benefits of its assets that are not saleable, for instance, advertising, research and development. Going international is most companies' strategic objective to spread and diversify its risk and responsibilities to different nations. Companies have to consider their rate of contemporary growth as well as their profitability before making a final decision on whether to become multinational enterprises or not. Other factors to consider include future potential competition from domestic rivals and future needs.

There are several factors that inspire national companies to develop and interest in international business. The main factor is to gain competitive advantage over rival companies in home nations by moving full production lines in foreign countries to the company's subsidiary where there is cheap, high quality resources to compete with competitors in the host country through the transfer of skills, latest technology and knowledge. Labor intensive firms invest abroad to minimize costs; get cheap and motivated manpower, marketing expertise and technological abilities.

When companies become multinational enterprises, they face certain risks as well as benefits. Multinational corporations realize many advantages from their multinational subsidiaries in different countries around the world. One such advantage is company growth. Multinational companies have big prospects of realizing profit growth and large revenue margins. International companies have high identification and integration levels with their target markets which they are located and involved. This is because licensors and exporters cannot match these levels. When these corporations have such operations in all its subsidiaries around the world, it helps the multinational businesses to attain a stable traction for development and growth in different international markets at ago.

Multinationals also benefit from workforce innovation unlike national companies. Multinational corporations employ workers from many countries where they have subsidiaries. The distinct human resources from different cultures and societies give the multinational organizations various fundamental outlooks in terms of society, management, business and life

generally. These organizations can maintain their leading standards in innovation in their respective industries by leveraging various cultural perspectives in development and research. Besides benefiting from multicultural and collaborative approaches to human resource innovation through components like products and services, these organizations receive many other advantages. For instance, the companies gain from diverse approaches of marketing strategies, production methods and work place policies among others.

Multinational companies benefit from cost efficiency when they invest abroad. These organizations have a big range of options that are related to labor and physical location of infrastructure. This allows the organizations to locate infrastructure and raw materials in nations that have favorable labor costs, tax structures and interest rates, which gives them competitive advantage over domestic rivals. Normally, the multinational can decide to leverage all the natural benefits of every nation they have invested. Some countries have many ideal infrastructural conditions for certain fuel sources, agricultural products, cheap labor or high technology. Other countries have features like string economies characterized by high technology, favorable laws for multinational corporations and cost effective but highly qualified labor.

Political advantages are another of the distinct benefits enjoyed by most multinational corporations. These companies can do a lot to do away with political interference when compared to companies based in one country. One such instance is when a multinational company positions its

infrastructure in a manner that it can eliminate or reduce heavy tariffs. Others strategically position themselves to void trade barriers or seek political concessions because of their positive contribution towards the local nation's gross domestic product. A good example is a Chinese based industry that has production facilities in the France, a European Union nation. This corporation can process or manufacture products in the European nation and distribute them to all members of the European Union. This will enable the Chinese firm to totally bypass all potential import restrictions as well as other impediments that a company based in China faces when exporting its products to the European Union.

Going international is a good option to most enterprises because it helps cut down on costs. This is because when companies invest in more than one market or country, they can benefit from production factors and their total expenditure. Cost differentials give multinational enterprises leadership advantages compared to other markets. These companies can also rationalize their products. Production rationalization involves producing different parts or kinds of a product in different countries to benefit from the low expenditure demands. They also avoid buying components, products and materials and outsourcing production inputs and services to foreign countries. This usually reduces costs, prices and improves quality and consistency of goods and services compared to when the firm produced goods domestically and exported them.

When companies develop into multinational corporations, they have high chances of expanding their sales. This is because of economies of scale.

When companies produce on large scale basis, they are more likely to make larger sales. They would be likely to make a lot of profits in the long term.

One good example is Japanese corporations which forgo short term profits with the objective of acquiring a huge market share in the long term.

Economies of scale allow companies to increase efficiency and fully exploit the technological capacity of their machinery.

The ability of multinational corporations to offer a wide variety of products benefits them both financially and businesswise. Different processes and products introduced into a company's different markets helps compete favorably with rivals both domestically and internationally. For instance, Coca Cola has been successful because it offers various flavors of beverage to its wide market. This enables the company to compete with beverage companies in South America, Africa and America. This strategy also helps multinational companies to cut down risks.

Finally, multinational companies benefit from income as well as sales smoothing. These organizations accrue swing in sales, income and short term fluctuations in terms of inflation and employment for several years. This improves the smoothing process because of the company's presence in many countries. Different nations represent different economic conditions and business cycles. Some countries experience economic recessions while others are experiencing a boom. A company that would have invested in these two countries will have a smooth sales and growth curve because the losses made in the economically poor nation are compensated by profits from the country experiencing an economic boom.

Despite the many advantages enjoyed by multinational corporations, there are many risks these companies are exposed. Some of the risks are posed by natural factors while others are purely technical and economic. A multinational company can invest in as many nations as it can. However, there is the risk of losing assets and capital in case a country experiences war. Such a loss could be brought about by nationalization. Globalization in general has to contend with issues such as political instability, civil war and conflicting ideologies in different countries in the world. These factors pose unsecured surroundings for multinational companies, something that justifies why most companies are reluctant to invest in risky or unstable economies. One such incident was when multinationals in Cuba lost all their assets during the communist era. Such instances were also reported in Chile.

There is also the risk of facing hostility from citizens in the host nations. At times host nation inhabitants may feel that they are subjects of exploitation at the expense of multinational companies. It could also be as a result of national concern that citizens reject multinational companies. At times these hostilities are justified because some multinationals subject host country employees to poor working conditions and low pay.

Changes in political systems could spell doom to multinational companies in respective countries. When a company invests in a foreign country, it usually finds the political landscape and ideology favorable. In some cases, the management of these companies agrees with political leaders on how they want their operations to be run. When there is change in political regime, if

poses a big risk because new political leaders could have different ideologies on foreign investments in the country.

Multinationals also find it difficult to maintain global network coordination and communication. Even with the sophisticated technology of satellites and internet enabled computers making communication simple, multinationals still experience pitfalls in communication. Poor and developing countries have poor communication infrastructure that leads to delaying of communication. This is mostly so when important decisions need to be made in case of emergency and result in losses and disruptions.

In developing and poor countries, multinational companies find it hard to operate because of low skill levels and lack of motivation in the labor force. This is because these people are less skilled and the income levels are too low to offer any kind of motivation. This makes multinational companies to either import skilled labor or invest huge capital in training employees.

Finally, multinational corporations may find it hard to retrieve their earnings. This is because some countries have fixed and strict laws on foreign exchange. At times such laws change very often basing on its balance of payments and foreign reserves. For example, a host country may decide to pass legislation that multinational companies must spend their earnings in the host nation and none of the earnings must be transmitted to the home country.

Internationalization is the process whereby a company expands its presence to an international level. It is through the internationalization process that a

national corporation develops into a multinational corporation. The internationalization process is divided into several stages of strategic planning. Each stage is crucial for a corporation to realize its internationalization objective. There are eight strategic planning stages in the internationalization process. The different stages of planning provide the organization with assessment based on the future, objective setting, and long term decision making plan that would guide the organization through the process of internationalization. The strategic plan must be in consideration with the organization's potential.

The establishment of a committee that guides the strategic planning process is the first stage. This committee is composed of future, current and past leaders and stakeholders. These people can take advantage of their expertise and experience to assess the potential benefits and risks the company would face during the internationalization process. This committee is important because whatever decisions they make, the future of the organization lies on that decision.

Second on the strategic planning list is to review the plans that exist for the organization. The committee's task is to use the company's existing plans to analyze what the organization's accomplishments are and whatever needs to be implemented or accomplished to make the organization successful. This could be by assessing what other successful companies have done prior to undertaking the internationalization process. This stage is important because it provides a chance to determine the organization's ability to morph into an international company. However, the existing plans should not affect the management's intentions to transform the company into a multinational

corporation. In most cases, the management has to stop implementing all existing plans in order to adopt a new plan to internationalize the company. The next stage is to define what would be the vision and mission of the company during and after the internationalization process. A good vision statement illustrates the company's aspirations for the future. It shows the company's urge to make and realize results and the kind of organizational structure they will form to achieve their objectives. It gives direction as well as inspiration for the organization through the process of internationalization and beyond.

The mission statement has an important role for the organization because it gives a comprehensive elaboration of what the organization will engage in when it becomes a multinational corporation. It also shows who the organization does business with and the objective of them engaging in business. It clearly states a true sense of an organization's fundamental purpose.

Another stage is the definition of issues that the organization will have to address during the process of internationalization. The internationalization process is a tumultuous one and the management of the company must be fully aware of the many impediments they are likely to face along the way. This would allow the organization be prepared to make appropriate decisions in cases when challenges arise. Defining issues also creates a n avenue for the management to devise ways of avoiding potential problems. Once all challenges are identified, it is possible to identify new ways of the organization going about it business without experiencing the same. Therefore, this stage can also be a strategy formulation process of dealing

with potential impediments.

The fifth stage is to establish the organization's objectives. This stage involves stating all the future roles and activities the company will undertake during the internationalization process. Internationalization overhauls the organization's structure to accommodate the large multinational requirements. The new roles and goals must be clearly stated in the organization's strategic plan under this stage.

The organization also needs to develop plans on how the whole implementation of the internationalization process will be done. The different stages of internationalization must be well stated and illustrated. This will be a guide on how the process will be run from the first step until the organization becomes a fully fledged multinational enterprise.

The final stage is to implement the plans of the organization. Each plan has to be implemented only after it has been well evaluated and accepted to be appropriate to help the company grow. Also during the implementation process, the management or the committee in charge of the implementation process must evaluate the process. Evaluation helps determine whether the internationalization process is on the right track.

In conclusion, a multinational company can be very successful if it can effectively take advantage of the opportunities it gets and avoid all the risks. International organizations have so many advantages presented by their ability to influence political, financial and technical factors. However, the risks to multinational organizations arise from the same factors. Investors in multinational companies need to carefully weigh their options before making investments in multiple nations. The internationalization process must follow

a predetermined strategic plan that would guide the organization to realize multinational status. All stages of the strategic plan are crucial and must be followed to the later for optimal results.

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