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## **Challenges of International Management on the Dawn of the 21<sup>st</sup> Century**

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### **Abstract**

This article explores the multiple and interwoven effects of accelerating international market integration in order to allow economic actors to better distinguish upcoming stakes. The authors identified four related, often connected, research perspectives within the international business field. Each of these areas is studied in turn: integrating new logics of diagnostic and decision-making, considering new types of stakeholders, changing balance of power between economic territories and players, and strengthening the relationship between intercultural evolutions and the transformation of organizational plans.

In an increasingly open world, exchange and investment flows are drawing a new card of relationships between economic actors, whatever their geographic location. The concept of globalization (Milliot and Tournois, 2010) emphasizes convergences sustained by a number of evolutions, notably in the fields of telecommunication, Internet and transports. Today, a shapeless de-compartmentalization defines new opportunities for actors who are not always prepared to this new context. Obstacles to exchange flows of products and services, investments, capital, information, migrants, etc. have been substantially reduced over the past two decades, but not to the same extent in all geographic areas and for all activities (Ghemawat, 2007).

The dissemination of the crises is facilitated by the de-compartmentalization, as illustrated by the recent global financial crisis which extends the crisis of sovereign debts. It simultaneously questions economic and political governance systems as well as strategies and organizational structures of stakeholders who are increasingly concerned by the enlargement of international openness.

The context primarily concerns companies, but also NGOs, multi-governmental organizations as well as regional and national authorities that are directly or indirectly involved in this process. According to their geographic deployment (home region, regions where they develop relationships), the degree of globalization of their industry (highly «globalized» or still «geocentric»), but also to their size, image, organizational culture, they are more or less armed to face diverse pressures that are likely to apply to the geographical and industrial space where they intend to pursue their objectives of growth or to maintain their positions. The successive multiplication of their mutual interactions clearly becomes an important component to take into account for the comprehension of current transformations.

These transformations result from politico-legal, economic, social and technological pressures (Lemaire, 2000) which represent the origin of challenges faced by different actors since the beginning of the 1990s in an international, profoundly changed environment, contrasting with the relative stability of former decades. Beyond the development of liberalism, following the era of Reagan and Thatcher at the end of the 1970s and 1980s, the fall of the Berlin wall, the political and economic transition engaged by powerful countries like Russia, China and India, but also by smaller ones like Vietnam, are at the origin of a new system of multi-polar economic relationships. The positions acquired by the diversity of stakeholders and the practices of exchange and investments are profoundly questioned and call for a renewal of reflection.

The gradual shift of the gravity centre of economic flows towards fast-growing economies and emerging countries is one of the first consequences of these transformations. It is notably the result of the significant improvement of their standard of living, of their high demand for investments, linked to their growth and the progressive alignment of their infrastructure towards international standards, as well as of the dynamism of their economic agents. Consequently, an increasing number of foreign actors invest, and local actors are becoming more powerful. The latter, supported by national authorities that are increasingly aware of their influence, provided by the dynamism of their markets and the importance of their transactions at the global level, have ambitions that go beyond their traditional national market. They search for an access to mature economies to profit from market opportunities, but also to catch up in terms of technology, management and image.

In this dynamic and changing context, new economic and social needs, new political and religious ambitions appear which change values, often inspired by capitalist countries, which directed economic, commercial and financial relationships. They require considering cultural differences that concern economic entities, but also social groups and individuals who are

increasingly concerned by this openness, like consumers or users, producers or, more generally, citizens who are likely to position themselves in regard to different changes introduced in their existence.

These challenges, only to mention some of the most important ones, open four new perspectives for the field of international management:

- whether they follow from a course of action integrating, in a very evolving context, new diagnostic and decision-making logics,
- whether they originate from the acceleration of the international openness and the de-compartmentalization between economic territories and between activities,
- whether they question power relationships between them and the increasing diversity of actors taking part in them,
- or whether they lead to attach more importance to the diversity of cultures and relationships that are intensified by the development of international activities.

It is thus necessary to develop new approaches which allow taking these changes into account. Considering the importance and, often, the urgency of adjustments they impose to organizations, they require to use a research approach which does not limit itself to the analysis, but which also integrates the decision-making process.

**The necessary use, in a turbulent international environment, of an approach considering the analysis up to the decision**

All these elements, which profoundly renew the bases of reflection, lead to investigate questions of international management (Mayrhofer and Urban, 2011) and development (Lemaire, 2012) of organizations. Without rejecting the theories of reference that apply to these fields, the observed transformations invite to measure the limitations of their relevance

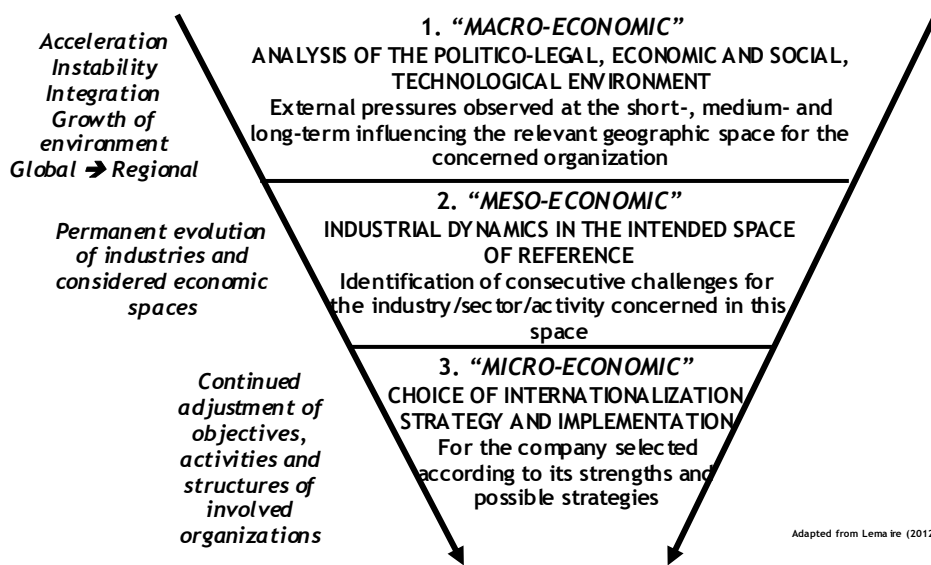
and their capacity to prepare actors to decision-making in an enlarged, changing, complex and instable environment. They require considering several levels (see figure 1).

- First, the level of the analysis of the environment, by showing different approaches of how to observe transformations in order to better understand the sense of new power relationships that establish between an increasing number of stakeholders concerned by the de-compartmentalization of economic territories and industries.
- Second, the level of the definition of politics conducted by different categories of stakeholders involved in this rapidly evolving environment, according to their organizational characteristics (Pesqueux, 2002), cultural dimensions (Davel, Dupuis, and Chanlat, 2008; Prime and Usunier, 2012) – at the national, industrial, functional, institutional, ... levels - that can explain their success or failure at present or in the future.
- Third, the level of application at different functions (human resources, R&D-innovation, supply, production, logistics, marketing, finance, accountancy-controlling, legal aspects, etc.) that can have a central position for the international development and that are involved in the internationalization process.

Consequently, a holistic approach of the analysis of decision and action which articulates different components of the international management and development of organizations can represent the guideline of different levels of reflections concerning this research field. This approach is based on the analysis, in different geographic (macro-economic) and industrial (meso-economic) spaces where organizations develop or intend to develop, to orient the formulation and implementation of their internationalization decisions (micro-economic).

Figure 1:

## From the analysis of the environment to decision-making and implementation



Since the objective is also to facilitate decision-making processes of organizations for their internationalization approach, the stake in this area of international management and development will be to consider more directly problems that are faced by different stakeholders which are increasingly concerned by the international openness.

- Responding to this stake can suggest the more frequent use of inductive research methods, based on case studies, thus renewing with certain approaches like the ones adopted by the founders of the Uppsala model (Johanson and Vahlne, 1977 et 2009). Their reflections concerned the limited internationalization that characterized the period prior to the two decades which have conducted to the current situation; nonetheless, they have not lost their interest by linking academic thinking to business reality and concrete problems of organizations.
- In such a perspective, the research on critical incidents (recurrent or new), on signals (weak or strong) through systems of watch adopted by organizations (companies, financial institutions and/or insurance companies) could be conducted in a more systematic way. They could provide, at different levels of the analysis (environmental

or industrial) and at different levels of the decision (strategy and implementation), new themes for the reflection and comprehension of contexts.

In regard to previously mentioned transformations, which have mainly taken place since the early 1990s, such an approach could become necessary, because the capacity of companies to face the diversity of changes resulting from this enlarged international openness will depend on it, beyond the qualities of reactivity and flexibility developed by organizations elsewhere.

### **The consideration of an increasing number of stakeholders, responding to incentives and provoking more complex incentives**

During a long time, the international management field has been centered on the company, as shown by the particular interest provided to the «multinational» and the abundant literature on this topic at the beginning of the 1970s; a period where the expansion of large US companies in Europe (for example, Servan-Schreiber, 1968), was considered either as a threat or as an example to follow. Since then, the analyses conducted on multinationals have allowed rationalized approaches, taking into account current business realities (Mayrhofer, 2012).

For a long time, the «export» dimension and horizontal expansion (Markusen, 1984; Glass, 2008), in other words research on market-share, have been favored in regard to other dimensions like the international redeployment of the supply and production chain. The development of organizations across borders, the vertical expansion (Helpman, 1984) now represents an internationalization mode which corresponds, for many companies, to the necessity to optimize their costs and, more generally, to find the best access possible to production factors, to their clients or to their key partners in a more de-compartmentalized environment.



Beyond ingoing and outgoing flows, multinational companies and companies that follow less advanced internationalization paths (Douglas and Craig, 1989; Lemaire, 2012), following a progressive approach as described by established models like the Uppsala model (Meier and Meschi, 2010), other companies called “born globals” have developed. These organizations have built on new possibilities offered by an enlarged range of opportunities provided by the increasing de-compartmentalization of geographic and industrial territories, such as the accelerated dematerialization of services and transmission modes, which are steadily improved by information and communication technologies.

Therefore, incentives to internationalize have evolved in regard to models of reference like the OLI (*Ownership, Location, Internalization*) model (Dunning, 1977) which, without questioning the relevance that it still preserves (Dunning and Lundan, 2008), need to benefit from complements and renewing of reflection (Meier and Meschi, 2010), in the new environment in which organizations evolve.

Today, different types of partnerships and networks that develop between organizations need to be taken into consideration, by considering their complementarities or similarities, to better understand foreign and not very familiar territories and actors in order to face increased competition and to share resources with the aim to obtain objectives that companies could not achieve at the individual level. These international partnerships, which can take very different forms, do not only concern companies. Other entities which are increasingly concerned by international openness (non-governmental organizations, multi-governmental organizations, local authorities etc.) can also be involved, pursuing a large diversity of objectives.

These actors, which have been less present on the international arena, need to be studied in order to better understand the role they are likely to play. Thus, non-governmental organizations – with a humanitarian, cultural, religious vocation, etc. – often bearing specific interests of political, economic or social character, spread widely on the geographic scale. In

general, they do not aim to realize profits, even if they show sometimes a certain ambiguity concerning this point, but they frequently interfere with companies, inter-governmental institutions like regional or national authorities (Nivoix and Audebert, 2010). As pressure groups producing services and sometimes products, they can act in addition to companies or in coordination with them and/or at the instigation of intergovernmental organizations concerning the development of educative and sanitary projects, the realization of infrastructure, fair trade, etc. They can also attempt to influence their decisions, when the latter concern objectives they have set or values they defend. Their actions can concern the preservation of categorical or communitarian interests, the protection of the environment and the improvement of relationships between organizations and new geographic regions where they develop, by helping them in their ethical approach and implementation of their social responsibility (Amann, Jaussaud and Martinez, 2010; Blanquart and Carbone, 2010).

At a more general level, it is thus the theme of interaction between different actors in an international perspective that opens new research perspectives. The theme not only concerns the client-supplier relationship which is widely studied in academic research (namely by the IMP - Industrial Marketing and Purchasing group), but also a broader level, referring to the neo-institutional analysis, associating transaction cost theory and the theory of institutional change (Milliot, Tournois and Jaussaud, 2011).

In this perspective, a last category of stakeholders that is essential can be mentioned: authorities in charge of territories towards which organizations deploy themselves. They are likely to get increasingly involved in flows of exchanges and investments, cumulating several roles (Lemaire, 2012).

- The role of *economic entities*, in search of the development of their inhabitants, comparable to other organizations – like companies for their shareholders -, facing similar competitors, of various sizes, which attempt to value their specific strengths:

capital cities, maritime crossroads, major cities tending to develop their geographic influence. They can also be regions or countries, trying to maintain their own competitive advantages in regard to their counterparts, close or distant (Viassone, 2008), that investors could prefer for the location of their projects.

- The role of *supports* – or of “*protectors*” – *economic local or foreign agents* (namely, direct investors) which contribute to their wealth and explain their ambitions, providing them a favorable environment equipped with tangible (roads, ports, airports, collective services, etc.) and intangible (legal framework, educational system, security, etc.) infrastructures necessary for their development. This does not exclude to favour local actors in regard to foreign competitors or to build barriers, sometimes at the limit of commitments that have been made and of rules that they are submitted to, or even, that they need to enforce.

- The role of *regulators and guarantors of sovereignty*, which reflects the demonstrated intention – namely at the level of States, but not exclusively – to have an important control of industries and functions that are considered to be strategic (public service or exploitation of natural resources, invitations to tender or the granting of public funding). It can even lead, in the name of territorial sovereignty, if the influence of foreign actors is considered excessive, to supervise their management or to limit their ambitions in a context that can appear to be very demanding or sometimes force them to withdraw.

No matter what level – supranational, national, regional or municipal -- territories’ international strategies must be envisioned simultaneously from both offensive and defensive stances, in today’s context of increasing openness. This leads to seeing the interactions between the authorities who administer and the other entities, as illustrated by the decision-making context for localizing foreign direct investment, which aims to link the respective

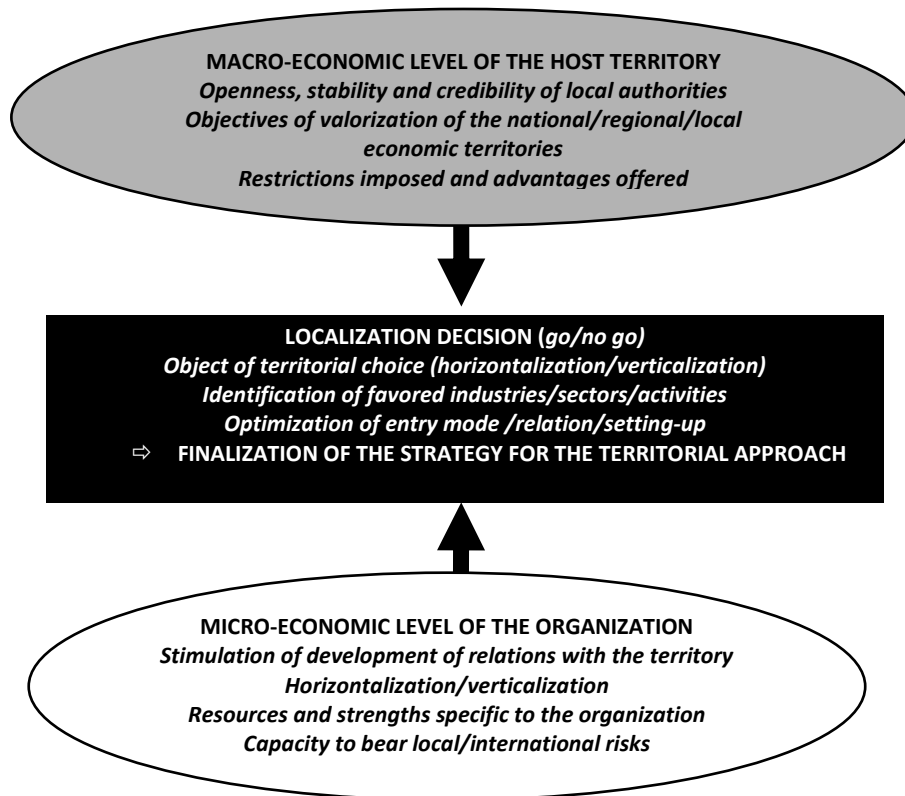
interests of the two categories of involved stakeholders (Lemaire, 2012).

- *For local authorities*, the desire to attract increasing investment flows, for which they deploy policies of upgrading infrastructures and the adjustment of the regulatory framework, is not without conditions or restrictions. If the first goal of their policies is to maximize expected profits, in terms of flows of financial resources, job creation, technology transfer and upgrading local management practices, they nonetheless comprise as many tangible limits susceptible to bother – or even to discourage – foreign investors. Often, these authorities proceed, in fact, in a contradictory manner, encouraging the reinforcement of relations with the exterior, but without leaving them sufficient freedom to expand:

- . on the one hand, in order to *protect local actors from exacerbated competition coming from outside* which could lead to their exclusion of certain industries with strong growth potential, by refusing them, in the future, the possibility to deploy, in their turn, toward the exterior;

- . on the other hand, by seeking to *exercise strict control over strategic industries* (public services, banking, natural resources, distribution, etc.) can even challenge, in the case of excessive external control, the orientation they wish give to the local economy.

Figure 2



Source: Lemaire (2009, 2012)

- *For direct foreign investors*, who would like to invest the necessary means, these territories, often newly opened, offer, without a doubt, many possibilities but also comport larger risks than those they confront in other zones. The size and the potential offered by a number of these territories, the natural resources (physical and human) that are accessible there, often at a very attractive cost, encourage growth from the perspective of acquiring market share and/or optimizing their value chain on the international level. These investors remain nevertheless anxious:
  - firstly, to *minimize their risk exposure* by limiting the tangible and intangible assets susceptible to be subject to structural and contingent risks locally, notably in lowering exit barriers as much as possible, or in other words, lowering the costs and losses they would have to bear in case of withdrawal;

- secondly, to develop the highest level of flexibility in a context of accelerating evolution, in order to quickly take advantage of opportunities that present themselves elsewhere or to react in the most efficacious way possible to new constraints susceptible to occur.

New paths to explore also offer themselves for research with the enlargement of the circle of stakeholders concerned by international liberalization who, like local authorities, experience it as opportunities and risks likely to facilitate or, on the contrary, to limit their development. These new trends encourage, of course, one to concentrate on the specificities that present in this perspective of internationalization, each of these entities or categories of entities. But the interactions they can have with one another also constitute separate subjects for reflection that may offer, in addition to a better understanding of their mechanisms, new possibilities for the different stakeholders involved.

### **Consideration of the new balance of power between economic zones and the actors that come from them**

With respect to the balance of power that exists between economic zones, statistical evolutions between 1990 and 2010, as well as estimates for 2020 or 2030, underline the loss of relative importance, in terms of GDP, between mature economies (essentially the countries in the triad: United States, European Union and Japan) with respect to emerging economies; notably the fast growing economies (FGE), including China, India and the five largest ASEAN countries. Mature economies, for example, generated approximately 60% of the global GDP in 1990, 50% in 2000 and 45% in 2010; we can expect this proportion to be reduced to 35% in 2020 and 30% in 2030 (Jensen, 2012).

But it is the mechanism of this inversion of economic strength between the two groups of

economies that deserves the most attention in order to better grasp, beyond statistical estimates, the meaning of the phenomenon, the conditions of its sustainability and the consequences for the actors of each of these two groups of economies.

A sectorial component deserves, first of all, to be deepened, and especially, closely followed to better understand the constraints and the favorable perspectives that it comprises for the involved actors from different geographical provenances. Entire sectors of production of goods and services were deregulated and opened for competition, on a more or less large scale, facilitating a new deal between territories, activities and organizations. Thus, in the service industries, this movement, initiated thirty years ago with the deregulation of air transportation, was then extended to numerous other services, such as finance, telecommunications and, to a lesser degree, banking and mass retailing. It has not yet particularly favored the emerging economies which still have a certain lag and which tend consequently to maintain a certain level of protection (Lemaire, 2012). But it was different in other sectors: thus the abandon of export quotas by country and by product which were implemented in 1974 to protect the textile industry in the industrialized nations significantly changed the exchange structure, permitting, from 2005, growth in this sector, competitive pressure from countries such as China and India on mature economies. Other industries, such as electronics and, soon, automobiles, high-speed trains, telecommunications equipment, aeronautic, are or will be the object of more intense competition, which is already leading to a redistribution of activities between geographic zones (Dufour, 2012).

Beyond the era of the relocation of organizations of the mature economies toward the emerging economies, encouraged by the difference in the cost of labor or by the desire to move closer to high-growth markets, emerges – in certain industries, at least – a new era. That is the set-up of the industry of the local organizations in the FGE, as with what happened in Japan more than thirty years ago and, more recently, in South Korea, Taiwan or Hong

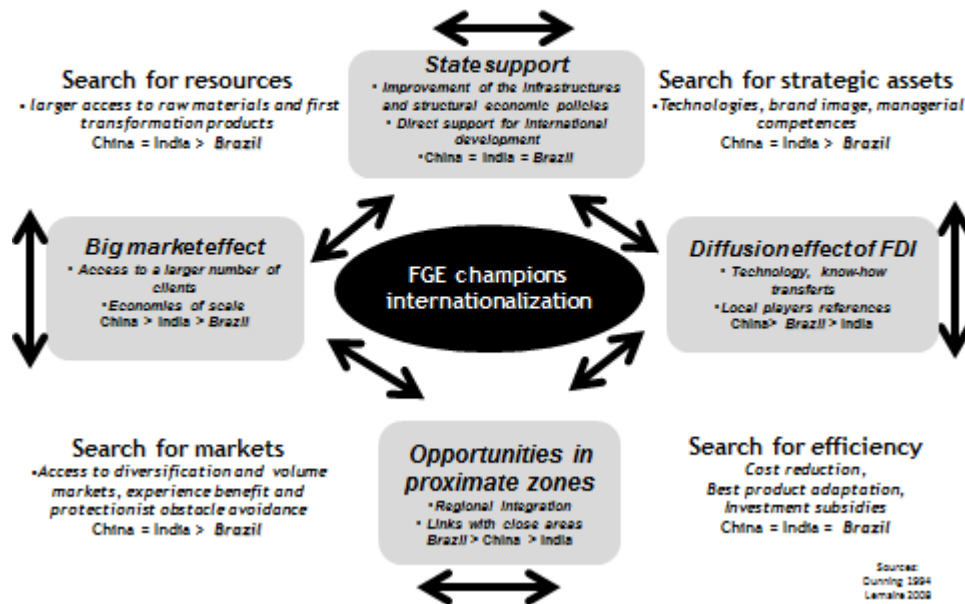
Kong; particularly in the economies at the leading edge, such as China or, to a lesser degree, India, where certain organizations tend to become global industrial and technological leaders (Akamatsu, 1967).

In terms of trade, the significant evolution of the foreign trade balance is translated by a growth of external deficits by mature economies, in favor of emerging economies, particularly the Asian ones. In terms of investments, it's the emergence of *international champions* from fast growing economies. They are opening new subjects for research in international management. This trend calls, for example, to verify the pertinence of different categories of internal incentives for these FGE *international champions* as Dunning advanced (1977), to explain the internationalization of firms, the majority of which originated in the occidental economies. Nonetheless, it seems essential today to better understand how other incentives (external, this time) can combine with the internal incentives, which must still be taken into consideration (Lemaire, 2007), to explain the strong growth we see among a certain number of entities from China especially, but also from India or Brazil, without forgetting other areas, such as Mexico, Russia or Argentina and, soon, other countries constituting a *reserve army* of FGE (O'Neill, 2008).

Figure 3



## **External determinants and internal incentives for internationalization**



- First of all, the *big market effect* allows them to have a considerable national client base – existent and potential – and to realize significant economies of scale, allowing to increase their price competitiveness; independently of the advantage procured for them by the low cost of their labor.
- A second element to retain comes from *the opportunities in proximate zones*, as much for the outlets they are susceptible of acquiring for their products, as for the natural resources that the organization is missing and that the host territory could furnish them, and the possibilities of subcontracting the host territory could offer the organization and that would allow it to optimize the structure of its production chain.<sup>i</sup>
- A third dimension is equally important for stimulating the growth of the *international champions*. It's the relative magnitude and influence of foreign direct investments in the zone of origin that offers them, through the *diffusion effect*, new technologies and functional savoir-faire in the domains of production, quality, marketing, etc., as well as organizational models allowing them to evolve more rapidly. These new elements

allow them to remain competitive on their large internal market and to be better armed for developing outside their borders.

- Finally, the fourth and even more important determinant, *support from the State*—especially in these FGE, but not only there – plays a crucial role in the international positioning of these *international champions*, through economic, financial and monetary policies. Indirectly, by improving infrastructure or by negotiating with supranational entities (global like the WTO or, eventually, regional) periods of transition to reinforce their competitive position in certain key industries and, thusly, giving them better chances to cope with the entry of their foreign competitors and to develop abroad. National and local authorities can also, more directly, offer them direct aid in the form of subsidies or international negotiation of certain strategic markets.

Thus, the reasons that explain the success of these international champions, who have already earned the place of *leader*<sup>ii</sup>, are beginning to raise questions in the economic and even political communities that ask for the understanding of their progression and its consequences.

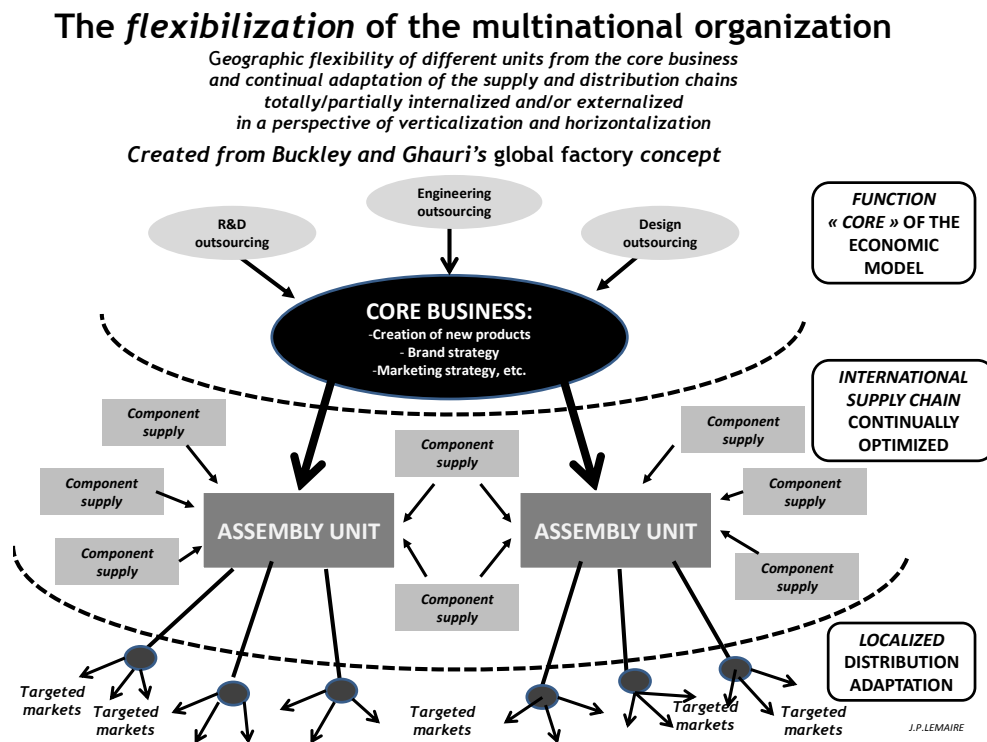
### **The consideration of multicultural interactions in organizations' international development plans**

With the growth of international openness and the increased development of organizations outside of their national frontiers, situations of cultural interactions are multiplying between local and foreign entities (more and more varied). They can be the source of difficulties, but also of opportunities and even endow organizations that master them additional competitive advantages with respect to their competitors; especially if they seek to enrich their own

company culture with this diversity.

These organizations tend to adopt new organizational plans, characterized by an increased *flexibilization*, that generates, internally and externally, many relationships of very different natures. The resulting complexity, illustrated by the evolving structure of the *world factory* concept proposed by Buckley and Ghauri (2004), can give rise to numerous variations and adaptations (Lemaire, 2012).

Figure 4



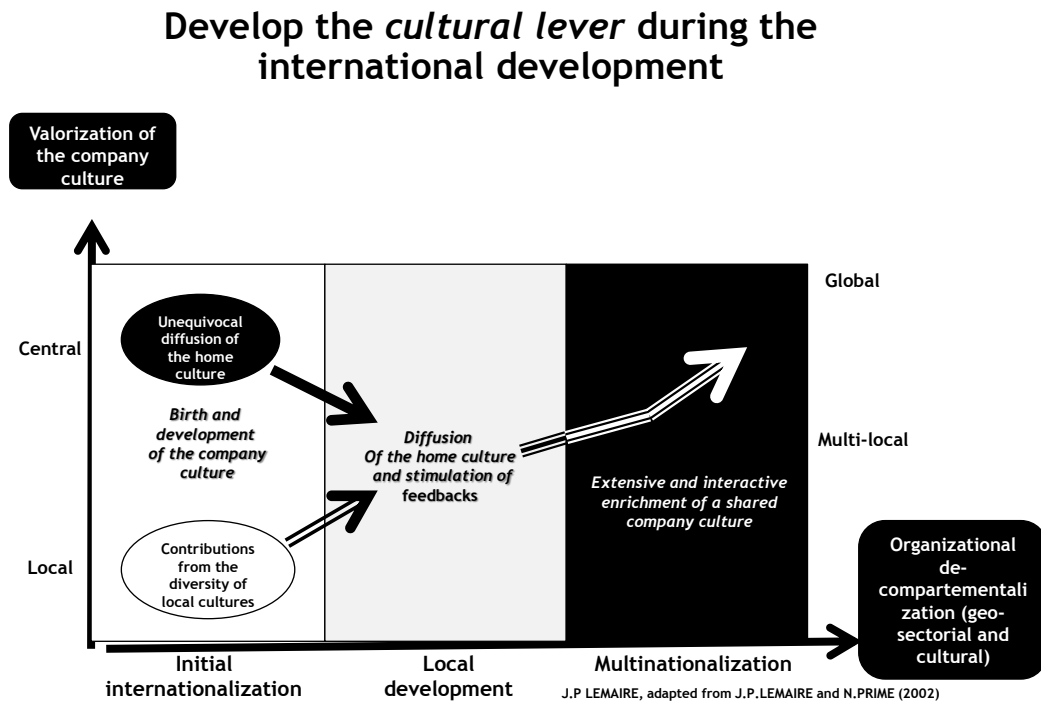
The question is then to know how a certain number of cultural interactions could be associated, like others yet to be defined, with internationalization (Lemaire, 2012), such as intercultural negotiation, leading multicultural teams and the relations between them, or the design and adaptation of products from and for different cultural and geographical contexts. One can also wonder what forms they take, the parameters which characterize them, such as

the way to make the most of it, on the economic and social levels, for all of the involved entities.

Internationalization – with the multiplication of activities, their adaptation, the conquest of new territories – leads to more and more cultural hybridism within the organization itself and to the transformation of its own culture. While organic growth, with a concentric progression in proximate geographical zones, is compatible with regular evolution, the transfers, mergers and acquisitions (amicable or hostile), as well as partnerships developed within larger geographical frameworks, place the organizations, sometimes in a brutal manner, in complex and strained situations.

During its development and geographical deployment, it is therefore interesting to better measure the importance of the international organizational culture and to more completely consider its transformations and diffusion (Lemaire and Prime, 2007). Tending to be involved in more and more varied contexts, it needs to integrate in its home culture the diversity and richness of the contributions from the establishments and the distant environments by the implementation of a true cultural *lever* (Prime and Usunier, 2012; Lemaire, 2012), the existence of which seems to have been corroborated by a number of international managers<sup>iii</sup>. This lever can be an advantage with respect to its clients and stakeholders, and a competitive advantage with respect to its competitors throughout the geo-sectorial space in which it operates: regional, continental, multi-continental or global.

Figure 5



This linkage between the transformation of organizational plans and the evolutions of the cultural interactions constitute themselves, in the turbulent environment in which firms evolve, a field of research that interests a number of them, for whom innovation, transfers of knowledge and know-how (Cohendet, Créplet and Dupouet, 2006), particularly in an international perspective, have become vital stakes with the goal, for example, of creating new products (Jensen, 2012).

## Conclusion

These four perspectives, which are in no way exhaustive, but which cover essential aspects of the field of organizational management and international development, indicate different orientations that already federate a number of reflections and analyses, which may respond to new research questions raised by a growing number of organizations, more and more *exposed* in an increasingly open international space.

They favor, first of all, transversal approaches, which concern environmental analysis and systemic approaches of internationalization, by giving, notably, to crisis situations, all the importance dictated by the evolutions of the past two decades.

They engage, also, to better apprehend the most innovative incentives and orientations that can be observed among the actors concerned by international openness (traditional and new).

This also leads to consider more specifically organizational and cultural dimensions associated with international development.

They encourage, finally, to take into consideration, the impact of internationalization on the functions, by connecting them with one another, and by emphasizing the interdependence within the framework of the internationalization strategy's construction and implementation, which tend to become for many organizations the central axis of the overall strategy.

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<sup>i</sup> The *importance of diasporas* can be assimilated to this determining external factor, whose impact is difficult to measure, but which could constitute, as certain governments have already understood, a lever for development that is crucial for the country's economic actors, both as source of information and savoir-faire and as capacity for investment.

<sup>ii</sup> For a firm like Huawei, which is currently fighting for first place in the telecommunications equipment industry, it's indeed the big market effect that allowed, at first, the construction of a solid activity base, like the financing of its growth handed out by the banks like the subsidies – notably for research – accorded by the Chinese authorities, which were especially critical. Also vital were the diffusion effects created through the multiple alliances that were created with foreign firms, often established in China, which largely contributed in procuring the technical and managerial know-how the company needed to make up their initial lag before being capable of flying by themselves and to lead the race at the head of the pack, in becoming itself technological *leader* (Lemaire, 2012).

<sup>iii</sup> Notably the large French firms (Bouygues, Dégrémont, Accord, Carrefour, etc.) who participated in the *Internationalization and intercultural management seminar series*, organized by ESCP-EAP from January to April 2004.