When Is a Company Ready to Go Global?

研究ノート

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〈Abstract〉

Before a company goes global, it should understand the kind of environment it would be involved into. This environment is a sum of the forces surrounding and influencing the life and the development of the firm. These forces can be external or internal. External forces also known as uncontrollable consist of: competitive, distributive, economic, socio-economic, financial, legal, physical, political, socio-cultural, labour, and technological. Whereas internal forces or controllable forces are the elements over which management has some command. These are the factors of production such as the capital, raw materials, and people. And, the activities of the organization such as: personal, finance, production, and marketing. However, the environment is of three kinds: the domestic environment, the foreign environment, and the international environment.

Then, a company is said to be ready to global when the following conditions exist: 1) management commitment, 2) in-depth experience with the product or service, 3) adequate cash flow, and 4) capacity and capability to produce international products.

〈Key Words〉

Uncontrollable forces, Controllable forces, Domestic environment, Foreign environment, International environment.

〈要　約〉

企業がグローバル化を試みる前に整えねばならない前提条件がある。それ等は 1）国内環境（Domestic Environment）、2）外国環境(Foreign Environment), 3）国際環境(International Environment)においても通づる事であろう。

例えば競争市場、流通システム、消費者行動等のチェックは一般的なものである。しかし、地理的条件、各国の政治制度、文化、宗教、習慣等にかかわるものは特殊であるがゆえに十分なる検討が必要である。

企業の内部では資本、材料、人材更に、生産能力、マーケティング能力等がコントロール可能である。この両者に対する対応策が整った時にグローバル化の準備が整ったと言えるのである。

Ⅰ. Introduction

This paper begins in part II, by a discussion of the three kinds of environments a firm operating across borders must deal with. These are the forces surrounding and influencing the life and development of a firm, they also help to understand why international is so different. Part III deals with the four conditions that determine the readiness of a company, which wants to go global. Part IV is the conclusion.

However, I felt the need to specify that, while this paper focuses on the preconditions by which a global company would be called so, it has little to do with strategy management. Although going global can be part of a given company's strategy when it wants to strengthen its position in a given market. Management would mostly deal with the following: 1) plans and budgets: establishing detailed steps and timetables for achieving needed results; allocated necessary resources. 2) Organizes and staffs: establishing structure and achieving the plans; staffs, delegates responsibility and authority for implementation; develops policies and procedures to guide people; creates monitoring systems. 3) Controls and solves problems: Monitoring results against plans, and then plans and organizes to close the gap. 4) Produces a degree of predictability and order: has the potential consistently produce key results expected by various stockholders (such as meeting deadlines for customers and paying dividends to stockholders). (1)

Ⅱ. Forces in the environments.

Environment is the sum of all the forces surrounding and influencing the life and development of the firm. The forces themselves can be classified as external or internal. Management has no direct control over them, though it can exert influences such as lobbying for change in a law and heavily promoting a new product that requires a change in a cultural attitude. The external forces are commonly called uncontrollable forces (2) and consist of the following:

1. *Competitive-* kinds and numbers of competitors, their locations, and their activities.
2. *Distributive-* national and international agencies available for distributing goods and services.
3. *Economic-* variables (such as GNP, unit labor cost, and personal consumption expenditure) that influence a firm's ability to do business.
4. *Socioeconomic-* characteristics and distribution of the human population.
5. *Financial-* variables such as interest rates, inflation rates, and taxation.
6. *Legal-* the many kinds of foreign and domestic laws by which international firm must operate.
7. *Physical-* element of nature such as topography climate, and natural resources.
8. *Political-* elements of nations' political climates such as nationalism, forms of government, and international organizations.
9. *Socio-cultural-* elements of culture (such as attitudes, beliefs, and opinions) important to international businesspeople.
10. *Labor-* composition, skills, and attitudes of labor.
11. *Technological-* the technical skills and equipment that affect how resources are converted to

products.(3)

The elements over which management does have some command are the internal forces, such as the factors of production (capital, raw materials, and people) and the activities of the organization (personal, finance, production, and marketing). These are the controllable forces, that management must administer in order to adapt to changes in the uncontrollable environmental variables. Example of the change in the political force- the passage of the North American Free Trade Agreement- is affecting all of the controllable forces of firms worldwide that do business in or with the three members-nations: the U.S.A., Mexico, and Canada. Suddenly these companies must examine their business practices and those affected the law. For example, some American concerns and foreign subsidiaries in the United States are relocating par of their operations to Mexico to exploit the lower wages there.

Some European and Asian companies are setting up production in member-countries to supply this giant free region. By doing this, they avoid paying import duties on products coming from their home countries.

A. The domestic environment

The domestic environment is composed of all uncontrollable forces originating in the home country that surround and influence the life and development of the firm. These are the forces with which managers are most familiar. Being domestic does not preclude their affecting foreign operations, however. For example, if the home country is suffering from a shortage of currency, the government may place restrictions on overseas investment to reduce its outflow. As a result, managers of multinationals find that they cannot expand facilities overseas, as they would like to. (4)

B. The foreign environment

The forces in the foreign environment are the same as those in the domestic environment except that they occur in foreign nations (5). However, they operate differently for several reasons, including the following:

- Different force values. Even though the kinds of forces in the two environments are identical, their values often differ widely, and at times they are completely opposed to each other.

  For example, the case of Dresser Industries and the gas pipeline in the Soviet Union. When President Reagan extended the American embargo against shipments of equipment for the pipeline to include foreign companies manufacturing equipment under license from U.S. firms, the Dresser home office instructed its French subsidiary to stop work on an order for compressors. Meanwhile, the French government ordered Dresser-France to defy the embargo and begin scheduled deliveries under penalty of both civil and criminal sanctions. As a Dresser's vice president put it, "The order put Dresser between a rock and a hard place." (6)
- Changes difficult to assess. Another problem with the foreign forces is that they are difficult to assess, especially their legal and political elements. A highly nationalistic law may be passed to appease a section of the population. To all outward appearances, a government may appear to be against foreign investments, yet pragmatic leaders may actually encourage it. For example, until 1988 there was a law

in Mexico that prohibited foreigners from owning a majority interest in a Mexican company. However, a clause permitted exceptions "if the investment contributes to the welfare of the nation." IBM, Eaton, and others were successful in obtaining permission to establish a wholly owned subsidiary under this clause.(7)

- Forces interrelated. Forces are often interrelated, because the same situation confronts the domestic manager. For example, the combination of high-cost capital and an abundance of unskilled labor in many developing countries may lead to the use of lower level of technology than would be employed in the more industrialized nations.

  In other words, given a choice between installing costly, specialized machinery needing few workers and installing less expensive, general-purpose machinery requiring a larger labor force, management will frequently choose the latter when faced with high interest rates and a large pool of available workers.

C. The international environment.

The international environment is the interactions 1) between the domestic environmental forces and the foreign environmental forces and 2) between the foreign environmental forces of two countries when an affiliate in one country does business with customers in another.

For example, personnel at the headquarters of a multi-domestic or global company work in the international environment if they are involved in any way with another nation, whereas those subsidiaries do not unless they too are engaged in international business through exporting or the management of other affiliates. In other words, the sales manager of Goodyear-Chile does not work in the international environment if he or she sells tires only in Chile. If Goodyear-Chile exports tires to Bolivia, then the sales manager is affected by forces of both the domestic environment of Chile and the foreign environment of Bolivia and therefore is working in the international environment (8).

Illustration of International Business:

Table C-1. Ranking of international companies and nations according to GNP or total sales

Ranking	Nation of Firm	GNP or Total Sales for 1995 ($billion)
1.	United States	7,100.0
2.	Japan	4,963.6
3.	Germany	2,252.3
4.	France	1,451.1
5.*	United kingdom	1,094.7
22.	Indonesia	190.1
23.	*Mitsubishi* (J)	184.4
24.	*Mitsui* (J)	181.5
25.	Turkey	169.5

26.	*Itochu* (J)	169.2
27.	*General Motors* (US)	168.8
28.	*Sumitomo* (J)	167.5
29.	*Marubeni* (J)	161.1
30.	Thailand	159.6
31.	Denmark	156.0
32.	Hong Kong	142.3
33.	*Ford Motor* (US)	137.1
34.	Norway	136.1
35.	Saudi Arabia	133.5
36.	South Africa	130.9
37.	*Toyota* (J)	111.1
38.	*Exxon* (US)	110.0
39.	*Royal Dutch/Shell Group* (UK/N)	109.8
40.	Poland	107.8
41.	Finland	105.2
42.	*Nissho Iwai* (J)	97.9
43.	Portugal	96.7
44.	*Wal-Mart* (US)	93.6
45.	Israel	87.9
46.	Greece	85.9
47.	*Hitachi* (J)	84.2
48.	Ukraine	84.1
49.	*Nippon Life* (J)	83.2
50.	*Nippon T.& T.* (J)	81.9
51.	Singapore	79.8
52.	*AT&T* (US)	79.6
53.	Malaysia	78.3
54.	*Daimler-Benz* (G)	72.3
55.	*IBM* (US)	71.9
56.	Philippines	71.8
57.	*Matsushita Electric* (J)	70.4
58.	Colombia	70.3
59.	General Electric (US)	70.0
60.	Tomen (J)	67.8
61.	Mobil (US)	66.8
62.	Venezuela	65.4
63.	*Nissan Motors* (J)	62.6

64.	*Volkswagen* (G)	61.5
65.	*Siemens* (G)	60.7
66.	Pakistan	60.0
67.	Chile	59.2
68.	*Dai-Ichi-Life* (J)	58.1
69.	*British Petroleum* (UK)	57.0
70.	Metro Holding (S)	56.6
71.	Peru	55.0
72.	*U.S. Postal Service* (US)	54.3
73.	*Chrysler* (US)	53.2
74.	*Philip Morris* (US)	53.0
75.	*Toshiba* (J)	52.8
76.	Ireland	52.4
77.	*Tokyo Electric Power* (J)	52.7
78.	New Zealand	51.7
79.	*Daewoo* (K)	51.2
80.	*Nichimen* (J)	50.8
81.	*Sumitomo Life* (J)	50.7
82.	*Kanematsu* (J)	49.8
83.	*Unilever* (UK/N)	49.7
84.	*Nestlé* (S)	47.8
85.	*Sony* (J)	47.6
86.	*Fiat* (I)	46.5
87.	*Veba Group* (G)	46.3
88.	*Deutsche Telekom* (G)	46.1
89.	*Allianz Holding* (G)	46.0
90.	*NEC* (J)	45.6

Note: Does not include nations that do not report GNPs to World Bank.
*Numbers 6 through 21 are also countries.
Letters in parentheses indicate a firm's nationality: (F) = France, (G) = Germany, (I) = Italy, (J) = Japan, (N) = Netherlands, (S) = Switzerland, and (UK) = United Kingdom.
Sources: The World Bank Atlas 1997 (Washington, DC: World Bank, 1997), pp. 36-37; and "The Fortune Global 500," Fortune, August 5, 1996, pp. F-1-F-2.

Table C-1 shows that there are more Asian and European international firms than there are American. It was not always this way. Until the 1960s American multinationals clearly dominated world business, but then the situation began to change when Europeans firms began challenging American multinationals: first, in their home countries and then in third-country markets dominated by U.S. companies. By the 1970s large European and Japanese businesses were expanding their overseas production facilities faster than were American firms. To realize the change in relative importance of American, European, and Japanese multinationals, it is helpful to compare *Fortune's* list of the top 100 industrial firms in the world ranked according to sales in 1980 and 1996.

We can also compare lists over time of largest in number of industries to see if there has been a change of leadership in sales volume. Following is an analysis of the automobile industry.

	1980		1996
45	United States	32	United States
42	Western Europe	38	Western Europe
8	Japan	23	Japan
1	South Korea	4	South Korea
1	Brazil	1	Brazil
1	Mexico	1	Mexico
1	Venezuela	1	Venezuela
——	Canada	——	
100		100	

1959	1981	1996
1. General Motors (U.S)	1. General Motors (US)	1. General Motors (U.S)
2. Ford (US)	2. Ford (U.S)	2. Ford (U.S)
3.Chrysler (US)	3. Fiat (Italy)	3. Toyota (Japan)
4. American Motors (U.S)	4. Renault (France)	4. Daimler-Benz (Ger.)
5. Volkswagen (Germany)	5.Volkswagen (Ger.)	5.Volkswagen (Ger.)
6. British Motor (U.K)	6. Daimler-Benz (Ger.)	6. Daewoo (South K.)
7. Fiat (Italy)	7. Peugeot (France)	7. Chrysler (U.S)
8. Daimler-Benz (Germay)	8. Toyota (Japan)	8. Nissan (Japan)
9. Renault (France)	9. Nissan (Japan)	9. Fiat (Italy)
10.Simca (France)	10.Mitsubishi (Japan)	10.Honda (Japan)

The same analysis of the top firms in five other industries that American firms dominated in 1959 showed that by 1996 they continued to lead in only two of them.

Industry	1959	1996
Aerospace	8 United States	6 United States
	2 European	2 European*
Chemical	7 United States	7 European
	2 European	2 United Sates

		1 Japanese
Metal Manufacturing	9 United States	4 Japanese
	1 European	3 European
		1 United States
		1 Australian
		1 South Korean
Electronics	7 United States	6 Japanese
	3 European	3 European
		1 United States
Pharmaceuticals	7 United States	6 United States
	3 European	4 European

*Only eight firms in this industry are in the fortune Global 500.

From this analysis it would appear that, American firms have lost ground to European and Japanese multinationals, as a few writers claim. However, comparing the number of companies on the first Fortune Global 500 list (1989 sales) with the 1996 results, the conclusion is different.

Countries with the Most Companies on Fortune Global 500 List

	1996	1995	1989
United States	162	153	167
Japan	126	141	111
France	42	42	29
Germany	41	40	32
United Kingdom	34	32	43

Sources: "World's Largest Corporations," Fortune, August 4, 1997, p. F-1; and "Fortune's New Global 500," Fortune, July 30, 1989, p.265.

Ⅲ. Four conditions for a company to go global

This second part of this paper is not to establish the conditions that are necessary for a company to export, but to highlight when a company is ready to go global and be successful. A company is ready to go global when the following conditions exit:

1. Management commitment
2. In-depth experience with the product or service
3. Adequate cash flow
4. Capacity and capability to produce international products (9)

●Management commitment

A strong management commitment to international expansion is more than a simple trip to Latin America.

Management commitment ultimately translates to strong resource commitments. It means the budget, personnel, and time commitments will be there to support the activities of the international department. It also means the whole company -from accounting to freight -will adopt its own commitment to the international strategy. Without the stated support of management and company stake-holders toward international goals, individual departments may not make the required investment in time and resources to help the international department succeed. Interdepartmental cooperation will be poor (10).

By clarifying management commitment to international business, the company also establishes risk and payback parameters to use in its business plan, which will in turn establish budget limits. Without identifying these parameters and incorporating them into the international strategy, it risks developing an international strategy that ultimately will fail because it will contradict management goals and expectation. Management commitment to international expansion also establishes a framework for hiring new employees to support the company's international efforts. If management has made it clear that international expansion is a priority, the international experience or expertise of an applicant could be an important factor in hiring process.

●In-depth experience with the product or service

A company with a product or service that is successful in the U.S. market will probably have some initial international sales very early in their development. But to really succeed international a company needs to develop its international strategy and the business plan to execute that strategy. To do this, the company must have experience in developing, marketing, and servicing its product domestically.

Management international strategy will be based on aspects of the competitive position of the company. For example, how does the company compete? What emphasis is placed on strategies such as low-cost production, product differentiation, or market/customer focus? What are the basic strength of the company? What really makes the company excel? What is the company industry structure and how does the product offering compete in that industry? Which activities are internal and which are contracted out? The answers to these questions will focus the company international strategy. However, some domestic experience will be needed.

●Adequate cash flow

Like domestic business, cash flow greases the wheels of international business. It may not reach the level of financing needed when the company was created or even the cash it takes to maintain its domestic business.

The amount of cash flow the company needs is determined by its international strategy, and the opportunities it identifies. For example, for every market a company enters directly, versus indirectly, more cash is required. Equally, the more direct the company is involved in those markets, the more cash is required. The timing the company's plan also dictates its cash requirement-the more aggressive the expansion plan, the greater cash is required. Each of these cash requirements (investments) must in turn be balanced against the expected payback (profit) opportunities and their impact on building long-term owner/shareholder value of the company.

●Capacity and capability to produce international products.

1. Capacity and capability for manufacturers

Regarding the company's capacity to produce its products, the international strategy must adequately address these issues:

- What would be the impact if sales increased by 20, 40, or even 100 percent within the next 12 months?
- How would the company respond if one month's production level to be produced in half the normal time?
- What would be the logistic challenges if manufacturing had track product produced for international buyers separately from that of domestic buyers throughout the manufacturing process?

Regarding product capability, the company must review its ability to:

- Make technical modifications to the product as required
- Respond to R&D challenges that may require redesigning the product or offering different features without significant cost impact
- Document products' feature, maintenance, and repair for the purpose of adequately training the customers, many of whom won't speak English as their first language.

2. Capacity and Capability for service companies

If the company is involved in services, rather than products, the concerns are similar to those of manufactures. First, is the necessary staff and support services available to accommodate a significant increase in sales? Service companies depend on their employees to offer their services. If domestic customers are already exceeding the limits of current staff, additional sales could lead to lost domestic business potentially risking the viability of the company.

Second, just as the uses and standards of products vary internationally, so do services. To be ready to go global, a service company must ensure they have the expertise to adapt and change their service to adjust to international differences in how the service is used. For example, an accounting firm would be poorly prepared to offer international accounting service if they did not first acquire expertise in international accounting standards, financial statements, and tax laws.

Ⅳ. Conclusion

The more important issue here is to highlight what it takes for a company to go global and succeed. And, what should be the profile of a global company and what strategy should it adopt? When I look at the dramatic internationalization of markets, I realize that global competition is mounting. The huge increase in import penetration, plus the massive amounts of overseas investment, means that firms of all sizes face competition from everywhere in the world. This increasing internationalization of business is requiring managers to have a global business perspective gained through experience, education, or both.

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(2) See Paul ETOGA, "The Scope of International Marketing Emphasis Area: International Business" , The Kaetsu University Annual report no.75 p.144.

(3) Ball & McCulloch, The Nature of International Business: International Business: The Challenge of Global Competition 7th ed. McGraw-Hill, 1999 P. 18

(4) Ball & McCulloch, Ibid., p.18

(5) "Foreign" has multiple definitions according to the American Heritage Dictionary, including 1) originating from outside" external, 2) originating from a country other than one's own, and 3) conducted or involved with other nations or governments.

(6),(7) Ball & McCulloch, Ibid., p.19

(8) Ball & McCulloch, The rapid Change of Global Business, 1999, p.19

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