Global Business Management:
Current Trends and Practices

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Today, problems associated with global business management have been identified as factors that negatively impact the performance and productivity of multinational corporations and in turn, adversely affect regional and national economic growth. While factors related to logistics and distribution are important when selecting international suppliers, they are inadequate when considered in isolation of internal and external forces. This paper engages in a comprehensive and systematic analysis of global supply chain management, particularly in terms of micro and macro cultural considerations.

INTRODUCTION

Organizations are facing increased global competition, economic uncertainties, and changing markets. Technology is changing the way we conduct business and manage information. Outsourcing of significant functions within businesses and organizations complicates the landscape of supplier relations. Suppliers and vendor partners may be located in the same city, region or country. But they are just as likely to be located halfway around the world, adding new challenges to business management.

The growth of international strategic partnerships has risen exponentially in the last twenty years. Competing in a global marketplace has made it increasingly important to align business strategies with a risk management strategy that includes strengthening global supply chains and vendor partnerships. As Wiley points out, "In the near future, it is supply chains that will compete, not companies" (Wiley, 2004). Global supply chains must be carefully selected and monitored to ensure the competitive edge required to achieve success in the global market place. Typically, the first order of business has been logistics and operations. Businesses identify viable suppliers, hospitable host countries, lucrative markets, and amenable vendor partners world-wide. Then they set about drawing up agreements and operationalizing the new vendor relationships. Then the realities of operating a global business hit home and businesses scramble to understand what went wrong.

I believe that part of what went wrong is that businesses missed the big picture. They become so focused on the bottom line – keeping costs down and rushing products to the consumer – that they fail to consider other factors that may directly impact their operations. Risk management

strategies must include plans for dealing with an array of new threats and concerns - terrorism; cyber crime; piracy; potential political and economic instability around the globe; ethnic, religious and cultural differences; compatibility and interoperability of technological systems; global communications and transportation. Added to this list are concerns about financial viability, sustainability, compliance with national and international laws, and information security. A contextual model is presented below. And because it forms the foundation of human civilization, communication and trade, I begin this discussion with the issue of culture.

CONTEXTUAL MODEL

Factors relating to logistics and distribution are often the only critical factors considered when multinational enterprises seek to establish or broaden international supply chains. Far less considered are contextual factors that may help organizations better understand potential vendors and better select vendor partners, thereby mitigating potential vendor-related problems. Figure 1 presents a contextual model of the major factors I believe are critical to successful supply chain and risk management. These are culture (external and internal), corporate governance, politics and law, and technology. While logistical and distribution concerns as well as issues of infrastructure and presence tend to drive many international business decisions, it is equally important that organizations consider these broader contextual issues.

Figure 1
Contextual Factors that Affect Global Supply Chain Management
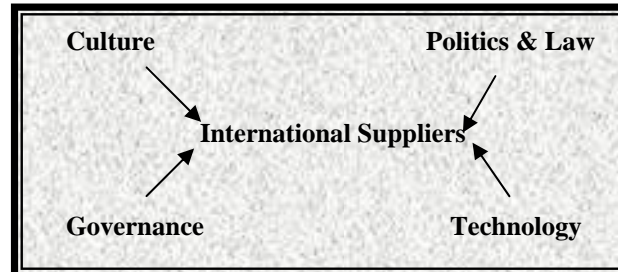
CULTURE

Attention to *culture* in the international business environment is critical to the entry and sustainability of organizations, multinational enterprises, in the global marketplace. For the purpose of this paper, culture is defined as "*the knowledge, beliefs, art, law, morals, customs and other capabilities of one group distinguishing it from other groups" (Whiteley and England, 2004, p. 439-453).* Virtually every structure, function, and operation of any successful international business is influenced by its own home culture and the culture of its host country, e.g., strategic formulation, organizational design, human resource management, leadership, marketing, accounting, mergers and alliances, and the management of its supply chain. As working in the international arena is replete with both opportunities and challenges, care must be given when businesses identify and enter into outsourcing agreements with global partners and suppliers.

Learning to understand and accommodate cultural differences when working with international suppliers is critical to the success of the business relationship. Due to the lure of economic gain coupled with the technological capability to communicate almost instantly around the world, some authors have suggested that over time, increased individual and organizational interactions will erode cultural differences making it easier to conduct transactions (Naipaul, 1990, p. 20) (Friedman, 2000). However, others, as well as terrorist events of recent past, suggest that increased interactions lead to increased conflicts. According to well known Harvard political scientist, S. Huntington, increased conflict is natural and even more likely given that people belonging to different cultures define the world as "us" versus "them" (Huntington, 1996, p. 144).

Research has shown that failures in international business relationships most frequently result from an inability to understand and adapt to foreign ways of thinking and acting (Ferraro, 1998). People are quick to see "irreconcilable" differences and when they do, relationships breakdown despite potential economic gains (Friedman, 2002). Thus, entry into and the sustainability of international vendor relationships is often a matter of whether organizations involved learn to accommodate a different perspective, one that includes the notion of a larger "us".

Generally, organizations enter the global marketplace based on economic motives. Successful multinational corporations increase their returns on investment through a combination of realized benefits – lower costs, larger consumer market, greater tax relief or tax benefits, access to large, cheaper labor pools, improved access to resources, and greater productivity, all of which yield higher revenues. These in turn result in higher market shares and sales. Given the magnitude of international business conducted today, clearly many organizations have learned to overcome significant challenges. As an example of the rate of growth, in one year alone, from 1999 to 2000, global merchandise exports reached $6.2 trillion, an increase of 12.5 percent over 1999. Global exports of commercial services reached $1.4 trillion, an increase of over 6 percent (WTO, 2001).

The selection of international vendors is most often based on issues concerning logistics, distribution, e.g., energy, telecommunications, transportation, utilities, labor pool, and the presence of appropriate infrastructures. The globalization infrastructure is the institutionalized support structure that supports fair and transparent transactions. It involves products and services, systems of law and order, solvency of the banking system, and property rights and protection. Infrastructure is often sited as a factor that affects the degree to which participating economies benefit, be they rich or poor.

CULTURAL COMPATIBILITY

Cultural compatibility refers to the degree to which people from different cultures understand or are likely to accommodate cultural differences, hence potential for conflict is likely reduced. The basis of this accommodation comes from either holding or learning to appreciate values or cultural assumptions expressed in another culture.

In any given society, values represent the standards by which behavior is evaluated. A commonly used framework for discerning "value orientations" was suggested by Kluckhom Strodbeck, (Kluckhom, Strodbeck, 1961) and applied to a cross-cultural context by Hofstede (Hofstede, 1980). The framework is predicated on the idea that people every where face a universal set of problems of which there is a limited set of solutions. The manner in which problems are addressed fall along a continuum, and include:

- acting on behalf of the individual versus the collective;
- reckoning time precisely versus less so;
- looking toward and valuing the future versus the past;
- emphasizing action versus thinking;
- harnessing nature versus living in harmony with nature;
- exalting youth versus honoring elders;
- favoring formal versus informal interactions;
- competing versus collaborating;
- being assertive, driven and task oriented versus nurturing and attentive to interpersonal relationships, and
- more accepting of the status quo.

LANGUAGE AND RELIGION

While beyond the scope of this paper, correlates of culture include both language and religion. Suffice it to say that even though one might "learn" to speak a language, it is important to know that the syntactical structure of a language effects behavior, e.g., Americans learning Chinese, for example, not only have to learn the language, they have to learn to be patient as the point of a conversation in Chinese comes at the end of the conversation, rather than at the beginning as it does in Western English. Just as learning a language and its syntactical uniqueness can increase the likelihood of establishing successful international relationships, familiarity with nonverbal cues is also important. According to Collett, people who know the nonverbal cues of another culture are better accepted (Collett, 1972). Additionally, familiarity with the religious practices in a country and the key values and norms they reflect serve to prepare organizations for engagement in a foreign culture and enhance the probability of developing successful relationships (Blij and Muller, 2002).

POLITICS AND LAW

Perhaps one of the more difficult factors to address is that of politics and law. In some countries, economic trade is disrupted by internal strife, political corruption, civil war and uncontrolled bribery. Differing or unstable political systems sometimes pose serious pitfalls and obstacles to doing business in those countries and impede managing global supply chains. Differing value systems, local labor markets, and local practices may force multinational corporations to engage in conduct and transactions that on the surface, at least, appear to be unethical and perhaps illegal (Sternberg, 2000). How does an organization conduct business in a society where corruption runs rampant and enforcement of laws tends to be arbitrary and capricious? How does an organization manage suppliers who happen to be located in nations with whom our government is at odds? There are no easy answers, but they may be avenues and strategies a resourceful business can employ to manage or lessen the risks it takes doing business in unfriendly or unstable societies.

POLITICAL COMPATIBILITY

In the context of cultural considerations, multinational enterprises seeking international vendor relationships must be aware of the political-legal environments in which they work at

home and abroad. Political processes, e.g., government incentives, preferential subsidies, tariff reductions, etc., can either constrain or encourage the development of partnerships (Mallor, et. al., 2004).

The global marketplace has emerged in part due to advances in changes in international laws and agreements, and the need to compete more effectively in a global economic environment. Political disputes, instabilities and hostilities threaten the economies of nations and the global economy. The United Nations and numerous international organizations have worked diligently to address international trade issues and to provide forums for addressing political and legal differences. They have drafted international laws and established standards to govern international business and trade as a means of encouraging global business. Some of the more important acts include:

- the Foreign Corrupt Practices Act,
- creation of a European Multi-Stakeholder Forum on corporate social responsibility (CSR)
- the OECD's Principles of Corporate Governance,
- the Code of Conduct for Lawyers in the European Community (CCBE Code),
- Caux International Ethics Code,
- Caux Roundtable Principles of Business,
- International Labor Organization's Declaration of Human Rights,
- International Commerce,
- the International Federation of Accountants Code of Ethics, and
- the United Nations Global Compact, which enumerates nine universal principles under the headings of Human Rights, Labor, Environment, and Anti-corruption[14]

INTERNATIONAL TRADE AGREEMENTS

NAFTA, Free Trade Agreements, Import/Export laws, and European Union policies have spurred the creation of a worldwide network of suppliers, vendors and partnering institutions that spans nations and continents. Companies are changing the way they do business. More effort is going into integration activities – information resources and financial systems integration (i.e., ERP solutions); supplier and vendor integration, and integrated communication systems. Results of the 2004 IW/MPI Census of Manufacturers conducted by *Industry Week* show that 87% of the companies that have made significant progress toward world-class operations employ supplier integration strategies, compared to 70% of all respondents and 60% of those that have made no progress to world class (Hartman, 2005). Also, of the *Industry Week* Best Plants winners, clear majorities say their suppliers have contractually agreed to yearly cost reductions, have become resident suppliers and offer just-in-time delivery -- and 84% of the plants share cost savings with their suppliers (Jack, 2001).

GLOBAL COMPETITION

Outsourcing of goods and services enables companies to take advantage of lower costs in areas such as labor, energy, land and capital. By doing this, companies hope to lower their overall cost structure, improve profit margins, and enhance product quality, reliability and distribution, thus allowing them to compete more effectively. But as more American companies expand into global markets and supply chains lengthen and diversify across countries, the distinction between American products or Japanese products, for example, has blurred.

According to Robert Reich, former secretary of Labor in the Clinton Administration, outsourcing is a positive strategy in that it results in the *creation* of global products and services Maskus and Reichman, 2004).

GOVERNANCE

Corporate governance influences the decisions, strategies, and policies of an organization. Cultural differences, political factors, trade laws, etc., frequently require the redesign and customization of market strategies, organizational infrastructure and business practices to best match conditions in a foreign country. Governance becomes an issue as companies strive to address, coordinate and manage a complex web of activities and operations. Perhaps the most intriguing question is: How do you provide governance and manage risk across increasingly complex global business operations?

OPERATIONAL MODELS

The various business operations of a firm can be thought of as a value chain, composed of a series of distinct value creation activities (Braithwaite and Drahos, 2000). Primary activities include: production, marketing and sales, research and development and services. Support activities include organizational infrastructure, vendor management, human resources, and information resources. If a firm is to implement a competitive global business strategy, it must establish effective management structures to oversee and coordinate diverse activities and vendors.

In the past, most supply chain management decisions were made at the corporate level, ensuring efficiency and adherence to overall corporate goals. However, in large, complex organizations with many manufacturing plants, vendors and suppliers, a centralized approach may sometimes overwhelm corporate management, leading to reduced efficiency, gaps in service or quality, and ultimately higher company costs. Yet, decentralized solutions may cause large gaps between corporate strategies and goals and local processes and practices. What works best? Companies are scrambling to identify effective governance models. A few are listed below.

The *Open Standards and Benchmarking Framework* proposed by OCEG stresses an integrated approach to governance, compliance, risk management and ethics. This open, standards-based process framework measure performance in key areas such as supply chain, financial management, information technology, customer service, and marketing. It serves as an industry-neutral enterprise model that allows organizations to see their activities from a cross-industry perspective, benchmark against organizations around the world, and adopt best practices (Hill, 2005). Dell Computers is a prime example.

A second model is ASN or the *Advantaged Supply Network* (Drickhammer, 2004). Buyers strive to work closely with suppliers to attack inefficiencies, duplication and waste in the supply chain, to coordinate their business strategies, and to manage resources together for competitive advantage. The key here is that buyers, vendors and corporate directors communicate regularly and work collaboratively. One of the most effective examples of ASN in practice is Toyota.

A third model, referred to as *Smart Customization*, involves combining the focus on value creation strategies and delivery alignment. A recent Booz Allen Hamilton study found that companies engaged in smart customization outperformed industry peers two-to-one in revenue growth, and had profit margins 5% to 10% above competitors (Panchak, 2004). The Booz Allen

study, conducted over six months and involving such companies as Unilever, Campbell Soup, Rohm & Haas, BP Castrol, Sprint, Ericsson, Time Warner, Hearst Magazines, Fleet, and SunTrust banks, among many others, found that higher-performing companies consistently focus simultaneously on the same three best practices. Smart Customizers

1. Understand the sources of value that customization provides their customers
2. Find the "virtuous variety"—the point at which customization adds value to both company and clientele alike
3. Tailor their business streams—product development, demand generation, production and scheduling, supply chain, customer care, etc.—and align them to the sources of demand, to provide customer value at least cost (Reich, 1991).

Smart Customization leads to enterprise resilience. Enterprise resilience merges "risk assessment, information reporting, and governance processes, with strategic and business planning to create an enterprise-wide early warning capability that is embedded in the business of the company" (Hill, 2005, p. 236).

LLPs represent a fourth model. LLP stands for *Lead Logistic Provider*. The LLP is a "technologically rich, complete service provider that manages supply-chain and logistics processes as a whole, rather than simply managing individual logistics functions and activities." (Brown Book, 2004).

LLPs offer "integrated supply-chain-management software, business process reengineering, systems implementation and integration, and value-added, information-based services such as order, inventory, and vendor management," explains Chris Newton, an analyst with AMR Research Inc., Boston. Alliances forged between corporate headquarters, a lead or primary logistic provider and third-party vendors lead to improved overall performance.

As we can see, a panoply of approaches and models are emerging. But how does a corporate CEO determine which model or approach is best for his/her company? Which approach works best in what cultural environment? Many of these emerging models adopt a single point of focus or approach. But the governance challenge, as I see it, is not in developing the "one size fits all" model. We need to identify flexible, dynamic and collaborative governance models that will help companies effectively manage vendors in a continually changing world.

CURRENT TRENDS AND PRACTICES

The international community is putting pressure upon international businesses and their local suppliers to demonstrate that while they are making money, they are doing so as responsible global citizens (Jackson and Winkler, 2004). In addition to concerns about how best to manage risks and maintain efficient global supply chains, international laws and policies are requiring multinational corporations and non-governmental organizations to demonstrate a sense of corporate social responsibility (CSR), good stewardship of the environment and natural resources, protecting human rights, improving the living and working conditions of local populations who labor in their plants and factories, and engaging in fair labor practices.

What are organizations currently doing to manage or maintain global supply chains? How are businesses addressing the contextual factors – culture, politics, governance, law and technology? Current trends and practices in global supply chain management vary greatly. But in analyzing trends and practices, eight major themes and practices emerged. They are:

1. <u>Profiling</u> - Develop detailed profiles of all vendors (i.e., company name, management, location, staffing, annual revenues, product quality, pricing, company culture, etc.).
2. <u>Mapping</u> - Map the supply chain network and process. Look for areas of overlap as well as points of potential coordination and collaboration.
3. <u>Creating regional Hubs</u> - Identify potential lead organizations (may be major vendors, local partners, or company plants) to coordinate specific vendors and suppliers.
4. <u>Collaborating in governance</u> - Establish joint governance committees comprised of corporate and Hub/Vendor representatives to encourage input, feedback and collaboration on a regular basis.
5. <u>Communicating</u> - Open multiple lines of communication with Hubs, vendors and suppliers (i.e., Internet, telephone, fax, regular meetings, videoconferencing, etc.).
6. <u>Seamlessly Networking</u> - Establish consistent, robust ERP solutions for managing information, finances, and capital.
7. Training - Provide continuous training and quality assurance for all aspects of the network.
8. <u>Aligning</u> - Encourage alignment of activities with corporate strategic plan (Moeller, Egol, and Martin, 2004, p.1).

TECHNOLOGY

Technology has transformed society at many different levels. But it has had the most remarkable and pervasive effect upon global trade and commerce. From the desktop computer to advanced robotics, from television to satellite communications, technology has connected the world in a way no other innovation has done before. And with the technology, have come problems. As companies become more dependent upon computer networks to manage their databases, finances, inventories, etc., they become targets of hackers, saboteurs, and international crime rings. Organizations that engage in E-commerce, reaching out to a global market via the Internet, have become vulnerable to Cyber Crime. Many have found it increasingly found it difficult to protect their products, services, trade secrets, customer base, and personnel from those determined to gain access to privileged information. It is no wonder that information security is one of the fastest growing service areas in today's economy (Moeller, Egol, and Martin, 2004, p.1).

TECHNOLOGICAL COMPATIBILITY

Issues of compatibility, interoperability and connectedness affect communications between an organization and its suppliers. The problem is compounded by the fact that differences in technology from one company or region to another may make it difficult to ensure good communications between suppliers and organizations, and keep consumers happy with the products or services they are purchasing. Likewise, differences in standards and quality control may occur due to the age, obsolescence, or condition of technology used by suppliers in less developed parts of the world. Communications may be complicated by language differences.

Technological practices and standards may differ as a result of cultural, political or religious factors. Local workforces may be unskilled in the use of technologies and this may affect the quality of the final product. The ability to maintain good communications with suppliers and to monitor compliance with organizational standards and practices is critical to company branding, consumer confidence, and market share.

One means by which businesses manage global supply chains is by using technology in strategic outsourcing. The methodology of using strategic outsourcing to maximize efficiencies and the effectiveness of supplier relationships is an emerging field in the United States. According to Roger Ball, there are six crucial steps to strategic outsourcing:

1. Conduct Internal Assessment.
2. Conduct Market Assessment.
3. Collect Supplier Information.
4. Develop Outsourcing Strategy.
5. Negotiate and Select Suppliers.
6. Implement Recommendations.

Technology is an important resource in successfully evaluating and monitoring global suppliers. (Ball, 2005)

COMMUNICATION

Advances, such as the Internet, World Wide Web, satellite communications, Electronic Data Interchange, cellular phones, wireless technologies, and inventory tracking systems have enabled businesses to expand their partnerships, supply chains and markets into distance regions of the world. In 1990, less than one million users were connected to the Internet. By the year 2005, it is estimated that more than 1.12 billion users will be connected, representing over 18% of the world's population (Booz, Gotshal, and Manges, 2004).

This increasing dependence on technology for communication brings with it some definite advantages for communication in regards to international supplier selection. The instantaneous response time of technology makes it quick and beneficial to collect information on supplier and market variables. This, in turn, leads to a more efficient and effective ways to choose outsourcing suppliers. The constant necessity of reducing costs, increasing productivity, and better manage expenses makes technology as a communication tool elemental and vital to success.

E-COMMERCE

Increasingly technology is becoming an important tool in international business development and maintenance. Organizations are now able to sign contracts with international suppliers that handle delivery, warehousing, banking and customer interactions. There are many international suppliers that can take care of everything going on behind the scenes from a single point of contact. Customers are handed a single bill for the combined services, which provide them with a Web-based control center to monitor all operations (Duffy, 2003).

The complexity and speed by which e-commerce is presented today makes it important that organizations achieve the most proficient speed and reliability that is available in order to compete. U.S. business on the Internet was $43 billion in 1998 and had increased to over $1.3 trillion by 2003 (Duffy, 2004). As this number continue to climb it becomes increasingly important that all options are viewed in aligning strategic souring with organizational strategies of effectiveness and efficiency.

TRENDS IN ALIGNMENT

In focusing on the relationship of the utilization of outsourcing suppliers to an organization and the technology involved is a strong need to balance strategies and align business processes. There are three emerging trends that illustrate why business model definition is a necessary component for technology based projects (Ball, 2005).

First, technology evolution drives continuous business evolution. The recognition that technology advances can provide a basis for innovating business to make international suppliers of these services very attractive.

Second, formal hierarchies are breaking down driving companies to establish strategies and models through functional teams that evaluate and recommend new and innovative approaches to outsourcing. information to institution competitors). The contractual piece of this equation provides the detailed procedures and processes to ensure oversight of the outsourcing relationship.

In addition, organizations understand the importance of monitoring financial condition/operations, assessing quality of service and support, and monitoring contractual needs. The degree of oversight activities varies depending upon the nature of the services outsourced. A number of multinational organizations indicated that they consider the extent to which the service provider conducts similar oversight activities for any of its significant supporting agents (i.e., subcontractors, support vendors, and other parties) and the extent to which the company may need to perform oversight activities on the service provider's significant supporting agents (Hoque, 2002, p. 107-109).

According to Engardio, Einhorn and Kripilani, "increasing competition and higher performance expectations on a global scale will require procurement organizations to be flexible and establish more strategic alliances to maximize leverage of resources" (Engardio, Einhorn and Kripilani, 2005, p. 84). The need for continuous advancement and flexibility will become exponentially more important over time. The increased visibility and complexity of these international relationships will develop as a result of strategic alliances and changes in the supply chain to support critical business functions.

TRENDS IN MANAGEMENT AND CONTROL

When performing due diligence in selecting a service provider, organizations consider the supplier's level of expertise, financial condition, and ability to deliver goods or services. They review the service provider's process for any of its significant supporting agents (i.e., subcontractors, support vendors, and other parties). Depending on the services being outsourced and the level of in-house expertise, organizations decide whether to hire or consult with qualified independent sources. These sources include consultants, user groups, and trade associations that are familiar with products and services offered by third parties. Ultimately, the depth of due diligence will vary depending on the scope and importance of the outsourced services as well as the risk to the organizations.

Assessing the service provider's experience and ability to provide the necessary services and supporting technology for current and anticipated needs is a positive and proactive approach to managing the relationship. It is also important to evaluate the experience of the service provider in providing services in the anticipated operating environment.

TRENDS IN CONTRACTUAL ISSUES

Organizations are generally concerned with contractual issues such as scope of service, performance standards, security and confidentiality, controls/audits/reports, sub-contracting, dispute resolution, and indemnification. The level of detail and importance of contract provisions varies with the scope and risks of the services outsourced.

Contracts describe the rights and responsibilities of parties. Special emphasis is given to timeframes and activities for implementation and assignment of responsibility. In addition, the outsourcing provider performs other services, including duties such as support and maintenance, training of employees or customer service. A set of goals and objectives are developed and communicated in the contract to assist in future management issues.

Supply chain partner selection becomes more critical as the role of suppliers expands and changes over time (Frook and Karpinski, 1999). As relationships become more integrated, and organizations strive to be seamless, strategic purchasing competency centers tend to focus more on how suppliers contribute across the supply chain. The importance of selecting outsourcing partners that can both provide the necessary goods or services, and proactively develop a partnership environment is crucial. For successful management, organizations clearly communicate expectations up front, involving all the aspects of performance.

TRENDS IN ASSESSMENT

Organizations generally include performance standards defining minimum service level requirements and remedies for failure to meet standards in the contract. Organizations periodically review overall performance standards to ensure consistency with goals and objectives. Contracts also address the service provider's responsibility for security and confidentiality of the institution's resources. Agreements typically prohibit the service provider and its agents from using or disclosing the institution's information, except as necessary to or consistent with providing the contracted services, to protect against unauthorized use (e.g., disclosure of information to institution competitors). The contractual piece of this equation provides the detailed procedures and processes to ensure oversight of the outsourcing relationship.

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international relationships will develop as a result of strategic alliances and changes in the supply chain to support critical business functions.

CONCLUSION

The model presented in this paper encourages organizations to consider contextual factors in global supply chain management. While factors related to logistics and distribution are important considerations, when considered alone, they provide an incomplete picture of the potential health of the supplier relationship. By considering additional contextual factors such as culture, governance, politics, law, and technology, future problems can be mitigated and alliances made stronger. The most efficient and effective way to manage global relationships and partnerships is to be proactive and to have a plan in the selection, development, and engagement of the outsourcing partners. The selection of a service or product partner should be done with the utmost caution. By working together the organization and the outsourcing partner can focus significant resources on the product cycle management. This partnership will allow for future efficiencies to be maximized and a strategic outsourcing relationship to evolve.

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