Challenges Facing the Growth and Performance of International Businesses

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ABSTRACT
Managing global organizations has been a business challenge for centuries. But the nature of the task is changing with the accelerating shift of economic activity from Europe and North America to markets in Africa, Asia, and Latin America. There are individual success stories. But, overall, global organizations are struggling to adapt. A year ago, we uncovered a “globalization penalty”: high-performing global companies consistently scored lower than more locally focused ones on several dimensions of organizational health. For example, the former were less effective at establishing a shared vision, encouraging innovation, executing “on the ground,” and building relationships with governments and business partners. Clearly, no single organizational model is best for all companies handling the realities of rapid growth in emerging markets and round-the-clock global communications. That’s partly because the opportunities and challenges facing companies vary, depending on their business models. R&D-intensive companies, for example, are working to staff new research centres in the emerging world and to integrate them with existing operations. Firms focused on extracting natural resources are adapting to regulatory regimes that are evolving rapidly and sometimes becoming more interventionist. Consumer-oriented firms are facing sometimes-conflicting imperatives to tailor their businesses to local needs while maintaining consistent global processes.

Keywords: global organizations, business challenge, globalization and international business.

INTRODUCTION
With the increasing importance of the marketing of services internationally, a variety of problems have beset the service sector (Czinkota and Ronkainen, 2002). While the efforts and achievements resulting from the Uruguay Round and the establishment of the General Agreement on Trade in Services (GATS) in 1994 were impressive, progress, however, has been far more limited (Clark and Rajaratnam, 1999). However, tariff barriers have noticeably declined, non-tariff barriers (NTBs) against services have increased. According to UNCTAD, it is estimated that 20 percent of world trade encounters NTBs, and the World Bank noted an increase of over 2,500 NTBs from 1986 to 1988 alone (Zimmerman, 1999). In the insurance industry, for example, there are 26 barriers to trade globally that are discriminatory against foreign insurers (Zimmerman, 1999). Barriers to the international marketing of services are numerous and cumbersome thus inhibiting future growth and opportunities.

A number of studies suggest that exporting is a less attractive option to gain access to foreign markets, especially for those firms that offer pure services, requiring some type of foreign direct investment to establish local presence quickly (Vandermerwe and Chadwick, 1989; Zimmerman, 1999). Zimmerman (1999) has classified barriers into two categories: entry restraints and operational barriers. While the former includes such restraints as local ownership requirements and labour restrictions, the latter type includes discriminatory taxation, currency controls, local investment requirements.
To overcome these barriers, managers need to devise sound strategies that include ways to negotiate with the WTO/GATS to ease and/or eliminate barriers that hinder access to markets. Those service firms that skilfully negotiate and work with a host country government can overcome barriers. Researchers also suggest management actions as a remedy to overcome hurdles (Dahringer, 1991; Zimmerman, 1999). Dahringer (1991), suggested that management actions such as focusing on developing superior service quality and superior management capabilities to combat barriers to market access. Furthermore, patience and perseverance are recommended when attempting to overcome NTBs (Zimmerman, 1999).

Literature Review
Specific Challenges in International Business
The literature is replete with studies on country of origin (COO) effects on consumers’ perceptions of goods from different countries (Al-Sulaiti and Baker, 1998). Most of these related studies have found that the COO of a product does affect product evaluation. Javalgi et al. (2001) raises an important question: does the COO affect the consumption of services? The authors, based on the extant literature, tend to support the notion that the COO affects the evaluation of services. Their review examines three types of services: core services (e.g. travel services), supplementary services (e.g. warrantee), and cross national service comparison, where services are produced and consumed in individual countries. Various researchers tend to emphasize different strategic significances of core service and supplementary services in both the domestic and international markets (Kotabe et al., 1998).
Core services are the main outputs of a firm that consumers look for (Kotabe, et al., 1998). When examining core services by COO, consumers tend to prefer core services from their own country, from countries with a similar culture to their own, and from economically progressed countries (Javalgi et al., 2001). Thus, there appears to be little difference in search criteria between consumers of tangible goods and consumers of core services.
Supplementary services, those offered along with the sale of products, tend to be important in developing competitive advantage (Lovelock, 1999). According to Lovelock (1999), for example, the core service product is generally accompanied by a myriad of supplementary items that add value, provide a differentiation niche, and offer opportunities to devise international strategies. It appears that most consumers appear to hold negative images of products from economically less progressed countries; therefore, supplementary services play a key role in reassuring buyers (Javalgi et al., 2001). Likewise, supplementary services also assume greater significance when products are viewed as more complex and technologically sophisticated.
Finally, when services are produced and consumed in individual countries, consumers tends to exhibit similar attitudes and preferences with regard to the criteria they deem important when evaluating services (Javalgi et al., 2001). The challenge for service providers is that they must anticipate consumers’ concerns regarding a specific COO, especially services originating from less developed economies. To overcome these concerns and build a competitive advantage, service providers should emphasize additional assurances, such as satisfaction guarantees.
Apart from the COO effects or how consumers evaluate goods from developed and/or developing countries, there is growing recognition that evaluations of goods or services may be affected by what has been described as consumer ethnocentrism or consumer patriotism (Han, 1988). The term consumer ethnocentrism was first introduced by Shimp and Sharma (1987), argued that consumers prefer domestic goods because of strong nationalistic beliefs and feelings. Consumer patriotism or conservatism may restrain consumers from buying imported goods or services (Gronroos, 1999).
According to Al-Sulaiti and Baker, (1998), has explored the impact of ethnocentrism on imported goods on the evaluation of foreign services. Kaynak et al. (1994) examined consumers’ perceptions of airlines in the USA while flying domestic and/or foreign airlines to foreign destinations. He concluded that those respondents who used domestic airlines had more favourable attitudes toward domestic airlines than those who did not use a domestic airline service. However, those who used both domestic and foreign airlines showed little or no difference between them. Bruning (1997) examined Canadian national loyalty and the
country of air carrier in the selection process. He found that Canadian consumers indicating high national
loyalty prefer a national carrier for an international flight where other foreign carriers are in direct
competition with the national carriers.
Harrison (1995), has considered national stereotype effects on the selection of professional service
providers in the health care industry and found that the perceived nationality of the healthcare provider
may be more important to consumers than the supplementary and/or extra services offered by the
provider. In another study by Wetzels et al. (1996), analysed the Dutch consumers’ concept of
ethnocentrism on different services provided in the Netherlands. They found that consumers’ ethnocentric
tendencies toward services is negatively correlated with cultural openness, and positively correlated with
patriotism/conservatism, collectivism, and age.
Consumer ethnocentric tendencies tend to affect consumer evaluation of foreign services. People who are
more open to foreign cultures seem to be less ethnocentric toward services. Also, for younger, better
educated and high-income consumers the degree of ethnocentrism can be expected to decrease (Gronroos,
1999). The international business literature also offers insight into an understanding of cross-cultural
differences on the usage of foreign services.
Different cultures have varying effects on the marketing of services internationally. Cultural elements
such as religious beliefs, materialism, language, education, the family structure, gender role, manners,
customs, and time orientation are closely intertwined with national culture. These elements of culture
have a significant impact on the acceptability and adoption pattern of services. Consequently, researchers
and practitioners alike have begun to investigate cultural differences and international business practices.
In research by Hofstede’s (1991), has five key cultural dimensions provide the background to better
understanding national differences in management practices. These dimensions, which have been
extensively used as a way of understanding cultural differences, are as follows: power distance
(expectations regarding equality among people); individualism (the relationship between the individual
and the group in a society); masculinity (expectations regarding gender roles); uncertainty avoidance
(reactions to situations); and long-term orientation (which focuses on orientation toward time) (Cullen,
2002).
Since any relationship between the service-provider and the customer typically involves a degree of social
interaction, Hofstede’s dimensions seem relevant to any study of relationships in service settings across
cultures (Patterson and Smith, 2001). A growing challenge for international service firms is the
development of trusting relationships with customers, especially for those firms that directly involve
customer contact. Clark and Rajaratnam (1999) noted that the effects of culture are most conspicuously
seen in contact-based services, where people must interact and communicate directly.
Interactions with the people of different cultures differ greatly as each culture assigns its own meaning
and expression to such gestures as body movement, eye contact, body touch, etc. A lack of understanding
of such simple and obvious gestures may cause problems and produce unsuccessful results. According to
Dahringer (1991), difficulties in marketing services internationally are due largely to close cultural
relationships between a society and the services offered in that society. In brief, managing business in the
service sectors with people from different cultures will never be as clear and simple as conducting
business in the domestic market. However, the manager of a service for business can adapt to the cultural
differences and business practices and thereby improve the chances of success of cross-cultural business
interactions.
A country’s differences in social/cultural, technological, legal and governmental aspects may necessitate
the use of different services for the delivery of information content. Evidence shows there is a strong
association between information content and social-cultural values (Tai and Chan, 2001). For instance,
these authors note that in high-context cultures (e.g. India and China), consumers prefer image-based or
symbolic appeals that express the positive social consequences of a particular purchase. In these cultures,
consumers typically have extensive information networks among family members, friends and clients and
have close relationships and communication with each other. On the other hand, in low context cultures
such as the USA, consumers usually do not have an extensive interpersonal information network and/or
close ties with family members and colleagues, therefore they require a great deal of detailed information from other sources. Furthermore, US consumers tend to prefer rational thinking and are more likely active information gatherers. This means that the content of the information and the credibility of the source are very critical to them as they influence their decision-making processes.

In accordance with a research by Tai and Chan (2001) shows empirical evidence that people in individualistic cultures tend to depend on specific facts to assist them in their decision making, whereas people in collectivistic cultures are more non-verbal and communicate through contextual and implicit codes that underlie culturally defined social expectations and rules.

While freedom of information across national borders is encouraged and easily attained via information technology (e.g. the Internet), some countries regulate information content. The increasing popularity of the Internet and the explosive growth of e-commerce in both developing and developed economies have generated concerns regarding the content of material and privacy issues (Javalgi and Ramsey, 2001). International service firms may face challenges in terms of delivering information content because of cultural and other host country regulations. A good quality service delivered in a country by a provider who pays very little or no attention to cultural sensitivity is destined to fail. Learning which cultural aspects are sensitive and not sensitive in delivering information content helps to avoid unnecessary problems that stifle business practices.

**International services delivery entry decisions**

In research by Zimmerman, (1999), proposed that delivery of services across national borders is dictated by the inherent nature of the service, the customer preferences, the attitudes of the host government, and the degree of control of operations. Before technological advancements, most service firms internationalized by opening additional offices. Globalization has brought changes in that service providers are confronted with different entry mode choices that include exporting, licensing, franchising, management contracts, turnkey operations, joint ventures, and wholly owned subsidiaries (acquiring or Greenfield ventures) (Gronroos, 1999). The decision of which mode of entry to use relies on the “serviceness” of the offering and the degree of consumer/producer interaction (Clark and Rajaratnam, 1999).

Many international services are separable, meaning that their production and consumption occur independently and at the same location, they tend to embody some element of tangibility. For instance, disks by software firms, blueprints by architects, reports by consulting firms, etc. are tangibles that can be exported by service firms. Knight (1999) notes that: “to the extent the tangibility component increases, it appears that the associated service, or critical element of it, can be physically exported to a distant buyer.” Evidence suggests that the degree of tangibility and degree of involvement with clients in the service delivery are among the most salient features with which to consider the marketing of services internationally (Knight, 1999).

Based on the concepts proposed by Vandermerwe and Chadwick (1989) developed a two-axis configuration for explaining the internationalization of services. While Lovelock acknowledged the goods-service continuum, his model does little to reflect the true interaction of the two extremes. Vandermerwe and Chadwick (1989) use the continuum as their vertical axis and label it as the “relative involvement of goods.” The horizontal axis represents the “degree of consumer product interaction.”
According to these authors, for services with a high consumer/producer interaction and a low involvement of goods, the underlying strategy is to gain high control through foreign direct investment, mergers, or acquisitions. Essentially, in these cases entry mode decisions are based on customer/market potential, country attractiveness, and risk factors, including political risk. Consistent with this view, Carmen and Langeard (1980), for example, argue that marketing of services abroad is more risky for a service firm than for a goods manufacturer. Others (Zimmerman, 1999; Gronroos, 1999) also note that service firms may have to enter foreign markets, not in various stages like a goods manufacturer but “all at once.” Whereas internationalization is thought to be a sequential process initiated with exporting, soft service providers entering new markets must do so in an all or none fashion.

While it is possible to market goods and services internationally, offering highly standardized service may be problematic. Since services are performances and inherently involve some level of the human element, they cannot be standardized in the way that goods can. The heterogeneity aspect of service is therefore subject to some variation in performance, no matter how meticulously that service is performed. Similar to inseparability, heterogeneity pertains to the issue of standard delivery of the service offering. Notable characteristics of heterogeneity that make standardization less feasible include: service quality variation on dimensions such as the provider, the consumer, and time; standardization and quality control; and the labour intensity of the service (Zeithaml et al., 1985).

Consistent with Zeithaml et al., (1985), Nicoulaud (1989) also notes that services are more prone to variation when they are more people-based than machine-based, when the perception of performance varies from customer to customer, and when the service performance varies from the same individual from day to day (i.e. situational). As a result, services are much less prone to standardization as compared to tangible goods. Previous researchers warn of the need to customize some aspects of the service offerings to reflect local or regional tastes and preferences (Mathe and Perras, 1994).

Offering services at convenient locations/branch offices to stay closer to the customer as well as hiring skilled personnel are crucial to meet demand and satisfy customers. An analysis of increase or decrease in the demand further helps to better manage the capacity of the operation in an efficient way. Therefore, a savvy business manager needs to harness skills and resources to manage demand. Under these conditions, then, what entry modes are deemed appropriate? Evidence suggests that service firms tend to prefer a local presence through the establishment of subsidiaries, mergers, and acquisitions (Erramilli and Rao, 1993). It is found that a firm’s propensity to enter a foreign market through an owned subsidiary tends to increase with increases in the size of the market, the absence of possible partners in joint ventures, and the desire of the management to maintain control over foreign operations (Erramilli, 1991).

Whether marketing domestically or internationally, firms realize that attaining quality superiority can lead to important strategic benefits including greater customer loyalty, greater productivity, and improved responsiveness to demand, market share improvements and building a competitive advantage. In all of these areas, top management’s commitment to quality plays an important role. Businesses are increasingly recognizing the importance of identifying quality dimensions in enhancing their competitive abilities and providing a strategic advantage in their industries in international markets.

Though quality service dimensions may vary across sectors, efforts have been made in identifying general dimensions of quality. One of the widely cited and most fruitful lines of research is by Parasuraman et al. (1985). These frameworks embrace such quality dimensions as reliability, access, responsiveness, competence, courtesy, communication, credibility, security, understanding of the customer, and tangible considerations. Using these dimensions, Malhotra et al. (1994) provides a comparative evaluation of the determinants of service quality between developed and developing countries. Although their work is non-empirical, they offer interesting insights. For instance, they note that the service quality dimensions of reliability, access and understanding the customer are associated with economic development features such as technology, affluence, competition, education, and infrastructure. In other words, these aspects of the service quality dimensions seem to be more important for consumers in developed countries.
Market Research Considerations
The focus on the customer, no matter where they live and how far away they live, will remain a major thrust in marketing internationally. Marketing research, which begins from the research design to data collection to presentation and implementation of the information, is imperative to uncover customer needs and wants. While in advanced countries marketers are better equipped with the knowledge and experience in managing and handling the elaborate systems necessary to conduct research, less developed countries are gradually building such systems. Governments, institutions, and research specialists are realizing that jobs created and income generated through the sale of services are equally important as income and jobs generated from trade and production of goods (Czinkota and Ronkainen, 2002). There is a lack of comprehensive and reliable data for services on a global scale. As a result, an assessment of the total monetary volume of international service transactions globally is challenging. Political and economic considerations may affect the reliability and source of data. The government as a political agency may not approach the data source and its reliability with the same objectivity as a market research specialist. The unique aspects of services such as intangibility, homogeneity and inseparability make the task of gathering data more difficult and, as a result, require sophisticated tools and experienced personnel (Czinkota and Ronkainen, 2002).
The lack of good data at the international level has made it difficult for governments, institutions, and individuals to promote the marketing of services internationally (Samiee, 1999). Additional challenges lie in securing reliable data from reliable sources, as the quality and quantity of information tend to vary from country to country. Recognizing this, governments and private research companies, especially in less advanced economies, are making progress to produce good quality data using improved techniques and reliable sources. All these efforts will help to compile and compare data on service categories country-by-country, which will further assist in generating better economic forecasting and market demand analysis for services.
Owing to the rising importance and growth of services, it is not surprising that international growth and competition in services are intensifying (Wymbus, 2000). From exporting of services to establishing a presence in a host country, marketers face a different set of competitive challenges. Vandermerwe and Chadwick (1989) contend that in today’s business environment, the whole world is the domain of services. So much so, that the time when domestic service companies were safe from international competition has ended (Mathe and Perras, 1994). In this respect, outside competition is forcing service companies in advanced countries to think “globally and act locally” (Mathe and Perras, 1994; Samiee, 1999).
The service sector is characterized by its uniqueness and diversity, suggesting the demand for a broad array of services ranging from complex business services to basic services such as cleaning and maintenance. This means more competition to provide high quality services while keeping cost low. This also means building and sustaining a competitive advantage in a given country or region. Each country’s economic developments and technological advancements continue to change the competitive landscape of how goods and services are marketed there. Advanced countries such as the USA can expect to enjoy a competitive advantage in services because of an abundance of human capital and technological innovations. By leveraging on these core capabilities, the USA can maintain a short-term superior position in services abroad.
Research by Porter (1990) indicates that international competition in goods and services increases, so does the issue of national competitive advantage. Goods and services are tradable on the international market and both developed and developing countries are vying for their market share. Although all advanced economies are moving toward largely producing services, the globalization of the service sector has not been restricted to advanced economies alone. New competitors are emerging from less advanced economies, which are also showing signs of growth in the service sector (Wirtz, 2000). Although the competitiveness of the service firms from economically lesser developed countries is much lower in contrast to more developed ones (Stare, 2002), the challenges posed by new competitors in a host country cannot be underestimated or ignored.
An increased level of competition in world economies has pressured manufacturing-based companies to focus on their core activities in production and, at the same time, neglect to offer critical supporting services in house (Wirtz, 2000). Owing to changing consumer demographics, the demand for more support services is increasing, widening this gap. This neglect has created an opportunity for service firms to fill the void. In brief, competitiveness in the service sector rather than manufacturing will drive economic growth in developed countries for years to come. Newly industrialized economies (e.g. Singapore, Hong Kong) and emerging economies (e.g. Brazil) are following this trend. Those service companies that employ a confluence of technological capabilities, human skills, and organizational and management skills will gain competitive advantages in an era of globalization, where the only constant is change.

Legal differences between countries pose a serious challenge to global businesses. Certain strategies that are effective in some markets are not allowed in other markets. For instance, Wal-Mart uses a strategy in many markets of selling certain products below cost in order to attract customers into the store. While this works in the United States, it is actually illegal in some countries (Clark, 2006).

Economic differences between countries are a major challenge to global business strategies. For example, a company that strategically targets affluent customers by selling luxury goods will have a large market in developed countries but will have difficulties in developing countries with fewer people who can afford luxury items (Clark 2006).

Clark (2006) maintained that political differences between countries will, undoubtedly, create challenges for a global business strategy. Various political regimes around the world have different attitudes and policies toward businesses; some make doing business very easy while others are extremely bureaucratic. Business strategies often need to be adjusted for local politics; for example, a magazine publisher in the United States is free to pursue a strategy of providing provocative, political articles, but in certain countries, they must conform to censorship that is stricter.

Research by Gulia (2012) contended that rapid change pervades all aspects of operations in global markets as well as the context in which they take place. Not only are the rates of technological evolution, knowledge obsolescence and the intensity of competition increasing at an alarming pace in many industries, but unforeseen events is dramatically changing the political and economic context in which markets develop and strategies are formulated. Technological change renders product development, production processes, and experience rapidly obsolete and contributes to escalating investment costs as well as heightened competitive pressures.

While the pace of change is accelerating, pushed by the engine of technology and global communication, it is becoming increasingly uncertain and unpredictable-occurring in unexpected ways from unexpected sources. A new economic order thus appears to be emerging, characterized by new players and new and more diverse patterns of trade. Yet, all these changing patterns appear fraught with uncertainty, as a surge in one direction is countered by a pull in another.

A new instability has crept into world markets, threatening at any moment to tilt the precarious balance of economic forces. Moves toward world economic growth, regional integration or the empowerment of Third World nations, can without warning be thwarted by pressures to retreat behind the bulwark of economic nationalism.

**CONCLUSION**

Some of these challenges arise from the increasing complexity of managing international operations. Technological advances, on the one hand, enable management to direct, coordinate, and control operations on a much broader and diverse geographic scale and scope than previously possible. Such advances add further complexity, as management has to master the tools and skills required to handle the burgeoning international infrastructure. As the geographic scope and scale of operations extends further and further, management is faced with the task of directing and controlling diverse and far-flung activities in the value chain, often in widely divergent environmental contexts.
Additional layers of organization begin to creep into the corporate infrastructure and further complicate the global management activities. The trends in the regional market integration, management systems are established to direct and coordinate market operations within a region, and to provide an intermediate link between corporate headquarters and local management.

At the same time, organizational links between functions in each stage of the value chain are added at a global level to ensure the transfer of ideas, information and experience across geographic areas and to exploit potential synergies worldwide. Similarly, as customer markets become more dispersed, establishment of linkages with customers and suppliers becomes increasing critical in order to coordinate supplying and servicing these markets rapidly and efficiently, and to compete effectively in global markets.

Increasing intensity of competition in global markets constitutes yet another challenge facing companies at all stages of involvement in international markets. As markets open up, and become more integrated, the pace of change accelerates, technology shrinks distances between markets and reduces the scale advantages of large firms, new sources of competition emerge, and competitive pressures mount at all levels of the organization.

As more and more firms venture into global markets, competition proliferates, posing new threats and dangers to be reckoned with. In addition to facing competition from unshakable multinationals and from domestic firms entrenched in their respective product or service markets, firms face growing competition from firms in newly industrializing countries and previously protected markets in the Third World, as well as emerging global networks or coalitions of organizations of diverse national origins.

At the same time, spurred by new advances in communications technology and rapid obsolescence, the speed of competitor response is accelerating. No longer does a pioneer in global markets enjoy a substantial lead time over competitors. Nimble competitors, benefiting from lower overhead and operating costs, enter rapidly with clones or low-cost substitutes, and take advantage of the pioneer's investment in Research and Development and product development. Modern communications and information technology also encourage rapid competitor response to price changes, new distribution and promotional tactics, and further heighten the pace of competition.

This relates to the firm's moral and social responsibilities in the global marketplace can be identified, covering a broader spectrum of social and corporate issues. Environmental issues have emerged as a key theme in the 90's. Companies have become increasingly aware of the need to take measures to limit destruction of the environment. These include measures to limit pollution of the atmosphere through the emission of gases and other toxic substances, to conserve resources such as paper and plastic, whose production results into environmental destruction, and to produce and design products and packaging which are environmentally friendly.

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