Construction Management

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The complexity of the global environment

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Summary

The study approaches the corporate sector running its activity in a global market, looking at the challenges a global corporation is facing from an operational and management perspective in order to perform in a competitive and regulated global environment. It provides an understanding of how the global environment influences a company's strategy. The evolution of a global corporation often entails progressively involved strategy levels. The study describes these levels. It analyses the factors contributing to the complexity of the global environment. The study also analyses the manner in which cultural differences influence the company's own culture, strategy and ethics. In a global market, companies must perform their activity in compliance with certain codes of conduct.

KEYWORDS: globalization, code of conduct, governance, ethics, strategy, multinational corporations

1. OVERVIEW ON GLOBAL COMPANIES

Special complications confront a firm involved in the globalization of its operations. Globalization refers to the strategy of approaching worldwide markets with standardized products. Such markets are most commonly created by end consumers that prefer lower priced, standardized products over higher-priced, customized products and by global corporations that use their worldwide operations to compete in local markets. Global corporations situated in one country with subsidiaries in other countries experience difficulties that are understandably associated with operating in several distinctly different competitive arenas.

Awareness of the strategic opportunities faced by global corporations and of the threats posed to them is important to planners in almost every domestic industry. Among corporations headquartered in US that receive more than 50% of their annual profits from foreign operations are Coca-Cola, Gillette, Citicorp, IBM, Texas Instruments etc. In fact, the 100 largest US global earn an average of 37% of their operating profits abroad. Equally impressive is the impact of foreign-based globals that operate in the US. Their "direct foreign investment" in the US exceeds $90 billion, with Japanese, French and German firms leading the way.

Examples of global major constructions companies are listed below:

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- Turner Construction (US) provides comprehensive management services through the development, design and construction phases of general building projects. Turner's approach combines the established presence of a local firm with the strength, stability and resources of a global company.
- Vinci Construction (France), the French market leader and a world major in construction, brings together an unparalleled array of capabilities in building, civil engineering, hydraulic engineering and services.
- Hochtief (Germany): Being an international construction services provider, Hochtief designs, finances, builds, and operates complex projects of all kinds for you. Their global network gives us a presence on all the main markets of the world.
- Balfour Beatty (United Kingdom) serves the international markets for rail, road, utility systems, buildings and complex structures.
- Effage (France) The Group's principal activities are construction and civil engineering works. It operates in five segments: Construction and civil engineering, road construction, electrical contracting, metallic construction and car parks and concessions.

Understanding the myriad and sometimes subtle nuances of competing in global markets against global corporations rapidly is becoming a required competence of strategic managers. For example, experts in the advertising community contend that Korean companies only recently recognized the importance of making their names known abroad. In the 1980s, there was very little advertising of Korean brands and the country had very few recognizable brands abroad. The opening of the Korean advertising market in 1991 indicated that Korean firms had acquired a new appreciation for the strategic competencies that are needed to compete globally and created an influx of global firms. Many of them established joint ventures or partnerships with Korean agencies.

2. DEVELOPMENT OF A GLOBAL CORPORATION

The evolution of a global corporation often entails progressively involved strategy levels. The first level, which often entails export-import activity, has minimal effect on the existing management orientation. The second level, which can involve foreign licensing and technology transfer, requires little change in management or operation. The third level typically is characterized by direct investment in overseas operations, including manufacturing plants. This level requires large capital and a development of global management skills. Although the domestic operations of a firm at this level continue to dominate its policy, such a firm is commonly categorized as a true multinational corporation. The most involved strategy level is characterized by a substantial increase in foreign investment, with

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foreign assets comprising a significant portion of total assets. At this level, the firm begins to emerge as a global enterprise with global approaches to production, sales, finance and control.

"Some firms downplay their global nature (to never appear distracted from their domestic operations), whereas others highlight it. For example, a strong global orientation is evident at IBM, which operates in 125 countries, conducts business in 30 languages and more than 100 currencies and has 23 major manufacturing facilities in 14 countries." [10].

3. THE COMPLEXITY OF THE GLOBAL ENVIRONMENT

Global strategic planning is more complex than the domestic planning. There are at least five factors that contribute to this increase in complexity:

- Globals face multiple political, economic, legal, social and cultural environments as well as various rates of changes within each of them.
- Interactions between the national and foreign environments are complex because of national sovereignty issues and widely differing economic and social conditions.
- Geographic separations, cultural and national differences and variations in business practices tend to make communication and control efforts between headquarters and the overseas affiliates difficult.
- Globals face extreme competition, because of differences in industry structures.
- Globals are restricted in their selection of competitive strategies by various regional blocs and economic integrations, such as the European Union, the Latin American Free Trade Area.

4. CONTROL PROBLEMS OF THE GLOBAL FIRM

An inherent complicating factor for many global firms is that their financial policies typically are designed to further the goals of the parent company and pay minimal attention to the goals of the host countries. This built-in bias creates conflict between the different parts of the global firm, between the whole firm and its home and host countries, and between the home and the host countries themselves. The conflict is accentuated by the use of various schemes to shift earnings from one country to another in order to avoid taxes, minimize risk or achieve other objectives.

Moreover, different financial environments make normal standards of company behavior more problematic. Thus it becomes increasingly difficult to measure the performance of international divisions.

In addition, important differences in measurement and control systems often exist. Fundamental to the concept of planning is a well-conceived, future-oriented approach to decision making that is based on accepted procedures and methods of analysis. Consistent approaches to planning throughout a firm are needed for effective review and evaluation by corporate headquarters. In the global firm, planning is complicated by differences in national attitudes toward work measurement and by differences in government requirements about disclosure of information.

Although such problems are an aspect of the global environment rather than a consequence of poor management, they are most effectively reduced through increased attention to strategic planning. Such planning will aid in coordinating and integrating the firm's direction, objectives and policies around the world. It enables the firm to anticipate and prepare for changes. It facilitates the creation of programs to deal with worldwide development. Finally, it helps the management of overseas affiliates to become more actively involved in setting goals and in developing means to more effectively utilize the firm's total resources.

5. GLOBAL STRATEGIC PLANNING

The strategic decision of a firm competing in the global marketplace becomes increasingly complex. In such a firm, managers cannot view global operations as a set of independent decisions. These managers are faced with trade-off decisions in which multiple products, country environments, corporate and subsidiaries capabilities and strategic options must be considered.

A recent trend toward increased activism of stakeholders has added to the complexity of strategic planning for the global firm. Stakeholder activism refers to demands placed on the global firm by the foreign environments in which it operates, be it governments or internal governance regulations.

6. ETHICAL ISSUES FOR MULTINATIONAL CORPORATIONS

Despite differences among nations in culture and values, which should be respected, there are moral norms that can be applied to multinationals:

- MNCs should do no intentional direct harm. This is clearly not peculiar to multinational corporations. Yet it is a basic norm that can be usefully applied in evaluating the conduct of an MNC. Any company that does produce intentional direct harm clearly violates a basic moral norm.

- MNCs should produce more good than bad for the host country. This is an implementation of a general utilitarian principle. This principles extends to the fact that more good will be done by helping those in most need rather than by helping those in less need at the expense of those in greater need. MNCs will do more good only if they help the host country more than they harm it.
- MNCs should respect the human rights of its employees. MNCs should do so whether or not the local companies respect those rights.
- MNCs should pay their fair share of taxes. Transfer pricing has as its aim taking advantage of different tax laws in different countries. To the extent that it involves deception, it is itself immoral. To the extent that it is engaged in to avoid legitimate taxes, it exploits the host country and the MNC does not bear its fair share of the burden of operating in that country.
- To the extent that local culture does not violate moral norms, MNCs should respect the local culture and work with it, not against it. MNCs cannot help but produce some changes in the culture in which they operate. However, they can consider changes in operating procedures, plant planning, which take into account local needs and customs.
- MNCs should cooperate with the local government in the development and enforcement of background institutions. Instead of fighting a tax system that aims at appropriate redistribution of income, instead of preventing the organization of labor and instead of resisting attempts at improving the health and safety standards of the host country, MNCs should be supportive of such measures.

7. GLOBALIZATION AND CULTURE

With globalization being the buzzword and every country joining the free trade bandwagon, competition has become real. Investment decisions relating to setting up of projects are examined thoroughly and global developments are factored into these projects to assess the risk-return matrix. And only if it passes through this stringent test of risk and return viewed against a global backdrop, steps are taken to consummate the project. So, typically in a global scenario, you have a company whose production base is in one country, the godown in another, back-office operations in a third country and corporate headquarters in the fourth. And, obviously, management of such international/global corporations would involve dealing with personnel, customers, suppliers, rooted in their own distinct local culture, which could be both a barrier and a challenge to the organization.

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What is culture? Does it impact on what international managers do? And if it does, how do you understand and manage it to benefit the organization in general and the managers in particular keeping the overall business objective? And how do we define culture? Culture is itself an amorphous term and there could be as many definitions as there are anthropologists, sociologists and writers. It is said that there are 160 different definitions of the term 'culture'. We will pick up the definition of scholar Clyde Kluckhohn. [13]. According to him, "Culture consists of patterned ways of thinking, feeling and reacting, acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and attached values." Another scholar, Triandis, presents a psychological perspective to the description. "Culture is a subjective perception of the human - made part of the environment. And this includes the categorization of social stimuli, associations, beliefs, attitudes, roles, and values individuals share." Culture thus is a melting pot consisting of many things gathered over a period of time in which religion and language play a great role. So, when international trade takes place, or managers migrate from one country to another, there is necessarily an interaction between two different and varied cultures. They could converge or they could diverge. And it is the international managers' prime duty to understand these cross-cultural differences, to iron them out to achieve their corporate objectives.

8. ETHICS AWAY FROM HOME

When we leave home and cross our nation's boundaries, moral clarity often blurs. Without a sense of shared attitudes and without familiar laws and judicial procedures that define standards of ethical conducts, there is no certainty for an individual or a business. Should a company invest in a foreign country where civil and political rights are violated? Should a company go along with a country's discriminatory employment practices? If companies in developed countries shift facilities to developing nations that lack strict environmental and health regulations, or if those companies choose to fill management and other top level positions in a host nation with people from the home country, certain standards will prevail. The question is "whose standards should prevail".

Even the best-informed and best-intentioned executives must rethink their assumptions about business practice in foreign settings. What works in a company's home country can fail in a country with different standards of ethical conduct. Such difficulties are unavoidable for businesspeople that live and work abroad. But how can managers resolve the problems? What are the principles that can help them work through cultural differences and establish codes of conduct for globally ethical business practice? How can companies answer the toughest question in global business ethics: what happens when a host country's ethical standards seem lower then the home country?

The most applicable answer is that managers cannot operate in another culture without being aware of the culture's attitude toward ethics. Companies must help managers distinguish between practices that are merely different and those that are wrong. When it comes to ethical behavior, companies should be guided by the following principles:

- Respect for core human values, which determine the absolute moral threshold for all business activities;
- Respect for local traditions;
- The belief that a context matter when deciding what is right and what is wrong.

"Philosophically speaking, the relativists believe that nothing is sacred and nothing is wrong. For absolutists, many things that are different are wrong. The reality is somewhere is between." [20]

In Japan, people doing business together often exchange gifts – sometimes expensive ones – in keeping with long-standing Japanese tradition. When US and European companies starting doing a lot of business in Japan, many Western business people thought that the practice of gift-giving might be wrong rather than dimply different. To them accepting a gift is like accepting bribe. As Western companies have become more familiar with Japanese traditions, most have started to tolerate the practice and to set different limits on gift giving in Japan than they do elsewhere.

Respecting differences is a crucial ethical practice. Research shows that management ethics differ among cultures; respecting those differences means recognizing that some cultures have obvious weaknesses as well as strengths. Managers in Honk Kong, for example, have a higher tolerance for some sorts of bribery than their Western counterparts, but they have a much lower tolerance for the failure to acknowledge a subordinate's work.

The core values for business can help companies begin to exercise ethical judgment and think about how to operate ethically in foreign cultures, but they are not specific enough to guide managers through ethical dilemmas.

9. CORPORATE CODES OF CONDUCT AND CRITICS

In the US and Western Europe corporate codes of conduct have become compulsory for most large corporations. According to recent studies, most multinational corporations have issued codes of conduct. These codes usually attempt to state the company's mission, values and goals and to describe its relationship to various stakeholders, both internal and external. Unfortunately, most of these codes suffer of a number of flaws:

- They are presented as public statements that lack specific content.
- While they mention the corporation's commitment to its customers, employees etc, they ignore the rights of these stakeholders in their dealings with the company.
- They make no provisions for internal implementation and code compliance is not integrated into the organization's procedures and reward structure; hence managers and employees are often uninformed about the codes and their content and do not take them seriously.
- They provide no basis or framework for communication with external communities about the efforts and results of the corporation in achieving the codes' objectives.

The inevitable result of these defects is that corporate codes of conduct are often treated with disdain by knowledgeable and influential opinion leaders among various stakeholder groups, as well as by outside analysts and the public at large.

Codes of conduct offer an invaluable opportunity for responsible corporations to create an individual and highly positive public identity for themselves. This is a reputation effect that can have a direct result on their bottom line in terms of increased revenue, customer loyalty, expanded markets, a productive work force and a supportive political and regulatory environment. Furthermore, an increased level of public confidence and trust among important constituencies and stakeholders would lead to greater freedom for management in the running of their business operations and insulate them from the actions of other less scrupulous firms in the market-place.

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