Global business issues and implication for Sri Lanka

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Abstract

This paper is a discussion of global businesses, a new business trend developed in the last two decades. It explains that relaxed international laws, developments in ICTs, specialised skills and cost effective business processes are the reasons for the unprecedented development of global markets. However, like all new developments, global businesses face many challenges. Some of which included in this paper mainly deal with business teams and units in different time zones, different cultures and a lack of or outdated IT systems supporting communication. It concludes with a few implications for enhancing global business opportunities for Sri Lanka.

Introduction

Global business is a new business trend developed rapidly in the last two decades (Riaz, 2009), and described as multinational operations that exchange finished goods, services, raw materials, information, knowledge, skills and other resources across national boundaries (Hill, 2009b). Number of organisations operating in the global arena is continuously increasing (Gunter and Andrea, 2009), and organizations of all sizes from all parts of the world are now exploiting global opportunities (Carter, 2010). They are transferring core competencies, knowledge, expertise and products to foreign markets where indigenous competitors lack those skills (Bartlett and Ghoshal, 1998, Hill, 2011), as well as enjoy country specific competitive advantages such as low cost labour, low cost capital and unique resources (Spulber and Daniel, 2007).
Global businesses play an important role in the world trade and investments (Gunter and Andrea, 2009) amounting to $16.22 trillion in 2011 (Japan External Trade Organisation, 2011). Every day over US$4 trillion foreign exchange transactions are taking place with more than US$15 trillion worth of goods and US$3.7 trillion worth of services sold across national borders (Hill, 2011). Types of industries that are operating globally include manufacturing, agriculture, education, mining, energy, banking, marketing, insurance, information technology, transport, healthcare and accounting and taxation (Hill, 2011).

Growth in global business is attributed to many factors, some of which include the collapse of Communism, establishment of global support from organisations such as world trade organisation (WTO), international monetary fund (IMF), world bank and united nations (UN), Uruguay round trade agreement, deregulation and privatisation of telecommunications industries, developments in information and communication technologies, and the wide adoption of the Internet (Ramamurti and Singh, 2009). The deregulation of economic policies discussed above has enabled trade with countries that offer specialised skills and cheap labour such as the Indian and Chinese economies (Koren, 2010). So what does this mean for Sri Lanka and how can Sri Lanka take advantage of global opportunities and compete at the level of other nations such as India and China?

The next section of the paper describes different types of global business, followed by a discussion of reasons for the global market expansion. It then identifies common global business challenges followed by a discussion of global business implications for Sri Lanka.

**Global Business**

Global business has been defined differently by different authors in the academic literature. There are four distinct types of global organisations generally referred to as global, international, multinational and transnational organisations.

Global organisations are typically comprised of a network of interconnected organizations competing at a global level (Kumar et al., 2008) with multinational operations transferring finished goods, services, skills and resources across national boundaries (Hill, 2009b). They operate simultaneously in multiple countries to achieve a competitive advantage (Spulber and Daniel, 2007) and to pursue both national and global opportunities (Parhizgar, 2008). Global
organizations follow the business model of pursuing low-cost opportunities worldwide, although the consumer trend is a few business activities concentrated in a few favorable locations (Hill and Jones, 2004). This model enables exploitation of opportunities in the global arena by sourcing competencies, knowledge, expertise and products from foreign markets (Bartlett and Ghoshal, 1998). Under this structure, the parent company maintains centralised control over core competencies and decentralise some operating and decision making functions to individual subsidiaries (Hill, 2011). Some of these activities may be shared (Chhai and Lan, 2005).

Multinational organisations on the other hand are described as firms that own and control business activities in two or more countries (Buckley and Casson, 2009) primarily to compete in international markets (Fraser and Oppenheim, 1997). According to Bartlett and Ghoshal (1998), multinational organizations generally manage a number of national entities operating in different national environments. Products and services offered by these organizations are differentiated to satisfy local customer needs (Madapusi and D’Souza, 2005). Although the subsidiaries of multinationals enjoy a high level of independence with regard to their operational activities (Reimers, 1997), headquarters maintains a high level of control and coordination over the financial and reporting aspects (Chhai and Lan, 2005) of all business operations.

Global businesses are also referred to as transnational organizations which comprise of a network of businesses (Kelzenberg et al., 2008) focused on achieving both local responsiveness and global efficiency (Madapusi and D’Souza, 2005). Transnational organisations maintain a balance between local responsiveness and global integration (Clemmons and Simon, 2001) by adopting both centralised and decentralised approaches for decision making (Hill, 2011). They adapt to all environmental situations by maintaining a high level of coordination between geographically dispersed business units to achieve success in these organizations (Clemmons and Simon, 2001).

The usual strategy for commencing global business activities is to first establish a few subsidiaries in the home region (Hutzschenreuter et al., 2010) and then gradually expand their scope to outside regions (Hutzschenreuter et al., 2010). Furthermore, these organizations follow a development path of being “international” to “multinational” to “global” to “transnational”, in the process of becoming truly global (Bartlett and Ghoshal, 1998, Peppard et al., 1999). Organizations of all sizes, varying from small sales office to a large scale integrated network of business, can now perform business activities on a global
scale to exploit opportunities in the global arena (Peppard et al., 1999). According to Buckley and Casson (2009), globalisation of business is a general strategy or a principle that explains the boundaries of today’s businesses. Furthermore, Hill (2011) stated that international, multinational, global and transnational organisations are based on the type of strategy used to position the firm in the global market. The selection of a suitable strategy to compete in the global arena is an internal organisational decision (Hill, 2011) that varies according to the pressure for cost reduction and local responsiveness (Hill and Jones, 2004).

The above literature discussion indicates that there are four different types of global business, namely multinational, international, global and transnational. The selection of a suitable model is purely an internal decision which is usually influenced by changing market circumstances.

**Reason For Global Business Growth**

The unprecedented growth in global business is due to some of the following reasons.

**Deregulation of economic policies and trade barriers**

Deregulation of economic policies and trade barriers enable organisations to trade with less restriction in the global arena. The collapse of Communism and deregulated trade policies (Ramamurti and Singh, 2009), as well as the opening up of Indian and Chinese economies for global trade (Koren, 2010) has led to an unprecedented growth in global trade in the last two decades.

Formation of numerous free trade agreements such as North American Free Trade Agreement (NAFTA), South Asia Free Trade Agreement (SAFTA), ASEAN Free Trade Area (AFTA) and European Union (EU) Free Trade Agreement (Koren, 2010) and multi-national strategic alliances especially for large organizations such as General Motors Corporation (GM), United Technologies Corporation (UTC), have also paved the way to open up national economies and organizations for global trade (Cho et al., 2009, Tellis et al., 2009). The world trade organisation (WTO), international monetary fund (IMF), World Bank and United Nations (UN) have an important role in supporting global business (Ramamurti and Singh, 2009).
Outsourcing business processes

To take advantage of lower production and service costs, as well as specialised skills, outsourcing of business processes to low-cost offshore partners such as China, India, Malaysia and Brazil (Bharadwaj et al., 2010) has risen. Business process outsourcing (BPO) delivers benefits of cost savings, greater flexibility, access to specialized process expertise, quality improvement, realised core competences, strategic advantages, better coordination and consensus for adopting organisations (Lacity et al., 2009).

Improved business performance and organisational profitability are achieved by outsourcing noncore business activities and specialized processes (Bharadwaj et al., 2010) enabling organisations to concentrate on core business activities (Shuangqin and Bo, 2010). Hence, many global companies have outsourced manufacturing related processes to low-wage countries such as China and Malaysia and IT related functions to India (Harrison, 2010). IT development, IT maintenance, IT operations, data centres, help desk, PC maintenance & maintenance of the IT infrastructure have been outsourced to India, Canada & Philippines by many US and European organisations (Palvia, 2007).

Other outsourced business processes include insurance (Harrison, 2010), accounting (Mathews, 2009), taxation (Hill, 2011), film and cartoon production (Palvia, 2007) and healthcare (Hill, 2011). Continuous decline in trade barriers and developments in ICT make outsourcing more affordable and financially viable (Chadee and Raman, 2009). BPO is increasingly becoming an important contributor of global business growth (Bharadwaj et al., 2010) to international organisations.

Developments in information and communication technologies (ICT)

Modern economies around the world are highly dependent on ICT for economic development (Koumpis and Protogerous, 2010). The influence of ICT is evident in business activities such as production, marketing, accounting, human resource management and research and development (Roy and Sivakumar, 2007). Developments in ICT have emerged as an important factor for global business in the last two decades (Hill, 2011) by supporting global information management, coordination, planning and controlling (Peppard, 1999). It has helped decrease telecommunication costs, eliminate distance barrier, delivers economies of scale and makes global trade more affordable for companies (Kenney et al., 2009).
The Internet and the worldwide web are important technological developments supporting global trade (Shimizu et al., 2006). These technologies have developed a bigger market for global trade by helping reach billions of consumers worldwide (Koumpis and Protogerous, 2010). E-commerce is being adopted at an increasing rate enhancing business opportunities in the global arena (Ramamurti and Singh, 2009). The Internet and e-commerce have resulted in new business models that support purchase and exchange of goods from locations around the world (Bhansali, 2010).

Information systems such as ERP systems with capabilities of integrating business functions from any part of the world have also supported global business growth (Gunter and Andrea, 2009). ERP systems support multi business functions (Sane, 2005), recognize legal and tax reporting needs of various nations across the world (Subramoniam et al., 2009), handle multi enterprises (Siau, 2004), multi languages and multi currencies (Subramoniam et al., 2009), operate on a web enable architecture (Siau, 2004), provide real time data access (Subramoniam et al., 2009), enforce data integrity (Subramoniam et al., 2009) and foster speedy intra and extra organisational communication (Subramoniam et al., 2009). These capabilities are extremely important for managing business operations in the global arena. Therefore, these systems are increasingly adopted by organisations around the world to support global operations (Koumpis and Protogerous, 2010).

**Increased demand for products and services**

Developments in information and communication technologies have led to e-commerce and m-commerce resulting in an increased demand for products and services worldwide (Turban et al., 2010). This has created the need to expand the capacity of existing businesses to achieve sales with a global reach. Furthermore, increased competition (Harrison, 2010) has also influenced businesses to seek a global market share.

**Cost advantage and profitable business**

An important reason for the growth of global businesses is achieving a competitive advantage from the factors of production in different countries (Pangarkar and Yuan, 2009). Some countries possess more resources and skills (Spulber and Daniel, 2007) such as low cost labour for manufacturing in China and specialist IT skills in India. As a result many businesses around the world establish some of their business operations in the low cost regions of the world.
Profitable business opportunities according to Koren, (2010) and Vaatanen et al., (2009) include increase in profits, cost reduction, secure enterprise growth, stable market share and customer base, productivity and quality improvement. According to the Aberdeen Group (Aberdeen, 2007) growth in profitable business opportunities is one of the key reasons for organisations to consider global operations. In their study majority of companies (79%) considered the global market as a growth opportunity and reduced operational costs (Aberdeen, 2007).

above discussion indicates that cost advantage, profitable growth opportunities, increased worldwide demand of products and services, deregulation of economic policies and trade barriers, free trade agreements, strategic alliances, developments in ICT, growth in Internet adoption and e-commerce, and growth in business process outsourcing for low cost advantages are important reasons for global business growth. Large information systems such as ERP systems play an important role in managing global business functions and related information for quick decisions.

Global Business Challenges

Management of global business operations require coordination, collaboration and integration across multi-site operating units around the world (Peppard, 1999, Koren, 2010). Managing business activities in different global locations is complex, expensive and challenging (Carter, 2010). It is different to managing a traditional local business due to the complexities of national, cultural, organisational and technical differences (Sannarnes, 2010). These challenges can result in increased costs if poorly managed (Pangarkar and Yuan, 2009). Other challenges global businesses encounter due to being geographically dispersed are discussed in the next section.

Timely information

Timely information plays an important role in making effective business decisions and operational management of global businesses (PricewaterhouseCoopers, 2010). Decisions need to be made on an on-going basis in the current competitive business environment (Koren, 2010) for which timely information is critical. Extracting accurate information from all units in different global locations is a challenge many of these operations are grappling with (Sannarnes, 2010). Without timely information operational inefficiencies and numerous other delays are encountered (SAP AG, 2004) affecting the
much needed quick responses to changing market and customer demands, global trends, stocks and share trading (Koren, 2010). Without timely information global businesses can face numerous problems.

**Technological challenges**

As discussed earlier, technology plays an important role in providing timely information required for global business management. Effectively applying technologies to integrate all global operations is a challenge faced by many global businesses (Koren, 2010). Although all global businesses are applying technologies in one way or another, many are unable to take full advantage of technologies for business success (Koren, 2010) due to legacy systems, a lack of technology skills and culture as well as the complex nature of these organizations (SAP AG, 2007).

**Working in different time zones**

There is a time difference between business units and overlap in office hours between business units operating in different parts of the world. This creates communication, coordination and collaboration difficulties among the business units of these organisations (Yap, 2005) unless effectively managed. Working as a single team around the clock and sharing the views and experiences of team members from business units in different time zones is important for global business success (Yap, 2005). Although developments in ICTs and some newly developed business principles such ‘follow the sun’ (Carmel et al., 2010) is used to manage global teams, business units operating in different time zones remains to be an important challenge (Chudoba et al., 2005).

**Global Supply Chain Management**

Maintaining an integrated relationship with all supply chain partners is extremely important in managing business activities of global businesses (Arnold et al., 2010). It facilitates the coordination of business activities (Arnold et al., 2010) and enhances business performance (Sheng, 2010). Global businesses require coordination of a large number of supply chain partners (Koren, 2010) who are dispersed in many different countries in the world. Maintaining and managing a relationship with all the supply chain partners is a challenge due to being in many different countries and time zones (Hill, 2009a, Turban et al., 2010).

**Cultural differences**

Global businesses generally operate in many different cultural settings (Corbitt, 2003), including work ethics (Kosaka, 2004), religious beliefs (Chadee and
Raman, 2009), corporate governance practices (BPP Learning Media, 2009) thinking and working methods and reporting styles (Shuangqin and Bo, 2010). An important global business challenge is to understand the cultural differences in different parts of the world. They also have to deal with employees speaking different languages (House et al., 2008) which sometimes results in communication barriers and impacts organizational performance (Peppard, 1999, Yen and Sheu, 2004).

Important global business challenges include coping with rapid technological developments (Serour, 2005), e-commerce and m-commerce based demands (McGaughey and Gunasekaran, 2009), forming strategic alliances and partnerships with culturally different organisations (Arutatileka et al., 2009), gaining a competitive advantage (Parker, 2005), managing diversity (Parker, 2005), integration with government organisations, competitors and customers in multiple countries (Parker, 2005). Dealing with multiple currencies, accounting standards, reporting guidelines and compliance regulations (SAP AG, 2009), addressing legislative demands, taxation requirements and environmental standards in different countries (Peppard, 1999, Ghosh, 2002) and identifying similarities and differences across national markets (Tellis et al., 2009) are other challenges.

From the above it is clear that global business challenges include availability of timely information, coping with technological developments, working in different time zones, global supply chain management, dealing with cultural differences, managing e-commerce and m-commerce based demands, forming strategic alliances and partnerships, gaining a competitive advantage, managing diversity, integration with government organisations, competitors and customers in multiple countries, dealing with multiple currencies, accounting standards, reporting guidelines, and compliance regulations and addressing legislative demands, taxation requirements and environmental standards in different countries.

**Implications For Sri Lanka**

Similar to other global organisations Sri Lankan businesses are increasingly participating in global businesses either as a business unit managing an outsourced process for a multinational organisation (Timmons, 2010), or taking advantage of global opportunities. Some Sri Lankan organisations such as John Keels Holdings (www.keells.com, 2011), Carsons Cumberbatch (www.carsoncumberbatch.com, 2011), Hayleys Holdings (www.hayleys.com, 2011)
and Aitken Spence (www.aikenspence.com, 2011) have been operating in the global arena for many years. In addition, many large global companies have been operating in Sri Lanka for many years. These include Chevron, General Electric, Citigroup, Hewlett-Packard, Microsoft, Pfizer, Intel, RedHat, Saatchi & Saatchi, IBM, 3M, Sara Lee, Unilever, British American Tobacco, Smith Kline Beecham, TCS, Indian Oil Corporation, NTT, Telecom Malaysia and Wipro (www.vinco-concepttions.com, 2011). The introduction of open economic policies by the Sri Lankan government in 1977 has further supported global opportunities for Sri Lankan organisations (Wickramasinghe and Gunawardena, 2010). Sri Lanka has also been recognized as a hub for finance and accounting outsourcing (FAO) as it has the second largest pool of UK qualified accountants in the world (Kamburugamuwa, 2011), a major business process outsourced to Sri Lanka. More recently global organisations such as HSBS, AVIVA, WNS, Amba Research and Virtusa outsourced their financial and IT operations to Sri Lanka (Timmons, 2010).

To succeed in global business the following are suggested for Sri Lanka:

- Expand the Accounting and Finance expertise to the world with secure IT based transactions, with internationally compliant and culturally sensitive policies and governance standards to enhance this market.
- Sri Lankan organisations can outsource some of their business processes to other countries for cost advantages and specialised skills that it may not have.
- Development in ICTs enables many organisations, large as well as small, to exploit opportunities in the global arena. The development in ICTs in Sri Lanka is at a preliminary stage compared to other countries in the region and ranked in the 72nd in the world (World Economic Forum, 2009). Therefore, Sri Lanka should develop IT skills and infrastructure to secure global demand for IT based services.
- Wherever possible Sri Lankan organisations should adopt large information systems such as ERP systems to manage business operations effectively. This will enable it to easily link with global organisations and capture business with the ability to transmit information effectively.
- Sri Lanka should develop e-commerce capabilities to be able to promote and sell its goods and services online to customers around the world.
• Establish sound corporate governance policies, favourable economic and trade policies and work practices to attract foreign investment into Sri Lanka.
• Understand business practices, work ethics and environmental regulations from around the world in order to win global business.

References


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