IESE Business School
University of Navarra

Working Paper
WP-145
October, 1988

THE ROLE OF THE GENERAL MANAGER IN THE FIRST STAGES OF INTERNATIONALIZATION

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Abstract

There are many companies that in the next few years will find they need to start internationalizing. There are also many that are currently involved in the first stages of internationalization and yet most of their general managers do not have enough experience in this. It might be useful for them to know how some general managers, who have successfully transformed a local company into an internationalized one, have carried out their functions, the situations that they have faced, how they have conducted the general management process, the risks they have taken, their capabilities, etc.

This analysis consists of:

– Identifying similar problems in the sample companies' internationalization.

– Inducing relevant elements of their general managers' behavior in solving problems.

– Attempting to identify, at a higher level of abstraction, some particular capabilities of these general managers.

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Introduction

The characteristics of the general managers' role and the ways they carry it out have been researched extensively. Selznik (1957) describes the transition from "administrative manager" to "institutional leader." Mintzberg (1973) confirms that the general manager performs ten basic roles. Kotter (1982) identifies the way they focus their work by means of developing their "agenda" and their "network." Pearson (1985) proposes six areas of vital responsibilities in order to be successful in obtaining satisfactory results in the short and long term.

The role played by general managers in the internationalization of their companies seems to have been analyzed less in studies such as those just quoted.

In fact, there are many companies that in the next few years will find they need to start their process of internationalization, and there are also many that are currently involved in its first stages. It might be useful for their top management to know how some general managers, who have been successful in transforming a local company into an internationalized one, have discharged their functions.

Research Scheme[1]

The research is based on longitudinal studies of a sample of ten companies, whose characteristics are described in the following section.

The longitudinal studies were carried out by successive interviews with the company's general manager and his closest collaborators in local and international activities and by writing the corresponding cases.

The analysis consisted of:

- The identification of common problems in the sample companies' first stages of internationalization.

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[1] The research was done with economic support from Arthur Andersen.

- The induction of relevant aspects of their general managers' behavior in solving the problems.
- The attempt to identify, at a higher level of abstraction, some particular capabilities of these general managers.

The preliminary conclusions were verified with situations in similar companies in the same sector, which had not managed to advance in their internationalization process or had even abandoned it.

In the analysis of the general managers' behavioral aspects, neither a complete identification nor a precise description of this role has been sought. The research effort has been aimed at trying to discover some elements that have proved to be very relevant for success in the first stages of internationalization.

Characteristics of the Sample (See Table 1 and Figure 1)

a) General management:

The responsibility for initiating and consolidating the internationalization process was directly assumed by the company's general manager. He held control of the company during the whole time studied.

b) Degree achieved in internationalization:

The number of years passed since they initiated the process, the incidence of international activities in the profit and loss statement, and the level of their direct foreign investments allow one to consider that the first stages of the process have been superseded.

c) Leadership in the local market. Competitive advantages for internationalization:

When companies started their internationalization, they held a prominent position in the domestic market, being one of the top three companies in terms of market share.

Despite a position of leadership in the local market, these companies did not have obvious advantages for competing internationally. Their costs were not lower because of the comparative advantages of the country of origin, nor because of economies of scale or process technologies. Their differentiation was not more advantageous either because of product technology or because of brand, image or types of services (Porter, 1985).

d) Strategy formulating processes:

General managers had a sufficiently clear idea about the strategy of their company, nevertheless no formal analytical process for formulating explicitly the strategy were used, the closed approximation to it was the general budget

The analytical supports for market research, rather than consisting of detailed studies revised periodically and systematically, consisted of simple, low-cost systems that were based on the personal knowledge acquired by key executives in their normal contact with suppliers, distribution channels and local customers. Both the analytical supports and the processes could be considered as scarcely appropriate for the diagnosis and formulation of international strategy.

e) Strategy, organization and managerial capabilities:

The company's corporate strategy was normally understood as being the integration of the functional strategy, not clearly distinguishing the strategies of the different businesses they were in, and without having a company "strategic management" vision (Hax and Majluf, 1984). Consequently the organization structure was usually functional and oriented to local operations.

As the company advanced in its internationalization, the responsibility for these activities was assumed as an "additional" responsibility to be developed "part-time" by those responsible for domestic activities, or by recently recruited executives without a well-defined position in the hierarchy.

The background and value system of the principal executives led them to understand and prefer the local strategy to a greater extent and to show rigidity towards the internationalization (Luostarinen, 1980; Gallo and Segarra, 1986). Therefore the main impulse for internationalization was from the top manager.

f) Economic resources:

At the time of starting their internationalization, the companies in the sample were in a healthy financial position.

Nevertheless, given their characteristics as family firms that were not quoted on the stock exchange and mostly self-financing, it was difficult for them to undertake financially ambitious projects in the international field.

As a consequence of these characteristics, tile top managers of the companies were faced with the following situation: given their position in the local market and the international characteristics of their industry (Porter, 1986), the strategic alternative of internationalization was one of the clearest options for their company's medium- and long-term growth, but the company lacked information, systems and managers prepared and committed to being international.

Problems in Internationalization. Top Managers' Action

The way in which local companies evolve to a significant international position is a complex process with multiple strategic, organizational and company culture dimensions (Aharoni, 1966). Its successful development demands a continued increase in apprenticeship and the degree of commitment (Johanson and Vahlne, 1976). Because of this, when analyzing problems and actions, one must not lose sight of the close interrelationship between the different dimensions quoted and the apprenticeship and degree of commitment; knowing how to take advantage of this interrelation in order to make advances on several fronts at the same time is a capability widely needed to internationalize a company.

1. Information for internationalization

Although the homogeneity between countries is increasing and information can be bought, the companies in the sample found themselves at the start of the internationalization process, and often, during its first stages which usually last some years, lacking significant information.

The information they have available about other countries and markets is formed by unconnected general hard data (magazines, economic surveys, etc.). The information also includes soft data (colleagues' comments, visits from a possible customer, etc.) which may be contradictory or biased depending on the successes and failures that the supplier of the information has experienced.

The middle managers of these companies do not have contacts with reliable sources of information about internationalization, nor do they see the necessity for research.

Given these circumstances, it is not surprising that in the sample it has been the general managers themselves who have taken the initiative and responsibility for obtaining and maintaining information and concerning themselves with its levels and degrees of detail; something they would not normally do with information relating to the local operations of the company.

They occupy themselves directly with discovering and selecting external sources of information, developing contacts with companies and people who know the international markets, contracting specialized consultants, etc. They do not refuse to explore foreign markets that are unknown to them nor do they face it only as a reaction to sporadic inquiries for supply from eventual customers in other countries.

They personally observe the reality of foreign markets, being available to travel repeatedly and frequently to other countries, using translators in their interviews, trying to discover the reasons for the successes and failures of the companies that are operating in the country, and so on.

These people have shown themselves to be efficient in information attainment, obtaining it quickly and at a relatively low cost. This indicates that they know how to identify critical aspects of the information, how to steer their suppliers towards what they do not know (and not towards the information that the latter want to give them) and how to find simultaneous ways to contrast and enlarge it. They also know how to shorten time limits in order to break with the attitude of waiting patiently for something that has to come from far away. They do not insist on pursuing unattainable information, but neither do they entrust success to the process of trial and error in the implementation of objectives.

The way in which the general managers of the companies studied look for and analyze information on foreign markets shows a profound characteristic of their lateral elasticity: they do not allow their judgments to be unnecessarily biased by their own apriorisms or personal preferences about other countries and cultures. This does not mean that when they make decisions about expanding abroad they ignore the influence of "psychic distance" in their organization (Johanson and Wiedersheim-Paul, 1975).

2. Strategies for Internationalization

Executives frequent misunderstand the degree to which internationalization means entering into businesses that are different from the local businesses in which their company is operating. Nevertheless this is the reality of internationalization. Customers in other countries usually have very different characteristics from local customers, as do competitors, product functionalities and technologies (Abell, 1980). Moreover, resolutely undertaking internationalization means starting to compete in a new market segment of the industry, one where the competitive forces will certainly have a different scheme from the one that the company is used to.

The fact that this type of company could contemplate even greater penetration of the local market as one attractive growth alternative corroborate the cited lack of middle management comprehension of international matters, giving them another reason to consider it as an experiment, and for this reason they tend to think that it is sufficient to add some "extra" activities to the functions they manage.

With luck, if these middle managers are not opposed to internationalization because of the greater risk and personal commitment it represents, they may regard it as a way to make the most of some excess local resources, and fail to understand its profound significance for the development and utilization of competitive advantages (Goshal, 1987).

Given these circumstances, it is not surprising to have observed how it has been the general managers themselves who, since the first steps of internationalization, have noticed "something" very different from local activities in it, "something" that needed a specific focus in the strategic thinking of their companies.

On the other hand, the degree of internationalization achieved by the companies in the sample, although low in comparison with many multinationals, represents an important qualitative change for them; not only the change in strategic focus just mentioned, but also the change in designing and implementing new value chains for international businesses, developing horizontal strategies (Hax and Majluf, 1984) that take advantage of synergies between the value chains of their "local-traditional" businesses and those of their "new-international" ones.

When designing and implementing these first stages, executives could fall into the trap of allowing themselves to be intensely influenced, both positively and negatively, in the development of the internationalization, by short-term circumstances (e.g., evolution in state aid, recruitment or departure of capable executives, opportunities for immediate exports based on sharp changes in exchange rates or momentary excesses of demand, etc.), forgetting that international strategy has a prolonged time horizon and requires intense permanent action.

Facing these facts, it has been observed that the general managers of the companies studied were capable of putting the triggers and brakes, the successes and failures in the first stages of internationalization, into proper perspective.

Companies that are starting their internationalization process, faced with the alternative of realizing all the activities alone and with their own resources, usually have different types of association with a third party available (e.g., representation contracts, licenses, joint-ventures, etc.) that can help them move forward more quickly, sort out initial difficulties and commit less economic resources (Luostarinen and Welch, 1986).

However, given the lack of experience and international vision of the executives and, sometimes, their lower motivation, these different types of association can also give rise to compromises that are a risk for the company's future. For example, license contracts that restrict geographical expansion in the long-term, sales agreement with inadequate organizations, investments in places that will later be shown to be unsuitable for internationalization, etc.

In the analyzed sample, it was observed how the actions of the general managers, despite frequent errors and even failures, demonstrate a positive balance in two aspects: in their capacity to focus associations in order to advance the internationalization in the short term without great restrictions for the long term, and in their capacity to develop a high degree of trust (Jarillo, 1986) with very varied types of associates.

In the way in which the sample companies' top managers focus the first stages of the internationalization strategy, one finds clear evidence of their capability to quickly acquire a long-term strategic vision of the company as a synergetic corporation of local and international businesses; a vision that also includes the group of alliances with third parties and the plan for progressive advance in the steps of the internationalization process and which, by surpassing what the people who help him can see and want, is arrived at alone and must be conveyed patiently and in a motivating way.

This needs to be linked to their personal willingness for taking the economic and human risks of operating in countries, with customers, distribution channels, administrative systems, etc., that they do not know well, relying to a greater extent on outside resources and capacities and, frequently, without being able to achieve immediate results.

3. Organization for internationalization

The organization in the first stages of internationalization presents a problem that is natural in structures with ambiguous responsibilities: there is a lack of consensus, and responsibilities are not clearly defined or have been only temporarily assigned, "ad experimentum." This situation is not surprising, since the companies, initially with functional structures, are starting to develop activities in new businesses without in-depth knowledge of the differentiation needs of internationalization in specialized groups (Lawrence and Lorsch, 1967).

These companies are soon faced with the problem of recruiting and integrating new executives; in some cases young people with capabilities that initially appear to be adequate for internationalization, but who possess little or no experience, in other cases, mature, experienced people who come from other companies, and even different industries, and with the biases characteristic of having worked in other organization for prolonged periods of time.

The companies in the sample also find themselves with the problem of developing alliances with other companies with the difficulties of getting to know them, understanding their ways of acting and evaluating their action; a problem that is habitually complex, but which is even more difficult when dealing with companies far away, operating in other countries and with executives who belong to other cultures.

Given these circumstances, it is logical to observe how top managers themselves steered the day-to-day change in their organization in order to undertake internationalization, selecting the internal and external "new protagonists," trusting in their capabilities, rapidly inspiring trust in many people, reacting quickly to events, relying more on frequent personal contacts that on structured reports, establishing many new relationships with other people and companies, and achieving progressive increases from everyone in their degree of commitment to the international objectives of the company.

Obviously, making a local organization evolve towards one with international activities requires changes in the design and application of management systems information, coordination, control, remuneration of executives, etc.

Nevertheless, and in-line with what was observed in the first stages of internationalization, i.e., the international business strategy not being clearly formulated and the structure of responsibilities being highly ambiguous, rather than important changes in the systems being introduced, "special situations" are produced in their application. In the manner in which these are solved, one can identify the ways that successful top managers act.

These top managers maintain frequent and intense contacts, both formal and informal and without "respecting" the functional hierarchical levels, with the recently recruited executives and with their new "associates" in other countries. By dealing with them directly in this way they can evaluate their capabilities quickly, without having to rely so much on an evaluation of final results which will take time to be produced. Instead, they identify various kinds of intermediate results, which are perhaps not definitive but are tangible indicators that they are doing things well and, as well as using them for evaluation purposes, they use them as another way to overcome the lateral rigidity of their local executives.

They are willing to set levels of remuneration, or economic conditions of collaboration, that are frequently higher than those offered to their local executives and "associates." They accept that this will be the cause of comparative resentment and they commit themselves to resolving this kind of conflict.

They act patiently as international business teachers to their local middle managers by way of example, making them accompany them on their trips, allowing them to make mistakes so that they can learn from experience, until they achieve a change in their attitudes.

In the way that the top managers of the companies studied lead and reform their organizations in the first stages of internationalization, there is to be found another profound characteristic of their capability to act as integrators (Lawrence and Lorsch, 1967) of a new, more complex organization (Galbraith, 1973) that needs many more lateral relations, different in nature from those that were necessary for the functioning of their local organizations.

Capabilities for Internationalization

In the internationalization process of the companies in the sample, a progressive strengthening of the synergetic relations between the dimensions of their "commitment," "learning" and "results" has been observed (Figure 2).

The capacity to make an advance in one direction gives rise to advances in the other two, thus making the company progress in the "synergetic strengthening" spiral towards the international. Top managers of the companies in the sample were also seen to possess the capacity for not allowing the retreat in one dimension to spark off significant retreats in the other two, putting the company in the opposite situation of "dangerous regression."

This capacity for achieving the synergetic strengthening of the three dimensions requires in its turn another four capabilities of a general kind:

– Their proactive attitude to reach a clear and correct vision of their company's role in the international field.

– Their willingness to take the risks associated with international activities.

– Their leadership in the transformation of a simple and successful organization into a complex international one.

– Their perseverance to make international activities accepted and influence the whole company.

On investigating some of the elements that, in the course of the first stages of internationalization, make up these capabilities, three groups of capabilities related to the development of: "information for internationalization," "strategy for internationalization," and "organization for internationalization" were observed.

One common capability of the top managers in the sample is their high level of "lateral elasticity." Another is their capability to obtain information cheaply and rapidly. They make both capabilities operational in two ways:

– Taking the initiative in establishing the procedures for finding, contrasting and structuring the information.

– Personally carrying out many information-gathering activities that, in the case of local operations, would be delegated to people in a lower executive level.

The capacity for seeing their company in the long-term as a corporation with strategic units of local and international businesses, together with the capacity for taking risks in making decisions about businesses situated in countries, and often shared with people who are not well-known to them, are common in the top managers in the sample.

In the practical application of both capacities, one observes that these general managers have a more intense and continued personal dedication, in comparison with their dedication to the local business, to:

– Frequently making explicit the short-term objectives for every stage of the internationalization process.

– Setting goals, with a sufficient level of detail, with their new "associates," to be achieved jointly.

– Analyzing in detail the advances and retreats in the internationalization process, and acting rapidly on them without committing themselves to only one course of action.

– Looking for and developing synergies between the local and international businesses.

– Incrementally improving their own knowledge of the international business, in order to achieve a more comprehensive vision of their company in the long term.

The capability to act as an integrator of a more ambiguous structure that needs more lateral relations, together with the capability to be an "international teacher-motivator," something recently learnt by him and that he does not yet know well, are common in the general managers in the sample.

In the practical application of both capabilities, one observes:

- The constant, intense dedication to the day-to-day implementation, in great detail, of the international activities.
- The high number of direct contacts that they maintain with most of the people involved in the internationalization, whatever their hierarchical position.
- The effort to inspire and win the trust of many previously-unknown people.
- Their opportunism for using the first successes, even if they are only partial, as motivation for their local structure, and failures as a learning tool.

Table 1

Companies in the Sample

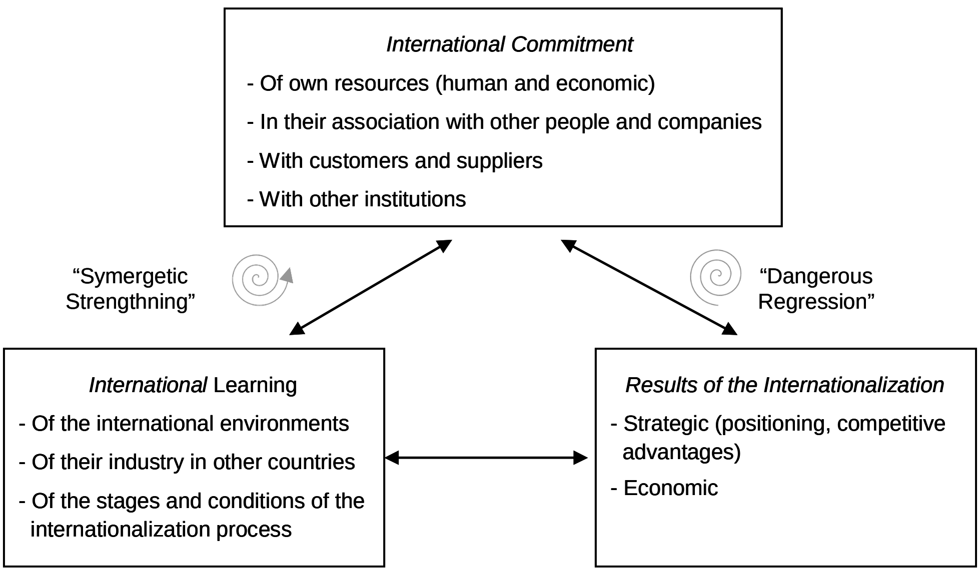
Company	1	2	3	4	5	6	7	8	9	10
Main product	Sportwear	Warehouse shelves	Shoes	Automobile parts seeds fishing	Elevator	Compressors	Automobile parts	Fine wine	Engineering	Leather
Sales ($1985) (in thousands)	8,973	1,803	5.225	32,396	125,287	68,346	25,954	67,778	8,620	86,206
Total assets (in thousands)	9,284	974	3,064	50,857	79,965	47,560	19,982	24,072	3,333	49,896
Equity (in thousands)	4,079	626	1,510	31,981	44,925	28,409	13,649	12,354	1,626	26,293
Personnel	542	300	220	808	2,525	1,717	702	595	303	1,758
R.O.S.	6.12%	3.48%	6,16%	7.45%	3.03%	1.67%	5.30%	12.35%	12.25%	8.40%
Export form Spain (1985) (in thousands)	779	2,767	4,175	4,175	20,000	10,919	36,659	20,796	1,724	40,172
Number of countries	9	4	24	25	50	50	37	40	4	34
Production and sales in forcing countries (1985) (in thousands)	219	0	129	3.448	10,919	0	1,724	2,384	734	25,862
Number of countries	3	0	1	1	3	0	2	4	2	4
General Manager share participation	100	20%	100%	65%	10%	70%	24%	73%	12%	43%
Date of assuming general management position (age)	1953 (25)	1961 (28)	1972 (36)	1958 (37)	1955 (34)	1976 (48)	1947 (29)	1960 (43)	1963 (26)	1955 (26)

Figure 1

Subsidiaries in another Countries

Company	Country	Type of activity	Starting date	Ownership
1	Portugal	Production	1971	100%
1	Portugal	Marketing	1976	100%
1	Argentina	Production	1975	30%
1	France	Production	1980	100%
2	Mexico	Marketing	1981	100%
2	Italy	Marketing	1980	100%
3	Italy	Production	1980	100%
4	Brazil	Production	1985	60%
5	Mexico	Production	1976	100%
5	Portugal	Production	1972	100%
5	Germany	Production	1978	100%
7	Portugal	Production	1970	100%
7	France	Production	1983	10%
8	Germany	Marketing	1984	100%
8	United Kingdom	Marketing	1960	100%
8	United States	Marketing	1980	100%
8	United States	Marketing	1985	100%
8	Mexico	Production	1984	10%
8	France	Production	1986	100%
9	Venezuela	Production	1973	40%
9	Congo	Production	1982	43%
10	Greece	Production	1967	55%
10	Lebanon	Production	1971	51%
10	Nigeria	Production	1980	10%
10	United Kingdom	Marketing	1982	60%
10	China	Production	1982	5%

Figure 2



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