Barriers to International Business

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Abstract

There are many barriers that companies face when attempting to expand operations on a global scale. This paper identifies four barriers businesses must overcome, and the strategies they can deploy to overcome these barriers. The author justifies support for these strategies with current research for each barrier. The paper also identifies and applies a total of eight current research articles (published within the past five years) which document the strategic impact for the four barriers.
Barriers to International Business

One of the most critical challenges for a company today is expanding operations to overseas locations. Companies must consider and contend with a myriad of complex and interrelated issues for successful integration into international markets. Olsen and Boxenbaum (2006) point out that some of these barriers are lack of infrastructure, corruption of local governments, problems with distribution networks, low education levels, and lack of buying power (p.101). All of these barriers are derivatives of more systemic and complex issues that influence business decisions.

The aforementioned overarching theme of barriers to global business expansion encompasses four narrowly defined central barriers for businesses to overcome. These barriers are cultural differences, skilled labor availability, political environment and supplier diversification. These four barriers are the focus of this research paper. Additionally, this paper identifies the strategies companies must apply to overcome each of these barriers. Finally, this paper demonstrates how the application of these strategies impacts business outcomes in the global marketplace.

Impact of Cultural Differences

Cultural differences play a significant role when expanding operations in overseas locations. Peng and Pleggenkuhle-Miles (2009) conclude that culture is a part of every business transaction (p.54). This point is important because cultural differences found in various countries reflect the collective social values, way of life and conduct patterns of the people, of that location. Anantatmula and Thomas (2010) provide an example of cultural differences from country to country by discerning the idea of what constitutes good performance. They find that risk of performance failure may be high from country to country due to an individual’s idea of
accountability (p.62). Accountability and performance go hand in hand and vary within different cultures. It is performance that drives costs down and profits up. Understanding and strategically reacting to cultural differences eliminates barriers that hinder global growth activities.

**Cultural Integration Strategy**

One strategy that companies effectively utilize to mitigate cultural differences is filling key positions with employees that speak native tongues, are sensitive to cultural differences, and can train the workforce. Anantatmula and Thomas (2010) argue that four issues are vital to every organization to reduce risk associated with cultural differences. These issues are organizational structure, communication, culture, and trust (p.62). It is important to train key positions and leaders in these areas because each are important to successful integration into local cultures. For instance, trust is important in all cultures, it is gained in diverse ways in different cultures. Anantatmula and Thomas (2010) advocate creating an environment where team members are comfortable openly discussing conflicts and avoiding rigid structures that are not adaptable (p.62).

Building trusting relationships extends to corporate social responsibility. This is an important strategy to diminish cultural differences in the communities companies serve. Peng and Pleggenkuhle-Miles (2009) argue that investing in these cultures not only builds trust, it also provides employment to host countries and develops those economies at the ‘base of the pyramid’ (BPO) (p.59). The theme of building trust is consistent and reoccurring in international expansion literature. Building trusting relationships should be given top priority when developing corporate strategy and procedures in international business.
Impact of Labor Skilled Availability

One of the most critical barriers for a company today is filling overseas assignments with qualified and competent employees who understand the culture of the country in which they are to work. Many companies hire a mix of talent from the country they are conducting business in to handle lower level day-to-day activities. In 2009, the Migration Policy Institute found that there is a need for employment of foreign workers worldwide from professional talent to production workers (Sassen, 2011, p.52). This development will continue to create gaps in global expansion efforts unless strategies are enacted that create solutions to knowledge and talent pools in individual foreign markets.

Skilled Labor Strategy

The problem many companies have with globalization staffing is the lack of skilled and educated labor. This includes touch labor, semi-skilled and experienced workers. Kalantaridis, Vassilev and Fallon (2011) advocate a competence lock-in strategy that allows talent to be drawn in by local talent contracting houses. This focuses upon ‘endogenous institutional structures’ (p.155). This strategy allows companies to hold down global markets and provides a deep and available talent pool.

A second strategy is rebalancing the skill base in international locations. Global firms will have to bring foreign professionals into the highest level of home headquarters to understand and learn from the specific foreign location, as well as its uses and understanding of talent (Sassen, 2011, p.49). This strategy mitigates barriers on several fronts such as cultural integration, diversity, language barriers and gives the company strategically placed resources at the appropriate level within organizations.
Impact of the Political Environment

The political environment in foreign markets create entry barriers for many companies. Slaughter and Tyson (2012) contends that the current policy outlook is not promising. Leaders of global corporations are voicing concern about a deep set of U.S. challenges such as complex taxation, inadequate worker skills, and crumbling infrastructure that inhibit hiring and investment in America (p.75). Business leaders encounter barriers created by the political environment in the following areas: Government support for education of workers, development of urban centers, and child labor laws.

Crainer (2010) points out that India has a serious literacy problem and a primary school problem, but they have put a lot of attention on developing high-end education (p.63). This point is important because a large, experienced, and skilled workforce may not be available to feed current and future investment in this country. It also means that not all companies can invest in expansion in India without overcoming political environment barriers. Similar political environment issues exists in Russia, China and other emerging countries and requires business strategies that target the underpinning of barriers created by lack of political engagement concerning the issues.

Political Environment Strategy

Companies investing in foreign markets can influence the political environment in host countries. In emerging countries, companies can address labor laws, infrastructure improvements, taxing policy through the adoption of a long-term for-benefit strategy. Sabeti (2011) points out that the for-benefit strategy is a new business model that benefits organizations by creating a fourth business sector which provides a market structure with a social mission (p.104). This strategy is an overarching, long-term strategy with several sub-levels of strategy.
The overall objective of this strategy is to impact emerging countries to change social and anti-business policy and regulations through social responsible and sustainable business practices.

**Impact of Supplier Diversification**

For 25 years, U.S. businesses saw the emerging markets as part of their supply chain for reducing costs, increasing efficiency and tapping the labor force to assemble products (Crainer, 2010, p.62). This fact is positive for companies but also creates barriers for companies expanding in emerging countries. The barriers are due to many businesses viewing emerging countries as customers for products. This now forces companies to establish suppliers within the country which can support expansion of the business. The problem is that many of the emerging countries are just that, emerging and lack the supplier diversification to support business growth. Business must respond to this barrier through strategies that address growth of internal supplier networks.

**Supplier Diversification Strategy**

One strategy to mitigate supplier diversification barriers is to focus on global supply chain management groups. This allows companies to move into the global markets slowly with local, well-established supply management companies handling logistics. Tsai and Eisingerich (2010) advocate this strategy as a speed of entry strategy to allow firms to pursue incremental internationalization (p. 24). This strategy controls cost and provides for a structured approach to international business growth.

Another important strategy is to start in the middle strategy (Eyring, Johnson and Nair, 2011, p.89). This strategy allows companies to partner with suppliers in emerging countries to manufacture products that serve global, cost conservative customers. Eyring et al., 2011 proposes that these middle markets allows companies to reinvent their business and gain access through
suppliers (p.92). These two strategies diminish the entry barriers cost impact to international markets and open companies up to new suppliers that will aid international integration.

Conclusion

The list of barriers to global business expansion is lengthy. However, strategically addressing the four key barriers of cultural differences, skilled labor availability, political environment and supplier diversification can promote alleviation of risk to companies. Cultural difference touch every aspect of a business. Cultural integration must be a part of skilled labor, political environment and supplier strategies. Business models can be conceived in a variety of ways (Eyring, et al., 2011, p.92). Focusing strategies on these four barriers in international markets will require traditional business models to change toward more socially responsible and mission driven business models that support indigenous populations. These strategies will impact global operations on a broader scale than traditional business models. This is because they more overarching in nature, and drive business short and long-term strategies, promoting the sustainability of the company’s international expansion.
References


