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GEOPOLITICS AND THE DEVELOPMENT OF INTERNATIONALLY ORIENTED COMPANIES

Abstract: The increasing complexity of management in the global environment creates a need for a deeper understanding of the nature of relations between geopolitical occurrences and the development of Internationally Oriented Companies. Therefore, following a literature review, a conceptual model, including the determinants of development of Internationally Oriented Companies and the geopolitical processes, is proposed. The main research hypothesis states that Internationally Oriented Companies not only profit from their environmental opportunities, but also shape their operating environments in order to gain influence over the foreign policy-making of states. The paper provides its positive verification. The role of weak signals in the early identification of such behaviours is mentioned. A conclusive postulate of transcribing the elaborated model into a computer application for geopolitical decision-making for managers has been formulated.

Keywords: geopolitical growth determinants, weak signals, Internationally Oriented Companies

Rozwój przedsiębiorstw zorientowanych międzynarodowo w otoczeniu geopolitycznym

Streszczenie: Rosnąca kompleksowość zarządzania w środowisku globalnym stwarza konieczność głębszego zrozumienia natury związków pomiędzy zdarzeniami geopolitycznymi, a rozwojem przedsiębiorstw zorientowanych międzynarodowo. W artykule podjęto próbę opracowania conceptualnego modelu tej zależności. Analizę poprzedzono przeglądem literatury przedmiotu. Główna hipoteza badawcza zakłada, że przedsiębiorstwa zorientowane międzynarodowo nie tylko korzystają z możliwości stwarzanych w ich otoczeniu operacyjnym przez zdarzenia geopolityczne, ale również próbują na nie aktywnie wpływać. Znalazła ona potwierdzenie w toku analizy. Wspomniano o roli słabych sygnałów we wczesnym rozpoznaniu takich tendencji. W konkluzji postuluje się opracowanie matematycznego zapisu modelu, który umożliwi opracowanie narzędzia informatycznego dla menadżerów. Jego funkcją będzie wspieranie biznesowych procesów decyzyjnych przy antycypacji zdarzeń geopolitycznych w przyszłości.

Słowa kluczowe: geopolityczne wyznaczniki wzrostu, słabe sygnały, przedsiębiorstwa zorientowane międzynarodowo

Introduction

In past decades we have observed the diminution of distance in the world. The intensification of this process came together with the spectacular development of modern technologies. The commuting of individuals has today developed into global finance operations that can be performed without travelling – providing one has access to an internet connection. This widening of human perception and operation abilities to the world scale, which has been called globalization, has resulted in offering huge new perspectives for companies ready for internationalization, especially for those that had sufficient infrastructure, experience and financing potential for this kind of growth. Meanwhile, new challenges have brought other problems that need to be dealt with, such as different accounting standards, cross - cultural management and other issues, i.e. geopolitical processes.

The following pages are an attempt to provide an analysis of the influence of geopolitical processes on the growth of Internationally Oriented Companies. The main research hypothesis states that Internationally Oriented Companies not only profit from their environmental opportunities, but also shape their operating environments in order to gain influence on the foreign policy-making of states. In other words, the hypothesis attempts to answer the question whether Internationally Oriented Companies just use the opportunities offered them by globalization processes, or rather take an active part in shaping their international business environment in order to enhance their growth?

The research methodology consists of a literature review and a conceptual analysis of the possibility of assembling both the described phenomena, the development of Internationally Oriented Companies and geopolitical processes in one complex model that would show their interdependencies.

Literature Review

Literature studies provide many definitions of the term “geopolitics”. For this reason it is difficult to quote just one of them. Generally, the science of geopolitics discusses the thematic intersection in the fields of politics, history, economy and geography. Although this description does make sense, the present study requires a more precise definition. Osterud [1988] states that:

“geopolitics traditionally indicates the links and causal relationships between political power and geographic space; in concrete terms it is often seen as a body of thought assaying specific strategic prescriptions based on the relative importance of land power and sea power in world history. [...] The geopolitical tradition had some consistent concerns, like the geopolitical correlates of power in world politics, the identification of international core areas, and the relationships between naval and terrestrial capabilities” (p. 191).

At the same time Kelly [2002] defines the term by saying that:

“Geopolitics is a foreign policy approach and an international relations theory that stresses an awareness of relative position among countries and a corresponding response of statesmen to advantages and vulnerabilities that territorial and maritime space may bring to foreign affairs and national security. Within this focus, above all geopolitics provides a practical guide to diplomacy, albeit, without yet a coherent theoretical framework that may plausibly link the impact of a nation's geographic placement to a predictable international strategy” (p. 1).

Scott (2008) describes Kelly's definition as “particularly appropriate” (p. 3). A simplified, but also accurate definition is provided by Baňka (2003), who writes that:

“geopolitics is a field of science from the borderlands of geography, political science, history, historiography, economics and military science that examines the relations between civilizations and political organisms, changing in the course of centuries, but remaining in an immovable space and – which is of utmost importance – trying to shape the future and build optimal solutions in a changing reality” (p. 167).

All the above definitions have a common ground – they prove the interdisciplinary character of geopolitics. Therefore, when analysing geopolitical processes, one should not uniquely focus on its economic, legal or sociological aspects, but treat them as components of a bigger entity – the science of geopolitics.

In other words, the notion of *geopolitical processes* is equal to every political, historical or sociological occurrence that affects relations between countries, causing a temporary or lasting imbalance.

In his study on geopolitical relations between China and India, Scott [2008] defines this term by using a set of notions that create a larger image of geopolitical processes, when analysed altogether. He counts between them a set of terms preceded by the “geopolitical” adjective. These will be: geopolitical tradition, horizons, rivalry, encirclement, interests, reciprocity, location, proximity, projection, dynamics and correlates of power in world politics. Furthermore, an analogy can also be drawn from eight dimensions of Europeanisation, a concept authored by Wach [2010, p. 206] and later on developed into twelve dimensions, including seven non-economic and five economic dimensions [Wach,

2014b, p. 16; Wach, 2014a, p. 20]. Accordingly to this author, the process of Europeanization can be defined from various perspectives: geographic (territorial), sociologic (socio-cultural), education-and-research, institutional (administration), political, geopolitical and economic (divided into macroeconomic transcendent, macroeconomic immanent, mesoeconomic, microeconomic and managerial ones). It is important to note that Wach's perspective can be directly transposed in order to define the notion of geopolitical processes [Wach, 2014c]. Moreover, this is in line with Białek's and Oleksiuk's [2009, p. 8] opinion expressed as "to be or not to be on the global scene", which is important for economies, companies and societies.

To recapitulate, geopolitical processes are international consequences of decisions made by the highest national authorities, namely state presidents, ministers of foreign affairs, secretaries of state or members of both chambers of parliament and other people in the government that have an international effect. But it occurs when national authorities are not the only, nor even most powerful geopolitical players.

Determinants of Development of Internationally Oriented Companies

Although this issue has been already discussed in previous author's works (for a deeper study please refer to Gawlik, 2012), a short recalling of the main actors on the global geopolitical scene would be useful. These are nation states (already mentioned), intergovernmental organizations, international non-governmental organizations, internationally oriented companies and any other organisation that has the ability of *acting in law* internationally. Whereas the role of the first four has been already widely discussed in legal and economic literature, the last notion requires explanation. Bierzanek, Jakubowski & Symonides [1980] derive the international subjectivity of organizations from their ability to undertake legal actions on the international scene by saying that "*the subjectivity criterion is understood as the ability of acting in law at international level*" (p. 144). They specify their thought by stating that "*intrinsically, in relation to a nation state, any organization is of derivative character*" (p. 145). Although many international law and economics specialists still support this statement, one could ask whether in a globalized world, with powerful international organizations and business entities, it still holds true, especially when confronted with macroeconomic reality.

Enumerating particular geopolitical processes can be difficult, as under given circumstances nearly every decision of a geopolitical player can have geopolitical

consequences. For the purpose of this research it is interesting to find which geopolitical factors condition the development of Internationally Oriented Companies.

For the purpose of the present paper, an Internationally Oriented Company will be defined as any enterprise that aims to develop its business activities through internationalization. Such a broad understanding of this subject allows the inclusion, in further reasoning, most of the types of companies operating internationally, i.e. global, transnational, international and multinational companies and corporations.

The author proposes to divide the determinants of development of Internationally Oriented Companies into constant and variable ones. Constant determinants are those that remain unchangeable in the short and medium time periods – until no major shock happens. In the geopolitical environment, a shock can be understood as any external or internal occurrence that changes the operating environment of a company to such an extent that it is forced to change its strategic and organizational behaviours. Between constant determinants that condition the development of Internationally Oriented Companies one could enumerate the international business entourage, global competition, legal environment, level of innovativeness, tendency to invest in research and development, excellence in logistics, supply and production, safety and effectiveness of information networks and cross-cultural management abilities. It is important to note that *constant* is not equal to infinitely stable.

Variable determinants of development of Internationally Oriented Companies are factors that can be subject to external influences in the short and medium time span (which is unlikely the constant ones). This makes them more vulnerable to geopolitical changes, which provides indirect proof of their dependency from geopolitical processes. Variable determinants of development of Internationally Oriented Companies can be divided into:

❖ business determinants, such as:

- adaptation aptitude – ability and speed of adapting to a changing geopolitical situation, without forgetting the long – term strategic objectives of the company;
- learning ability – a company’s willingness and possibility of gaining geopolitical advantage by using the possibilities offered by advanced technologies and the information society;
- security level – internal safety measures of the company, including intellectual rights protection and secure flow of information inside the company;

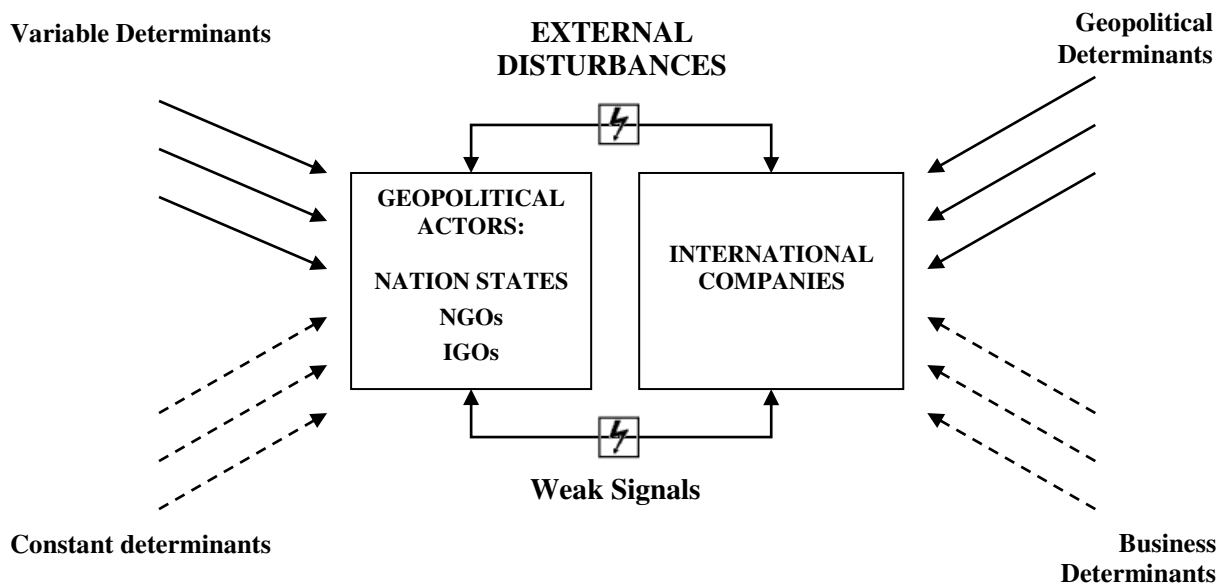
- general level of managerial excellence – incorporating operational, strategic, knowledge and other management skills, together with the company’s efficiency in acquiring resources and creating innovative surroundings for further development.
- ❖ geopolitical determinants, such as:
- geopolitical participation level – the attitude of Internationally Oriented Companies towards their participation in international initiatives, ability of using the opportunities offered by active exploration of geopolitical options, but also the efficacy in shaping geopolitical processes;
 - geographic and resource endowments – climate and natural resource endowments, disease burden, transport costs, nearness of technologically developed countries, agricultural productivity, quality of human resources, possession of control over geographic areas crucial for the business in question;
 - international lobbying potential – perspectives on shaping geopolitical processes, providing development options for Internationally Oriented Companies;
 - level of achieved business globalization – which covers all processes of the company, *inter alia* international sales, global research & development, cooperation with partners, relations with competitive companies, marketing, logistics, human resources, intercontinental process coordination and others.

Both of the above lists of determinants of development of Internationally Oriented Companies are drawn from the author’s previous research (i.e. Gawlik, 2007). They aim to delineate the most important areas of potential sources of growth of the discussed types of business entities and as such should not be seen as exhaustive or final. They simply constitute a base for further academic research and discussion. Nevertheless, the question as to whether these factors can contribute to the development of Internationally Oriented Companies through the shaping of geopolitical processes in their environment remains open. The answer is quite simple - as Internationally Oriented Companies become almost automatically subjects of geopolitical processes, we can assume that their competitive advantage will be strongly dependent on them.

An Attempt to Formulate a Parallel Between Geopolitical Processes and the Development of Internationally Oriented Companies

The growing complexity of the activities of Internationally Oriented Companies seems to weaken Smith's statement, that the invisible hand of the market is the only stabilizing or destabilizing factor in the economy. In a global environment, decisions taken by enterprises are also influenced by other factors, *inter alia* the geopolitical processes. Assuming that business entities behave rationally, it would be justified for them to search for opportunities to shape their operating environments. Fig. 1 presents a graph with possible relations between key geopolitical players, together with their directions, sources and determinants.

Fig. 1: Interrelations between geopolitical processes and Internationally Oriented Companies



Source: own elaboration based on Gawlik (2007, p. 91).

Lewandowski & Rafalska [2013] state that:

“International expansion is one of corporate strategies of development. It usually aims at additional revenues and margins from international markets. Sometimes it brings additional value based on extra knowledge acquired on such markets. If it is the case, such knowledge (in terms of technology, service, sales etc.) should be effectively utilized both on domestic and foreign markets. Nowadays the global economy conditions generate large opportunities for foreign entry. The legal and political entry barriers gradually decline, which generates expansion possibilities” (p. 56).

The quote mentions the gradually declining legal and political barriers for cross-border expansion of economic activities. In the author's opinion such changes are the direct effect of a changing nature and strength of relations between key geopolitical actors.

The mentioned authors continue their thought by adding that "*International expansion requires a mix of right competitive advantages and a strategy of entering foreign markets*" (p. 56). Such an understanding of the development of Internationally Oriented Companies is not new and it has been exhaustively discussed in the economic literature (please refer i.e. to David, 2012).

What has changed, though, is the source of competitive advantage itself. Today it is more likely to be found in an enterprise's ability to create a favourable political and economic environment for its development, which can be, for example, achieved by the active shaping of geopolitical processes. Arguments in favour of this statement are indirectly provided by the actions of Nation States, which more and more often tend to reassign some of their traditional functions to Internationally Oriented Companies. There are numerous examples, including the knowledge spillovers from corporate R&D departments to national research agencies, contracting private firms for military operations (Blackwater, Halliburton), assuring access to scarce resources through private business entities (China Resource Enterprise, British Petroleum, de Beers) and many others.

Profits from this cooperation are considerable and bilateral. States experience cost-cutting, efficiency growth, the rational management of resources, lower political responsibility and others. At the same time Internationally Oriented Companies enhance their development potential because of emerging business opportunities coming from internationalization. The need for the internationalization of enterprise's operations and strategies arises from the global character of today's economies. Szromnik [1994, pp. 13-14] enumerates such factors of an enterprise's internationalization as economic, legal, organizational, market and social determinants. The cited author sees organizational and legal determinants as one entity; nevertheless, it seems more appropriate to see them as separate areas for gaining competitive advantage.

A growing number of weak signals shows a growing interest of Internationally Oriented Companies in shaping their business environments. Imola & Kuusi (2006) say that:

"A weak signal is by definition unstructured information and its implications to the organization are at an early stage very hard to define. A weak signal represents potential discontinuity, something that the organization has not interpreted before" (p. 911).

Hiltunen believes that “*weak signals mean today’s information that can foretell the changes in the future*” (p. 41). Kuosa [2010] adds to the picture by translating Mannermaa [1999]:

“A weak signal can be recognised for being a freak, a weird phenomenon. Normal or average economic knowledge rejects it because it usually originates outside the current systems, from the margins of conventional wisdom. Nearly all revolutions in technology, economy and society have, at first, been weird and have developed in the peripheries of the society” (p. 43).

Although none of above definitions points to the direct applicability of weak signals for the creation of growth potential of Internationally Oriented Companies through shaping their business environments, they certainly do provide food for thought. When discussing innovative approaches to strategic management Ansoff [1975] remarks that “*Our expansion has been to admit weak signals as a basis of decision making, and the extension was from a purely planning to a total action system*” (p. 32). Is it important, though, to identify which aspects of the functioning of Internationally Oriented Companies should be perceived as weak signals that capture the moment when a given enterprise switches from being just an “opportunity taker” into becoming an “opportunity maker”? At the current level of analysis we can presume that these will be immense company budgets, spread of their operational networks, employment and lobbying practices and others. Nevertheless, the issue definitely needs further research.

Taking into account all of the above it seems rational to confirm the main research hypothesis by saying that there is a parallel between geopolitical processes and the development of Internationally Oriented Companies. Moreover, the nature of these interrelations seems to be reciprocal. When adding the rationality criteria, it is possible to assume that a growing number of Internationally Oriented Companies will be interested in enhancing their growth potential by the active shaping of geopolitical processes through gaining influence on the foreign policies of nation states. The first symptoms of such behaviours could be anticipated by an attentive monitoring of weak signals coming from the global business environment.

Conclusions

The aim of the present paper was to describe the nature of relations between geopolitical processes and the development of Internationally Oriented Companies. The main research hypothesis stated that Internationally Oriented Companies not only profit from their

environmental opportunities, but also shape their operating environments in order to gain influence on the foreign policy-making of states, has been verified positively. It can therefore be stated that at the actual level of the internationalization of businesses only a complex management that includes the anticipation of geopolitical changes or even active co-designing of foreign policies of states can provide potential for further growth for Internationally Oriented Companies. Therefore, the managerial implications of the presented research should lie in the forethought of geopolitical occurrences and forecasting of global tendencies by the managerial boards of Internationally Oriented Companies, which focus on reinforcing their international position. Weak signals monitoring should be a part of these forecasts.

The main limitation of the presented conceptual approach lies in the lack of mathematical apparatus that could not only assure trustworthy prescience, but also bring a scientific structure that is necessary for the sustainable applicability of any conceptual model in managerial practice. Therefore it is recommended that such predictions are based on scientific methods and as such should be elaborated by an interdisciplinary team of experts in economy, geopolitics, management and computer-aided decision-making. Taking all of the above into account, further research should concentrate on transcribing the findings of this paper into a mathematical decision-making model. This should result in the elaboration of an easy applicable informatic tool for computer-aided geopolitical decision-making for managers.

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