Lecture 10- Managing in a Global Environment:

- International Management and Strategy
  - Involves managing operations in more than one country, as organisations develop and implement strategies in more than one country
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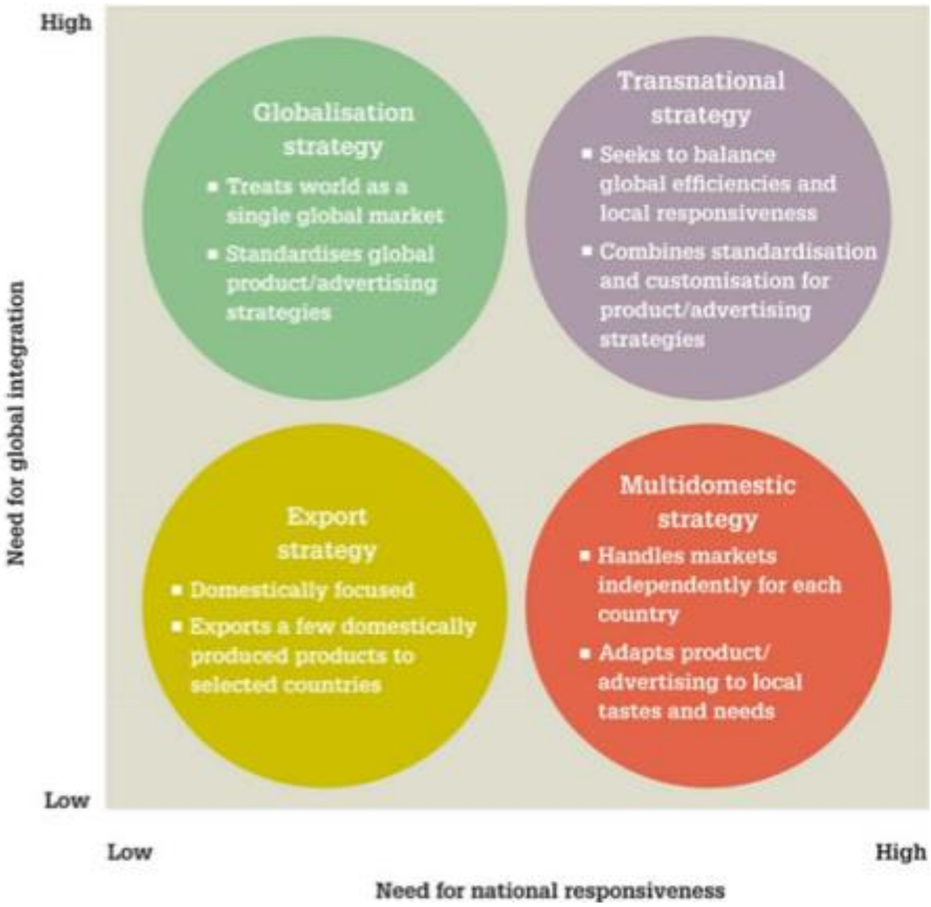
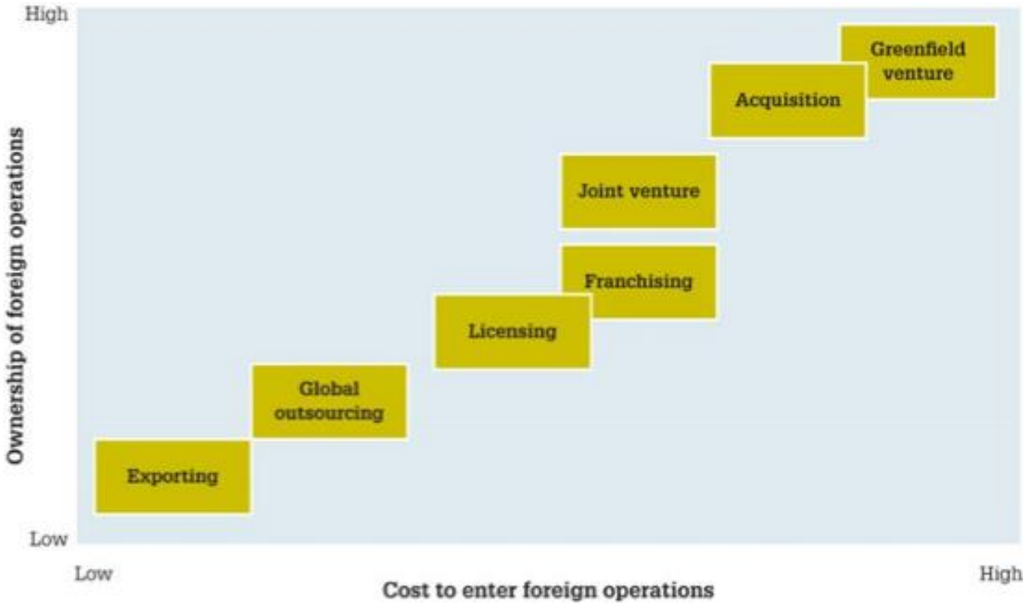
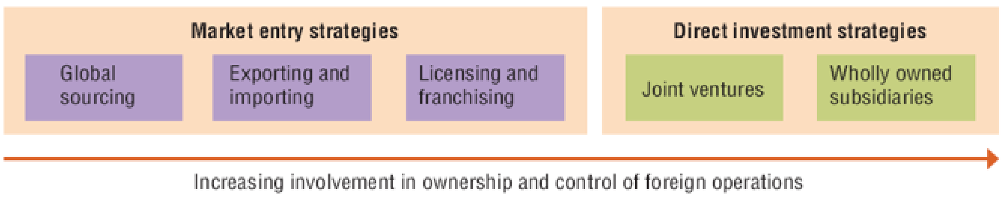
- Reasons for Expanding Internationally
  - Increase Market size
    - Build on a competitive advantage in the domestic market by transferring competencies to international markets where local competitors lack such skills (e.g. Yellowtail wines - largest selling imported wines in the USA)
  - Improvement on Return
    - Particularly in R&D intensive industries e.g. biotechnology and pharmaceuticals
      - Cochlear spent $4.3M in 2001 to acquire a German firm for its technology
    - Protect innovation as a patent protection requires a global perspective
  - Economies of Scale and Learning
    - Increase in efficiency of production as the number of goods being produced increases
    - Economies of scale result from expanding the size/scope of markets
    - Develop learning and experience
  - Realise Location Advantage
    - Economies that arise from performing a value creation activity in the optimal location for that activity (e.g. Beefeater BBQs in China)
    - Lower cost effects: raw materials and labour
    - Differentiation effects: Access to key suppliers, cheaper labour
- Strategies for International Operations
  - Choose a Strategy for International Operations

- 

- Export Strategy
  - Exporting domestically produced products to selected countries
  - The organisation is domestically focused, with a centralised management & product development (& design) at home
  - Strong home country, head office control over foreign operation (hence low global integration)
  - Very limited local customisation of product, if any (low on national responsiveness)
  - E.g. Yellowtail Wines
- Globalisation Strategy
  - Decisions regarding product design and advertising are centralised in the home office (hence high on global integration)
  - Requires resource sharing and coordination across borders
  - Product design and advertising strategies are standardised across national markets (low on national responsiveness)
  - Assumption is that a single world market exists for the product and therefore focus on the need for global efficiency
  - Standardising products leads to global efficiency through economies of scale
  - E.g. iPhones, Starbucks
  - Liability of Foreignness
    - Organisation doing business abroad can be disadvantages vis-a-vis local firms due to (1) cultural, political and economic differences and (2) unfamiliarity with the business conditions of the foreign market
- Multidomestic Strategies
  - Strategy and operating decisions are decentralised to strategic business units (SBUs) in each country
  - Business units in each country are independent of each other (hence low on coordination and global integration)
  - Products and services tailored to local markets (high on national responsiveness)
  - Focus on competition in each market (need for advertising modification)
  - Assumed markets differ by country or regions
  - Prominent strategy among European firm’s due to broad variety of cultures and markets in Europe

        - E.g. Nestle (Milo tastes different in different countries, and is pronounced differently)
    - Transnational Strategy
        - Seeks to achieve both global integration and national responsiveness
        - World-orientated view focusing on using the best approaches and people from around the world
        - Attain efficiency with flexibility to meet specific needs in various countries
        - Difficult to achieve because of simultaneous requirement for strong central control and coordination to achieve efficiency and local flexibility and decentralisation to achieve local market responsiveness
        - E.g. McDonalds (e.g. no beef burgers in India + Chicken Maharajah Bic Mac)
- Entry Modes
    - 

    - 

    - Exporting
        - Organisation maintains its production facilities within its home country and transfers its products for sale in foreign markets
        - Common way to enter new international markets
        - No need to establish operations in other countries
        - Establish distribution channels through contractual relationships
        - May have high transportation costs and encounter high import tariffs and other trade barriers
        - Less control over marketing and distribution
        - Difficult to customize products
        - Countertrade may be used in less developed countries
        - E.g. Yellowtail wines, Vegemite
    - Licensing
        - Company (licensor) in one country makes certain resources available to companies in another country (licensee) e.g. technology, managerial skills, patent
        - Licensing firm is paid a royalty on each unit produced and sold
        - Relatively low-cost way to enter a foreign market
        - Relatively low profit potential
        - Licensing firm loses control over product quality and distribution
        - A significant risk if the licensee learns technology and competes when license expires
        - Franchising: A form of licensing in which an organisation provides its foreign franchisees with a complete assortment of materials and services e.g. equipment, standardised operating system, managerial advice

        - E.g. QB house
    - Joint Ventures
        - Most joint ventures (JVs) involve a foreign company with a new product or technology and a host company with access to distribution or knowledge of local customs, norms or politics
        - Enable firms to share costs, risks and resources to expand into international ventures
        - May be the fastest, cheapest and least risky way to go global if choose right partner
        - May not understand the strategic intent of partners or may experience divergent goals
        - E.g. Land rover, Jaguar and Chery
        - E.g. Kellogg's use Wilmar infrastructure to selling Asia
    - Acquisitions
        - Purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets
        - Enable firms to make most rapid international expansion
        - Can gain quick increase in market share or access to promising new technologies
        - Can be very costly
        - Legal and regulatory requirements may present barriers to foreign ownership
        - Potential to gain synergies in production but may also have to combine potentially disparate corporate cultures
        - E.g. Microsoft buying Skype, Facebook buying WhatsApp
    - Greenfield Ventures
        - The riskiest type of direct investment in which a company builds a subsidiary from scratch in a foreign country
        - Most costly and complex of entry alternatives
        - Potentially most profitable, if successful
        - Maintain greatest degree of control over production, technology, marketing and distribution
        - May need to acquire expertise and knowledge that is relevant to host country e.g. local managers have heightened awareness of economic, political & cultural conditions
        - Could require hiring host country nationals or consultants at high cost
        - E.g. Ikea and Aldi
- Assess Management Issues and Risks

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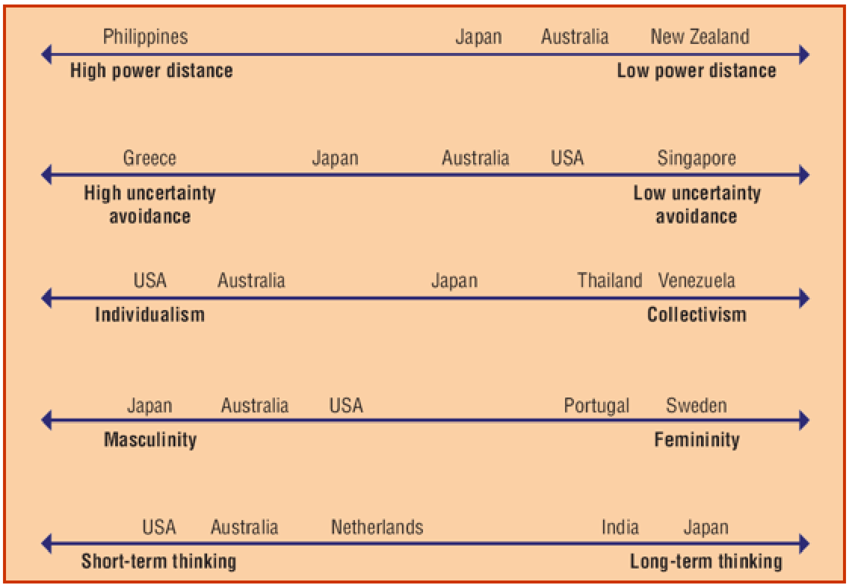
- Sociocultural Environment: Differences in National Cultures
  - National culture includes the shared knowledge, beliefs & values, as well as the common modes of behaviour and ways of thinking, among members of a society.
  - When choosing a country in which to operate consider the culture's social values and similarity / difference to home culture
  - Social Values – GLOBE project based on Hofstede's model
    - – **Power distance**
        - Acceptance of inequality in power among institutions, organisations and people.
      – **Uncertainty avoidance**
        - Intolerance for uncertainty and ambiguity.
      – **Individualism and collectivism**
        - Individualism : refers to a loosely knit social framework that values independence
        - Collectivism : refers to a tightly knit social framework where individuals look after one another
      – **Masculinity and femininity**
        - Masculinity : focus on achievement, heroism, assertiveness, work centrality and material success
        - Femininity cooperation, group decision making and quality of life
      – **Time orientation**
        - Long-term : concern for future, thrift & perseverance
        - Short term (concern with past & present, tradition & social obligations)

- 

- Globe Project Value Dimensions
    - Assertiveness
    - Future orientation
    - Uncertainty Avoidance
    - Gender Differentiation
    - Power Distance
    - Societal collectivism
    - Individual collectivism
    - Performance orientation
    - Humane orientation
- Management theories are not universal - most theories in this course are framed from a North American and Western Europe perspective
- Cross-cultural differences mean management practices cannot always be transferred successfully from one culture to another

- Economic Environment
    - Economic conditions in the country where the organisation operates internationally
    - When choosing a country in which to operate evaluate
        - Economic development
        - Infrastructure - physical facilities that support economic activities
        - Exchange rates
        - Inflation, interest rates and economic growth
- Legal political environment
    - Political systems and government supervision and regulations in the country were the organisation operates internationally
    - When choosing a country in which to operate, evaluate:
        - Political risk
            - A loss of assets, earning power or managerial control due to politically based actions or events by host governments
        - Political instability
            - Riots, revolutions, civil disorders, frequent changes of government
        - Laws and regulations

E.g. consumer protection, information and labelling, intellectual property rights, employment and safety