

# MGMT1101 Lecture 2

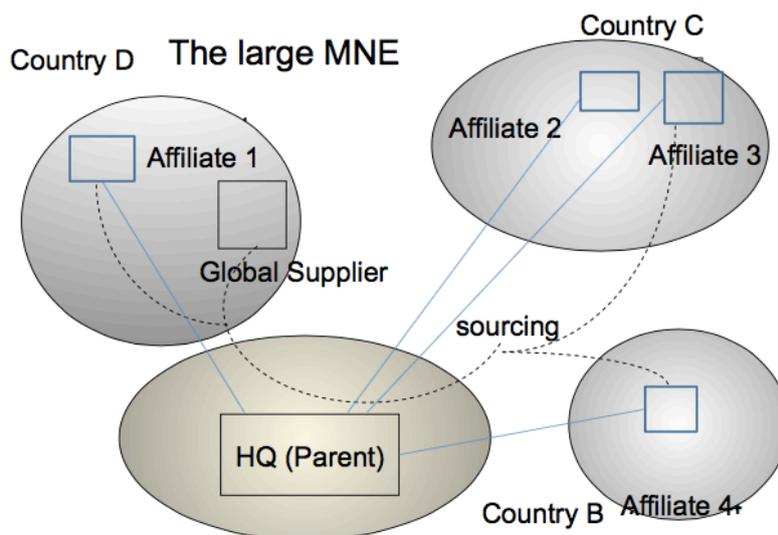
## Multinational firms in a globalised world

### What is an MNE?

- Any business that has productive activities in two or more countries or any firm that engages in international trade and investment
- Narrow definition: (activities or ownership) any business that has productive activities in two or more countries
- broad definition (scope): any firm that engages in international trade and investment

### Are transactions bigger than countries?

- 29 out of 100 largest economies were corporations in 2000
- out of worlds top 50 economies: 38 countries, 5 firms, 3 government agencies, 3 state-owned enterprises and 1 non profit



### All MNEs are not equal (in terms of):

- size/resources
- geographical scope/diversification
- experience; process of internationalisation
- management attitude and structure
- degree of control over foreign operations
- foreign /total assets
- foreign/ total sales
- foreign/total employment

### The role of MNE

- provides standards products worldwide

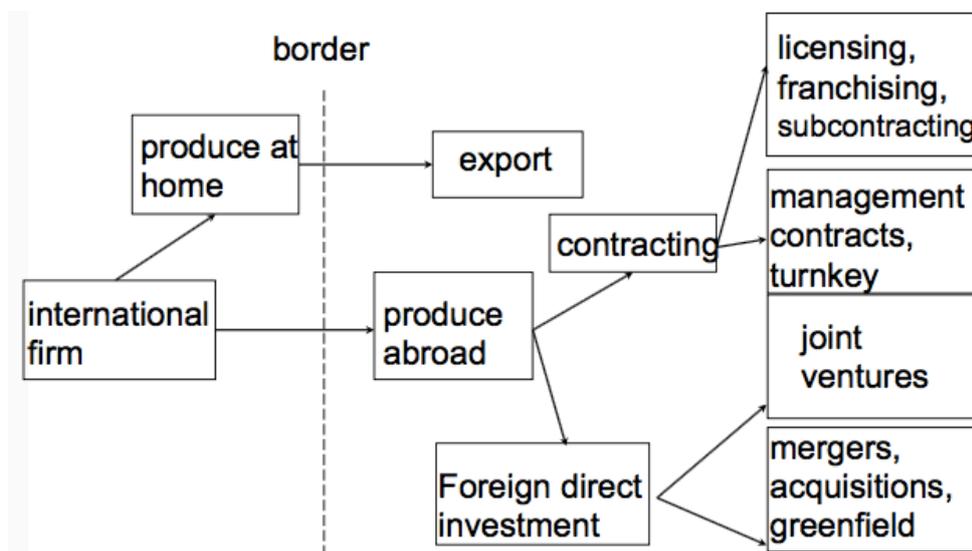
- facilitates the convergence of consumer taste
- main actor of global production
- facilitates global trade of intermediate and finished goods (between subsidiaries and between headquarters and subsidiaries)
- influences local players and firms (supplier, distributor, employees) with global standard and value

### Firm Internationalisation

- “transforming from a domestic to multinational firm”
- the process by which firms establish and conduct transactions with firms and customers in other countries, and international operations have an increasing influence on their future
- internationalisation is an evolutionary process over time as firms expand their geographical reach and mindsets

### modes of operations for internationalised firm

- there is a range of international business operations i.e. means of servicing foreign markets, which firms may choose
- firms often use multiple modes simultaneously
- the choice of a particular mode depends on the firm and market characteristics (i.e. external and internal conditions)
- inward (servicing domestic customers through transactions with foreign firms) vs outward (servicing customers in foreign markets)



### Exporting

- exporting firm produces at home and sells to a customer in a foreign market
- exporting firms will often appoint another firm in foreign country as its representative
- exporting is a favoured mode for small and medium-sized enterprises (SMEs) and firms in the early stage of internationalisation

## contracting

- licensing: legal right enabling firms to use another firms intellectual (intangible) property in exchange for a fee
  - trademark
  - patents and inventions
  - copyrights
- franchising: form of licence requiring franchisee to work under supervision/control of franchisor
  - e.g. McDonalds, hotels
  - strict quality control
- subcontracting/contract manufacturing: part/all of product produced by foreign contract
- management contracts: international firm provides the managerial expertise to operate another firm in a foreign country for an agreed fee for fixed period of time
- turnkey projects: a firm (or consortium of firms) designs, builds and equips facilities, then transfers them to the foreign owner on completion (chemical, pharmaceutical, petroleum-refining and metal refining industries – require complex, expensive production technologies)

## Foreign direct investment (FDI)

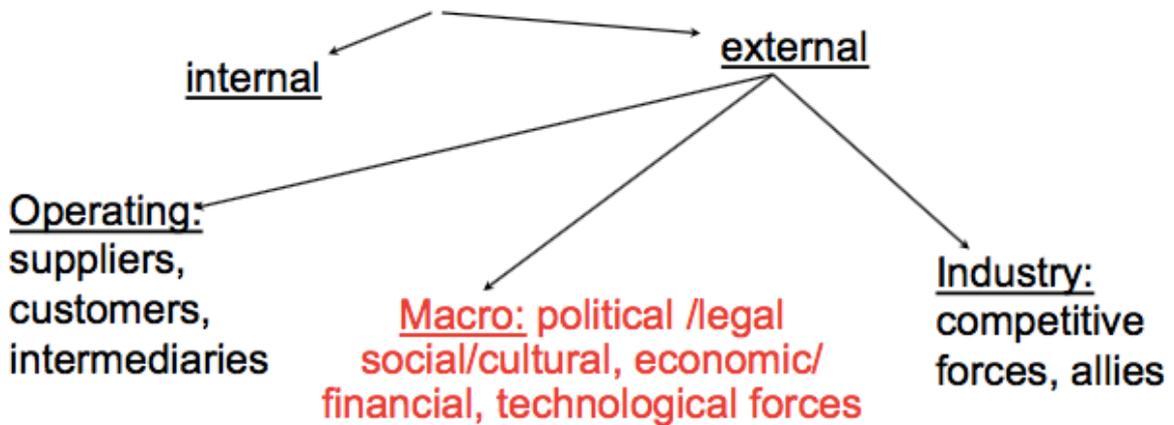
- FDI involves the ownership and control, to some degree, of foreign firms:
  - Cooperative venture
    - Joint venture: two or more firm agree to cooperate to set up a new jointly owned firm in the foreign market
    - Division of labour and expertise
    - Sometimes required by a host country
  - Going it alone
    - Merging with or acquiring an existing firm
    - Establishing a new firm

## Globalisation

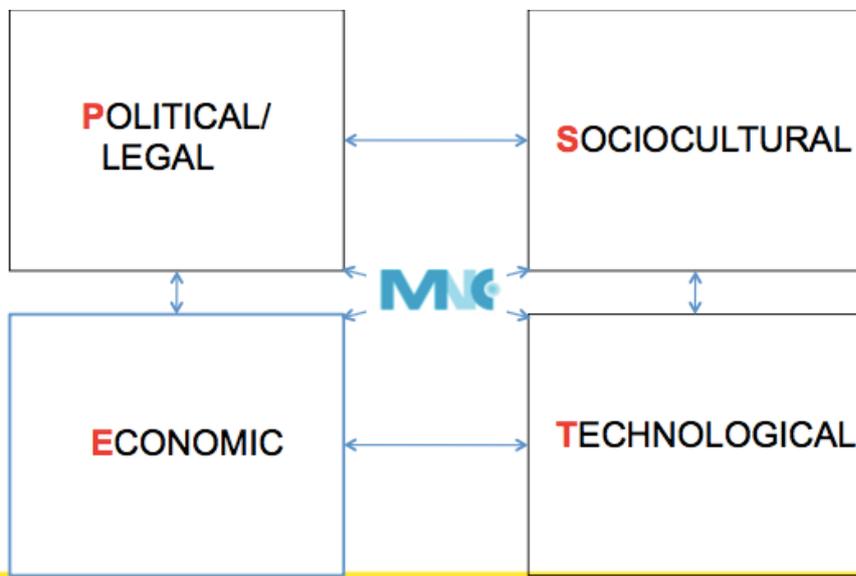
- One meaning: increasing rates of cross border transactions leading to greater interdependence of countries, industries and companies
- But changing face of globalisation
  - Globalisation has many dimensions
  - Declining trade barriers: global institutional development e.g. GATT and WTO
  - Information revolution: technology
  - Multi-centred: non-us firms and fall of the communist regime
- Globalisation of anti-globalisation

## External environments

- Sum of all the conditions affecting any aspect of the firm's current activities and its future development



## PEST



## environmental analysis

- The systematic assessment by internationalised firms of external environmental conditions that might affect their operations involves:
  - Country analysis: risk vs attractiveness
  - Country comparison: relative attractiveness
  - Forecasting – making future predictions
  - Impact analysis of likely effects on firm
- Used by firm to decide
  - Where to produce and where to sell products
  - Assess risks/opportunities in foreign markets
  - Understand effects of change