

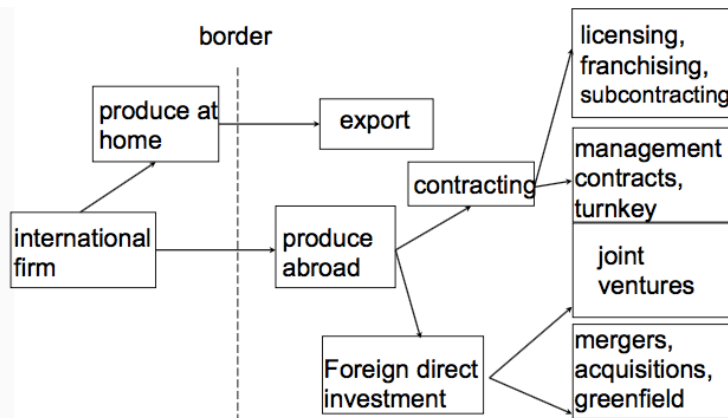
# MGMT1101 Course Review

## Globalisation

- 1. To understand the global business environment in which multinationals operate**
  - International business consists of all commercial transactions that take place between two or more countries
  - Transaction: trade of values between two parties (buyer and seller)
  - 'as the world shifts towards a truly integrated global economy, more firms, both large and small, are becoming international businesses
  - managers need to understand the contexts within which they operate in order to evaluate opportunities and risks, to make decisions and to take action
  - operating in unfamiliar environments – western vs non-western, religious vs non-religious, democracy vs authorization
- 2. Drivers of globalisation**
  - Increasing rates of cross border transactions leading to great interdependence of countries, industries and companies
  - Drivers: declining trade barriers, information revolution, multi cnatered
- 3. To understand the role of environmental analysis**
  - 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 firms
  - Used by firm to decide
    - Where to produce and where to sell products
    - Assess risks/opportunities in foreign markets
    - Understand effects of change

## The MNEs

- 1. To define the multinational enterprise (MNE)**
  - Is any business that has productive activities in two or more countries or any firm that engages in international trade and investment
  - The role of MNE: provides standards products worldwide, facilitates the convergence of consumer taste, main actor of global production,
- 2. To gain an overview of the processes of internalization**
  - “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 on their future
  - evolutionary process over time as firms expand their geographical reach and mindsets
- 3. To identify the range of modes of operation used in firm internalisation**
  - Firms often use multiple modes simultaneously, choice of which mode depends on the firm and market characteristics
  - Inward (servicing domestic customers through transactions with foreign firms) vs. outward (servicing customers in foreign markets)

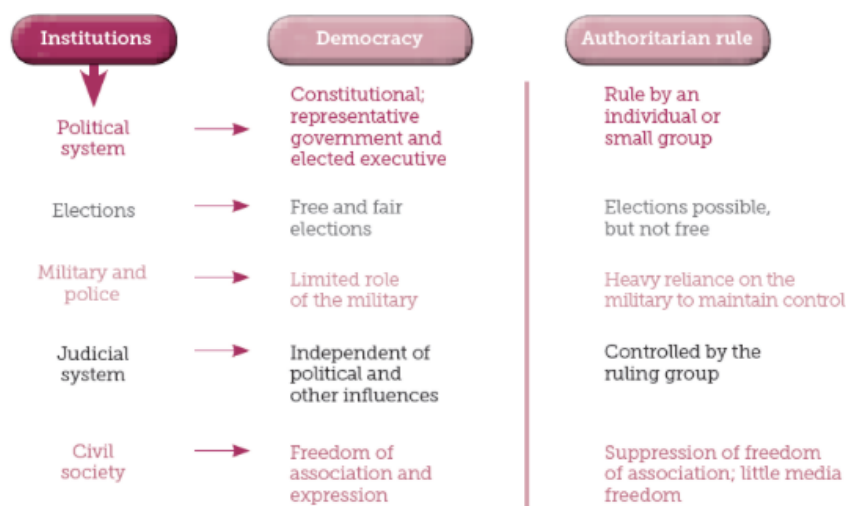


- Exporting firms: produces goods/services at home and sells to a customer in a foreign market, will often appoint another firm in foreign country as its representative
- Contracting
  - Licensing: legal right enabling firms to use another firms intellectual (intangible) property in exchange for a fee e.g. trademark, patents and inventions
  - Franchising: form of licence requiring franchisee to work under supervision
  - Subcontracting/contract manufacturing: part/all of product produced by foreign contractee
  - Turnkey projects: a firm design, builds and equips facilities, then transfers them to the foreign owner on competition
- Foreign direct investment: involves the ownership and control (to a degree) or foreign firms, joint venture, or going it alone

## Political and Legal Environment

### 1. To appreciate the characteristics of states and their impact on international business

- Sovereignty: ultimate authority of state, backed by monopoly use of coercive force
  - a) over citizens/firms within its defined territory
  - b) in relation to other countries
- Bestows power to control and restrict commercial activities within own borders – circumscribed by rule of law in many countries



## 2. To compare national political and legal systems and understand how they interact with business

- How national political systems differ

	Why does it matter?
1. source of authority	rule of law provides MNEs with certainty
2. Dominant ideologies	may be pro/anti- business
3. Democratic rights/freedom	lack of political freedoms can also restrict company actions; oppression can lead to instability
4. interest aggregation	MNEs will be affected by dominant interests
5. unitary vs. federal systems	how many governments do the MNEs need to deal with?
6. policymaking, implementation	MNEs need to know how policies are made and by whom
7. government system	MNEs need to know where power lies (e.g. executive or legislature)
8. corruption	the social and professional norms
9. Degree of political risk	assessments and active responses

- Types of legal systems

	Civil Law	Common Law
Ownership of intellectual property	Determined by registration	Determined by prior use
Enforcing agreement	Enforceable only if properly registered	Proof of agreement is sufficient for enforcing contracts
Specificity of contracts	Brief as many potential problems are covered in the civil code	Very detailed will all possible contingencies spelled out. More costly to draft
Compliance with contracts	Non-compliance extended to include unforeseeable human acts such labour strikes and riots	The only justifiable excuses for non-compliance is Acts of God (floods, hurricanes, etc.)

- Extraterritoriality: the application of a country laws beyond it borders i.e. government apply their laws to their domestic companies' foreign operations

## 3. To understand the dimensions of political risk in business decision making and identify MNE political strategies

- Sources of political risks:

Domestic	International
<ul style="list-style-type: none"> <li>* Stability of government</li> <li>* Socio-economic conditions</li> <li>* Investment certainties</li> <li>* Contract enforcement</li> <li>* Internal conflict</li> <li>* Corruption</li> <li>* Ethnic tensions</li> <li>* Military and religious group</li> <li>* Quality of governance</li> <li>* Ownership risk: gov. changes ownership of the business</li> <li>* Operational risk: gov. constrains business operation</li> </ul>	<ul style="list-style-type: none"> <li>* Wars (hot and cold)</li> <li>* Sanctions</li> <li>* International terrorism</li> <li>* Negative media; international protests</li> <li>* Withdrawal of international loans/aid</li> <li>* Changes in borrowing/trade terms</li> <li>* Default on debt repayments</li> </ul>

- Strategies: lobbying and personal communication of information to public officials, model of entry, exit as a threat

**4. To understand the legal implications of the MNE's operation in multiple jurisdictions and identify common legal risks and disputes faced by MNE's**

- Contractual risks in overseas markets i.e. risk of contract being broken/nullified
- Risks of liability for injuries, defective products or environmental damage and subsequent litigation
- Violation of property rights, including intellectual property
- Risks of corruption in the legal system