

International Management

Topic List

- **International Management: Globalisation and Worldwide Developments**
- **Assessing Environments and Managing Political Risk**
- **Managing External Stakeholders and Global Interdependence (Social Responsibility and Ethics)**
- **The Cultural Context of International Management**
- **Organisational Cultures and Diversity**
- **Leadership across Cultures**
- **Motivation across Cultures**
- **International Strategy and Structure**
- **Managing International Alliances**
- **Global Workforce Management**

International Management: Globalisation and Worldwide Developments

International Management is the process of:

- Applying management concepts and practices in a multinational environment
- Adapting management practices to different political, economic and cultural environments around the world
- Planning, organizing, leading and controlling in a cross-cultural environment to ensure sustained competitive advantage

Globalism and Globalisation

- *Globalism*: Global competition that binds countries, institutions and people in an interdependent global economy
- *Globalisation*: A process of 'PESTLE' integration among the people, companies and governments of different nations

International Business

Factors explaining growth of International Business

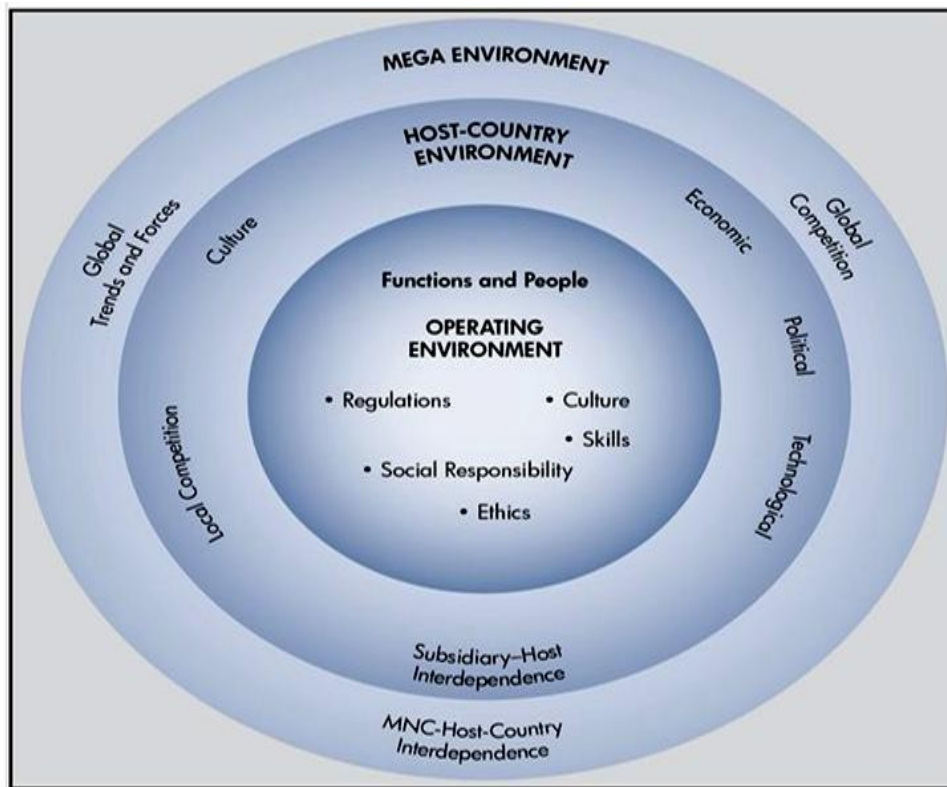
- Country factors:
 - Changes in government trade and investment policies
 - Developments in infrastructure e.g. transportation, technology
 - Acquiring resources e.g. raw materials, labour, technology
- Firm factors:
 - Economies of scale (reduction in unit production costs)
 - Desire for greater profits
 - OLI advantages
 - New competitors in the home market
 - Products/customers becoming global

Challenges to managing in a Global context

- Managers need skills to:
 - Design and implement global strategies
 - Conduct cross-cultural interactions effectively
 - Manage daily operations in foreign subsidiaries
- Global strategies can be undermined by expatriate failure
 - Ineffective management of cross-cultural relations

Assessing Environments and Managing Political Risk

The External Environment



Implications of the Political Economy differences for Managers

- The benefits of doing business in a country are a function of:
 - The market's size
 - The purchasing power of its consumers
 - Their likely future wealth
- By identifying and investing early in potential future economic stars, firms may be able to gain first-mover advantages

First-mover advantages	Late-mover advantages (or first-mover disadvantages)
<ul style="list-style-type: none">• Proprietary, technological leadership• Pre-emption of scarce resources• Establishment of entry barriers for late entrants• Avoidance of clash with dominant firms at home• Relationships and connections with key stakeholders such as customers and governments	<ul style="list-style-type: none">• Opportunity to free ride on first-mover investments• Resolution of technological and market uncertainty• First mover's difficulty to adapt to market changes

- The risks of doing business in a country are a function of:
 - **Political Risk:** Likelihood that political forces and government policies will cause changes in a country's business environment that affects a business
 - **Economic Risk:** Likelihood that economic mismanagement will cause changes in a country's business environment that affects a business
 - **Legal Risk:** Likelihood that a trading partner will opportunistically break a contract or expropriate property rights

Players in the Political System

- Government
- Labour unions
- Environmental groups
- Religious organisations
- International organisations (WTO, IMF, UN)

The interaction between Politics and Economics

- Political systems
 - **Totalitarianism (communism):** Only one representative party exhibits total control and power
 - **Democracy:** Government is controlled by the citizens either directly or through elections
- Economic systems
 - Market economy (capitalism)
 - Market forces set price and quantity levels in all industries without government intervention
 - Supply and demand principles
 - Centrally planned economy (communism/socialism)
 - Government owns factors of production and sets price and quantity levels
- Most systems are mixed to a certain degree

Political Risk

Macro Political Risks refer to the major political decisions that are likely to affect all business conducted in the country.

Micro Political Risks refer to the government policies and actions that influence specific foreign businesses in the country e.g. industry regulation, restrictive local laws

Types of Political Risk

- Country-specific
 - Invokes a favourable/unfavourable response aimed at a particular host country
- Company-specific
 - Invokes a favourable/unfavourable response aimed at a particular company

- Transfer risk
 - Limit the transfer of capital, payments, production, people and technology in/out of the country e.g. foreign exchange controls, tariffs on imports
- Operational risk
 - Directly constrain the management and performance of local operations e.g. price controls, local sourcing requirements
- Ownership risk
 - Inhibit ownership or control of local operations e.g. expropriation, foreign ownership limitations
- Dishonesty
 - Cancelling or altering contractual agreements
- Terrorism
 - Use of force or violence against others to promote political or social views
- Intellectual property rights
 - Loss of technology or other intellectual property e.g. patents, trademarks

Managing Political Risk

- Relative bargaining power
 - MNC works to maintain a stronger bargaining power position than that of the host country's
 - MNC holds proprietary asset that will be unavailable to the host country if the firm is forced to abide by government decisions that it finds unacceptable
- Integrative and protective & defensive techniques
 - Integrative techniques help the overseas operation to be less foreign and become a part of the host country's infrastructure
 - Developing good relations with local government
 - Behaving like a 'local' – product, R&D, workforce
 - Protective and defensive techniques discourage the host government from interfering in operations
 - Minimal local manufacturing or diversifying production among several countries e.g. Microsoft safeguarding against counterfeiting actions
 - Hiring only few local personnel with limited power and responsibility
- Proactive techniques
 - Proactive techniques help to avoid future conflicts through lobbying or campaigning which influence the political decisions prior to their impact on the firm
 - Purchasing political risk insurance
 - Building relationships with political actors, including officials in power and in opposition parties

The concept of Law

Law is a norm that prescribes the proper mode of behaviour.

- Requires that the prescribed mode be followed
- Applies coercive sanctions against illegal acts

Legal and Regulatory Environment

- Confusion and challenge of international business environment is heightened by:
 - Different laws and regulations in MNCs' global business operations
 - The impact of these laws and regulations on ability to capitalize on economies of scale and scope
- MNCs must carefully evaluate the legal framework in each prospective host market

The Legal Environment

- Types of legal systems:
 - Common law
 - Civil law
- Approaches to contract law
 - Common law
 - Details must be written in the contract to be enforced
 - Civil law
 - Assumes promises will be enforced without specifying the details
e.g. in Asia the contract may be in the relationship, not on the paper