Lecture Notes

Week 1: *Introduction to transnational management*

- **Internationalization**: Process of a business crossing national and cultural borders.
- **Globalization:** Process of social, political, economic, cultural, and technological integration among countries around the world. The idea of one global marketplace: no barriers to consumption, movement of capital and people. We are witnessing globalization of production and globalization of markets/consumption.

What's driving Globalization?

- **Technology and Innovation.**
- **Improvements in Information Technology.**
- **Opening up of new economies.**
- **Reduction in tariffs.**
- **Offshoring:** Companies undertake some activities at offshore locations instead of in their home countries
- **Outsourcing:** Subcontracting or contracting out of activities that had previously been performed by the firm to external organizations

Benefits of Globalization:

- Wealth
- Better jobs
- Access to technology
- Lower Prices due to increased competition
- Availability of goods

Criticisms of Globalization:

- The biggest problem for developed countries is that **jobs are lost** and transferred to lower cost countries.
- Large multi-national corporations can exploit **tax** havens in other countries to avoid paying taxes.
- Multinational corporations are accused **of social injustice, unfair working conditions,** as well as lack of concern for environment, mismanagement of natural resources, and ecological damage.
- Multinational corporations, which were previously restricted to commercial activities, are increasingly influencing political decisions. Many think there is a threat of corporations ruling the world because they are **gaining power**, due to globalization.
- Building products overseas in countries puts **technologies** at risk of being **copied or stolen**, which is in fact happening rapidly

Why the emergence of MNE?

- **Foreign Direct Investment (FDI)** is considered much riskier than trade as differences in culture, politics etc are more visible when operations are established in a new market.
- **Marketing Seeking** Behavior = Firms wanting to enter a **market** to be closer to their customers. Focus on selling in the market. (market size, openness, potential etc.)
- **Resource Seeking** Behavior = Firms enter a market to seek **resources** that are not available in their home market.
- **Efficiency seeking** Behavior = Firm enter a market to reduce manufacture or service **costs** that are not available in their market. (Labor cost, operating cost)
- **Asset seeking** =Firms enter a market to acquire advanced technologies or managerial expertise.

Week 2: *Economic, political,legal and technological considerations in international management*

What are the different Global Economic Systems?

1) Market Economy:
    - General balance between **supply** and **demand** sustains prices
    - Management is effective
    - **Private ownership** provides local evaluation and understanding
    - **Least restrictive** form of economy

- **Competition** is encouraged. Helps promote innovation, economic growth, high quality, and efficiency
- Monopolies or restrictive business practices may be **prohibited** to maintain the integrity of the economy

2) Command Economy:
    - **Government** holds explicit **control** over the price and supply of a good or service
    - Businesses are owned by the **state**
    - Ensures that investments and other business practices are done in the **best interest of the nation**
    - Management ignores demographic information
    - Creates an environment where **little motivation** exists: no interests in improving customer service or introduce **innovative** ideas.

3) Mixed Economy:
    - **Combination** of market and command economy
    - Helps raise the standard of living
    - Aided by regulations concerning minimum wage standards, social security, environmental protection, and the advancement of civil rights
    - Ownership of organizations that are critical to the nation may be transferred to the state
    - **Subsidizes** costs and allows the firms to flourish

Economic Analysis in International Business: <u>Evaluating *demand* conditions</u>

Determine Market potential:

- Size of demand – Population, Total GDP, GDP per capita
- Nature and Growth of demand (Growth in GDP per capita, Inflation)
- Composition of demand (income distribution, consumption patterns)

The quantity and quality of demand are especially critical for **market-seeking** investments.

Economic Analysis in International Business<u>: Evaluating *factor* conditions</u>

Inputs to the production process:

- Human capital (Education, Labour unit costs)
- Physical resources (Raw materials, Geography)
- Knowledge (Specialisation)
- Capital availability and cost (Tax, Interest rates)
- Infrastructure (Both physical and communication)

Factor conditions are especially critical for the **production** of goods.

<u>GINI Coefficient</u>: Disparity between the highest and the lowest income groups is high if the coefficient is high. This is important for firs to set their prices because they must make their products affordable for most of the population.

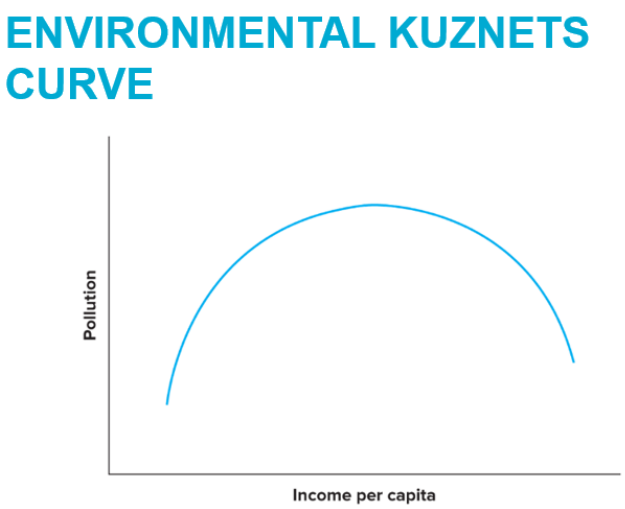
<u>Political Environment</u>

- Ideology underlies the actions of government: individualism or collectivism
- Political system: Democracy vs. Totalitarianism
- Some important indicators of political environment

Individualism:

- People should be **free** to pursue economic and political endeavors without constraint
- Similar to capitalism and connected to **free-market** society
- **Private property** is more successful, productive, and progressive than communal property
- Encourages betterment of society, which is related to level of freedom individuals have to pursue economic goals

Environmental Kuznets Curve (EKC)



Reasons behind the inverted U-shape of the EKC:

1. Composition of production and/or consumption.
2. Preference for environmental quality.
3. Institutions that are needed to internalize externalities.
4. Increasing returns to scale associated with pollution abatement.

Environmental Protection and Development

- United Nations Climate Change Conference, 2015 (184 countries).
- Tried to achieve an international consensus on environmental reform.
- Adopted the Paris Agreement. This is what you should look at in terms of commitment made by countries to reduce carbon emission for the PESTLE analysis.

How to reconcile ethical differences across cultures?

using Integrative Social Contracts Theory (ISCT)

- Attempts to navigate a moral position that does not force decision makers to engage exclusively in relativism versus absolutism
- Offers one framework to help reconcile fundamental contradictions in international business ethics between home and host countries

Sustaining Sustainable Companies

- Shift in focus from traditional market-responsive strategies to broader approaches.
- Help incorporate business and social or environmental goals.
- Triple bottom line approach (the three Ps: People Planet and Profit).
- Simultaneously considers social, environmental, and economic sustainability.
- Could help harness business and managerial skills to impact human and environmental conditions.

Business Practice Misconduct:

- Corruption
- Bias
- Racism

Sustainability

Non-Governmental Organizations

- Private, not-for-profit organizations
- Seek to serve society's interests by focusing on social, political, and economic issues
- Activism has helped generate substantial changes in corporate management, strategy, and governance
- Regarded as counterweights to business and global capitalism
- Collaborate with MNEs on social and environmental projects
- Contribute to the well-being of the community and to the reputation of the MNC

Week 4: *Organizational cultures and diversity*

What is Organizational Culture?

Shared values and beliefs that enable members to understand their roles and the norms of the organization, including

> Observed **behavioral regularities**, as typified by common language, terminology, and rituals.

> **Norms**, as reflected by things such as the amount of work to be done and the degree of cooperation between management and employees.

> **Dominant values** that the organization advocates and expects participants to share, such as **high product and service quality**, low absenteeism, and high efficiency.

The Nature of Organizational Culture

> A philosophy that is set forth in the MNC's beliefs regarding how **employees and customers** should be treated.

> Rules that dictate the **do's and don'ts** of employee behavior relating to areas such as productivity, customer relations, and intergroup cooperation.

> Organizational climate, or the overall **atmosphere** of the enterprise as reflected by the way that **participants interact** with each other, conduct themselves with customers, and feel about the way they are **treated** by higher-level management

Types of culture in multinational companies

- **Determining Organizational Culture**
  -General relationship between the **employees** and their **organization**
  -Hierarchical system of authority that defines the roles of managers and subordinates