Global Business Environment

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- When management decides that own export is too demanding, they might appoint a sales agent in a foreign market.
  - As such, they implicitly give up some control of their international expansion aspirations, relying on this agent to undertake all of the firm's international marketing activities in the foreign market.
  - This is viewed as a managerial innovation and if continued, might foreshadow progressive and gradual foreign market expansion with deepening involvement of independent agents overseas.

'BORN GLOBAL' FIRMS

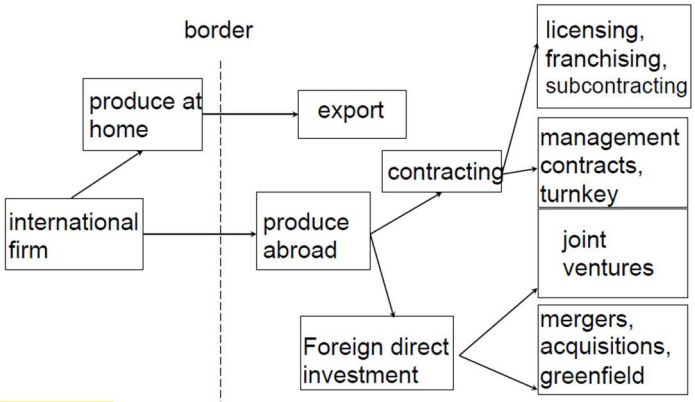
- **Born Global** refers to a firm that internationalises into global markets soon after it is formed.

2.2. To identify various operation modes in internationalisation

Modes of operation 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. internal/external conditions).
- Inward (servicing domestic customers through transactions with foreign firms) vs outward (servicing customers in foreign markets).

Operation modes (outward)



Exporting

- Exporting firm produces at home and sells to a customer in a foreign market.
- Exporting firm will often appoint another firm in foreign country as its representative (i.e. agent, distributor).
- Exporting is a favoured mode for small and medium-sized enterprises (SMEs) and firms in the early stages of internationalisation.
- For the nation, export represents additional jobs and a positive trade balance, as well as many other benefits based on the **multiplier effect**.
  - **Multiplier effect** occurs when an increase in spending causes an increase in income and consumption that is greater than the initial injection of funds.
- **Indirect exporting** is exporting using an agent located within the home country.
- **Direct exporting** is exporting by engaging a customer/agent located overseas.

Advantages of exporting

- It avoids the substantial costs of establishing manufacturing operations in the host country.
- Exporting may help a firm achieve experience curve and location economies.
  - By manufacturing the product in a centralised location and exporting it to other national markets, the firm may realise substantial scale economies from its global sales volumes.

Disadvantages of exporting

- Exporting from the firm's home base may not be appropriate if lower-cost locations for manufacturing the production can be found abroad (that is, if the firm can realise location economies by moving production elsewhere).
- High transport costs can make exporting uneconomical, particularly for bulk products.
- Another drawback is that tariff barriers can make exporting uneconomical.

Licensing

- **Licensing agreement** is an agreement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified period and in return, the licensor receives a royalty fee from the licensee.
  - ***Licensing***: Legal right enabling firms to use another firm's intellectual (intangible) property in exchange for a fee.
    - Trademark, Patents and inventions, Copyrights

Advantages of Licensing

- The firm does not have to bear the development costs and risks associated with opening a foreign market.
- Licensing can be attractive when a firm is unwilling to commit substantial financial resources to an unfamiliar or politically volatile foreign market.
- Licensing is frequently used when a firm possesses some intangible property that might have business applications, but it does not want to develop those applications itself.

Disadvantages of Licensing

- It does not give a firm the tight control over manufacturing, marketing and strategy that is required for realising experience curve and location economies.
- Competing in a global market may require a firm to coordinate strategic moves across countries by using profits earned in one country to support competitive attacks in another and by its very nature, licensing limits a firm's ability to do this (i.e. licensee does not allow MNE to use its profits to support a different licensee).
- There is a risk associated with licensing technological know-how to foreign companies.
  - One way to reduce this risk is entering into a cross-licensing agreement with a foreign firm.
  - **Cross-licensing agreement** is an agreement in which a company licenses valuable intangible property to a foreign partner and receives a licence for the partner's valuable knowledge.

Franchising

- **Franchising** is a specialised form of licensing in which the franchiser not only sells intangible property (normally a trademark) to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business.
  - Form of licence requiring franchisee to work under supervision/control of franchisor.
    - E.g. McDonald's, Hotels → Strict quality control

Advantages of Franchising

- The firm is relieved of many of the costs and risks of opening a foreign market on its own. Instead, the franchisee typically assumes those costs and risks.

Disadvantages of Franchising

- *Quality control* – the foundation of franchising arrangements is that the firm's brand name conveys a message to consumers about the quality of the firm's product.

Other forms of contracting

- **Subcontracting/contract manufacturing**: part/all of product produced by foreign contractee.
- **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

- **Turnkey project** is a project in which a firm agrees to set up an operating plant for a foreign client and hand over the 'key' when the plant is fully operational.
  - 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).
  - Examples of turnkey project: oil exploration and refining sector.

Advantages of Turnkey

- Turnkey projects are a way of earning great economic returns from the asset of the 'know-how' required to assemble and run a technologically complex process.
  - This strategy is particularly useful where FDI is limited by host-government regulations.
- A turnkey strategy can also be less risky than conventional FDI since a longer-term investment might expose the firm to unacceptable political or economic risks.

Disadvantages of Turnkey

- The firm that enters into a turnkey deal will have no long-term interest in the foreign country.
- The firm that enters into a turnkey project with a foreign enterprise may inadvertently create a competitor.
- If the firm's process technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential or actual competitors.

Foreign Direct Investment

- 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 (***greenfield***).

Joint Ventures

- **Joint venture** involves establishing a firm that is jointly owned by two or more otherwise independent firms.

Advantages of joint ventures

- Firm benefits from a local partner's knowledge of the host country's competitive conditions, culture, language, and political and business systems.
- When the development costs or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner.
- In many countries, political considerations make joint ventures the only feasible entry mode.

Disadvantages of joint ventures

- A firm that enters into a joint venture risks giving control of its technology to its partner.
- A joint venture does not give a firm the tight control over its subsidiaries that it might need to realise experience curve or location economies.
- The shared ownership arrangement can lead to conflicts and battles for control between the investing firms if their goals and objectives change, or if they take different views as to what the strategy should be.
  - These conflicts tend to be greater when the venture is between firms of different nations.

Some features of culture

- **Human nature**
  - How people see themselves and others
  - Change and improvement → Training and development
- **Relationship with environment**
  - Nature → People or People → Nature
- **Relationship with people**
- **Achievement orientation**
- **Spatial orientation**
- **Temporal orientation**

4.2. How to compare different cultures?

Comparing cultures

- Scholars have classified countries according to specific cultural characteristics e.g. attitudes to risk-taking (e.g. Hofstede, Trompenaars)
- Country rankings can then be compared for similarities and differences
- Identification of country 'clusters': countries that share similar cultural attributes
- However, such approaches have also been criticised

Hall and Hall's cultural context

- **Low-context culture** is a culture in which the speaker's message is conveyed explicitly by the spoken words.
- **High-context culture** is a culture in which the context of a discussion is important as the actual words spoken.
- Australians, Americans and New Zealanders (low-context cultural background) tend to focus more on completing tasks than on maintaining relationships, whereas people from high-context cultures (such as Japanese, Chinese and Koreans) focus on forging and maintaining good relationships to facilitate the completion of tasks.

Hofstede's value dimensions

- **Power distance** is the extent to how much a society allows inequalities of physical and intellectual capabilities between people to grow into inequalities of power and wealth.
- **Individualism versus collectivism** is the extent to which a society teaches individuals either to prize personal achievement or conversely to look after the interests of their collective first and foremost.
- **Uncertainty avoidance** is the extent to which cultures socialise members to accept ambiguous situations and to tolerate uncertainty.
- **Masculinity versus femininity** is the extent to which a society differentiates and emphasises traditional gender and work roles in which a masculine characterisation means there is more differentiation whereas a feminine level means there is less.
- **Long-term orientation** is the extent to which a society adheres to values about time, persistence, ordering by status, protection of face, respect for tradition and reciprocation of gifts.
- **Indulgence versus restraint** is where indulgence is the human need to enjoy life and have fun while restraint is the need to control indulgence via social norms.

Value dimension	Relevance to business context
Power distance (Distribution of Power)	Relations between superiors/ subordinates
Uncertainty avoidance (Tolerance for Ambiguity)	Propensity for risk
Individualism vs collectivism (Integration into groups)	Individual's identification with organisation/group dynamics
Masculinity vs femininity (Achievement etc. vs. caring.)	Degree of conflict, stress and competition
Long vs short-term orientation	Time horizon for decision making – Future v. past and present

Power distance in the workplace

Small power distance	Large power distance
• **Inequalities should be minimized** • Hierarchy = inequality of roles • Decentralization • Narrow salary range • Fewer supervisory personnel • Subordinates expect to be consulted • **Ideal boss = "resourceful democrat"** • Subordinate-superiors relations are pragmatic. • Manual work has the same status as office work.	• **Inequalities expected and desire** • Hierarchy = existential inequality between lower and higher levels • Centralization • Wide salary range • More supervisory personnel • Subordinates expected to be told what to do • **Ideal boss = "good father"** • Subordinate-superior relations are emotional. • White-collar jobs are valued more than blue-collar jobs.

Collectivist v individualist in the workplace

Collectivist	Individualist
• **Education = Learning how to do** • **Occupational mobility lower** • Diplomas provide entry to higher status groups • Employees are members of ingroups who will pursue their ingroups interest. • **Hiring and promotion decisions take an employee's in-group into account.** • The employer-employee relationships are basically moral, like a family link. • **Management is management of groups.** • **Relationship prevails over task.**	• **Education = learning how to learn** • **Occupational mobility higher** • Diplomas increase economic worth and/or self-respect. • Employees are "economic men" who will pursue the employer's interest if it coincides with their self-interest. • **Hiring and promotion decisions are supposed to be based on skills and rules only.** • The employer-employee relationship is a contract between parties on a labour market. • **Management is management of individuals.** • **Task prevails over relationship.**

Uncertainty avoidance in the workplace

Weak uncertainty avoidance	Strong uncertainty avoidance
• **More job changes and shorter tenure** • No more rules than strictly necessary • Hard-working only when needed • Time is a framework for orientation • Tolerance for ambiguity and chaos • Belief in generalists and common sense • Top managers are concerned with strategy. • **Fewer self-employed people** • **Better at invention, worse at implementation** • **Motivation by achievement**	• **Fewer job changes and longer tenure** • Emotional need for rules, even if these will not work • Emotional need to be busy and an inner urge to work hard • Time is money. • Need for precision and formalization • Belief in experts and technical solutions • Top managers are concerned with daily operations. • **More self-employed people** • **Motivation by security**

Feminine v masculine societies in the workplace

Feminine	Masculine
• Management: intuition & consensus • Conflict resolution by compromise and negotiation • Rewards based on equality • People work to live. • Preference for smaller organizations • More leisure time is preferred over more money.	• Management: Decisive and aggressive • Conflict resolution by letting the strongest win • Rewards based on equity • People live to work • Preference for larger organizations • More money is preferred over more leisure time.

9. The New Wild West: Doing Business in Transitional Markets

9.1. To appreciate what transition economies are

Transition Economies

- **Transition economies** are economies which are moving from command to market economies.
- **Economic system** is a system of arrangements and institutions by which the decisions are made on basic economic questions of what, how and for whom to produce.
- Examples of countries with transition economies:
  - Eastern Europe & Central Europe, Baltic states
  - Former Soviet Union: e.g. Russia, Ukraine
  - Asia: e.g. China, Vietnam, Mongolia
- To be distinguished from **emerging economies**.

Economic systems

- **Market economy** is an economic system in which the interaction of individual decision makers on questions of supply and demand determines which goods and services will be produced and in what quantities.
- **Command economy** is an economic system where the allocation of resources, including determination of what goods and services should be produced, and in what quantity, is planned by the government.
- **Mixed economy** is an economic system where certain sectors are left to private ownership and free market mechanisms, while other sectors have significant government ownership and government planning.

Market Economies	**Command Economies**
Private property rights	State ownership of resources
Freedom of enterprise within the framework of government regulations	State allocation of resources through 5-year plans
Resources allocated through market forces (supply and demand)	Resources allocated through central planning
Consumer preferences, buyer orientation	Political preferences, production orientation constant shortages
Profit motive for firms	Firms seek to fulfil quotas, not profit
Incentive for individual entrepreneurship	Lack of individual incentives
Open and globalising economy	Closed economy

- Economic freedom index:
  1. **Rule of law**
  2. **Limited government**
  3. **Regulatory efficiency**
  4. **Open markets**

Economic systems and economic development

Innovation and entrepreneurship

- There is wide agreement that innovation and entrepreneurial activity are the engines of long-run economic growth.
- **Innovation** is the development of new products, processes, organisations, management practices and strategies.
- **Entrepreneurs** are those who first commercialise innovations.

Innovation, entrepreneurship and the market economy

- What is required for the business environment of a country to be conducive to innovation and entrepreneurial activity? Market economies contain enormous incentives to develop innovations.
- **Privatisation** refers to the process of selling state-owned enterprises to private investors.