MGMT1101 Notes

Week 1 Globalisation

1. Introduction to International Business

- International business: business activists that take place between 2+ countries.
- Transaction: trade of values between two parties (buyer and seller). Can exchange goods, services, technology, capital, ideas and IP.
- Outsourcing: one company hires another company to be responsible for an internal activity.
- Offshoring: relocate business process (manufacturing or supporting ie. accounting) from one country to another.

2. Significance of Borders & Boundaries

supreme power/authority

a. *State* – denote sovereignty (freedom of a nation from external control over domestic matters)
b. *Cultural* – nation state is an independent country, especially when thought of as consisting of a single large group of people all sharing the same language, traditions and history.
c. *Economic*
d. '*Mind & habits*' – borders are psychological, social and physical

3. Why is international business different?

- ✓ Potential benefits of global market
- ✓ Distance and cost of doing business
- ✓ Operating in unfamiliar environment:
  - Religious vs non-religious (McDonald's in India)
  - Democracy vs authoritarian (Google in China)
  - Different currencies
  - Lack of "world government": no final arbitrator to set rules, resolve disputes, enforce agreement

independent person/body appointed to settle a dispute

4. MNE (multinational enterprise)

trend:
- rise of non-US multinationals
- growth of mini-multinationals (small - med sized MNEs)

MNE: Any business that has productive activities in 2 or more countries OR a firm that engages in international trade and investment. Measured using UN Transnationality Index to rank MNE by total assets, sales, employment.

"Multinationals are 'rootless cosmopolitans'" – Martin Wolf in Why Globalisation Works

someone who feels comfortable anywhere in the world

Role of MNE:

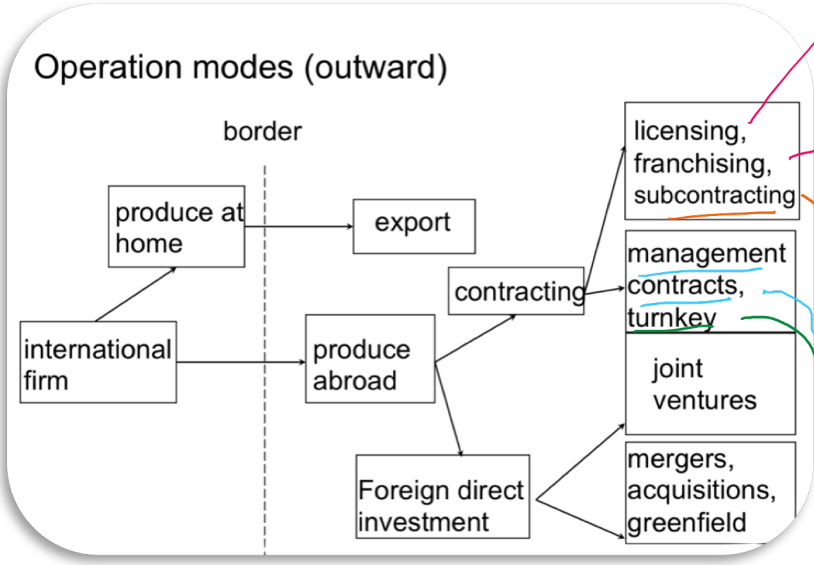
i. Provides standard product worldwide
ii. Facilitates convergence of consumer taste
iii. Facilitates global trade of intermediate and finished goods
iv. Influence local players (suppliers, distributors, employees) with global standards

5. Firm internationalisation

Process where firm conducts transactions with firms in other countries and international operations have an increasing influence on their future.

6. Modes of operation for internationalised firms

1) Inward: servicing domestic customers through transactions with foreign firms
2) Outward: servicing customers in foreign markets



licensing: legal right enabling firms to use another firm's IP in exchange for a fee. Eg trademark, patent, copyrights.

franchising: form of licence that a party (franchisee) acquires to allow them to have access to a business's (franchiser) knowledge, process, trademark so party can sell product under business's name.

part/all product produced by foreign contractee

operate firm in foreign country for agreed fee for fixed period of time.

firm agrees to set up operating plant for foreign client and hand over the 'key' when plant is fully operational.

7. Exporting

Exporting firm produces at home and sells to customer in foreign market.

- Indirect exporting (use agent located within home country)

8. Foreign Direct Investment (FDI)

- FDI: when firm invests resources in business activities outside home country, giving it control over those activities.
  - FDI flow: amount of FDI undertaken over a given time
  - Greenfield: building operations from scratch in a different country
    - More controls; employee, fabrication, specifications
- Joint venture: 2 or more firm agree to cooperate to set up new jointly owned firm in foreign market.
- Acquisition: buy assets (factory, brand name) that are producing known revenue

↳ fails when ① Acquiring firms overpay
② Culture clashes (pay managers high $)
③ Long time to integrate