

IBUS2101

INTERNATIONAL

BUSINESS STRATEGY

SEMESTER 1, 2019

Implications of Globalisation on IB

- Globalisation does not mean the advance of a homogeneous civilization and uniform business system – no such thing as an entirely global strategy
- Growing interaction makes people more aware of the differences among them
 - o Countries often try to preserve these differences
 - o Companies should respect these differences
- ‘Semi-globalisation’ is more of a reality
 - o Globalisation is between 100% isolation (no interaction) and 100% integration
 - o Good example: McDonald’s
 - o National, regional strategies around the world – different menu adaptations in different countries
 - o Think global, but act local

Global Perspective

Curiosity, Awareness of cultural differences, Flexibility, Understanding, Open-mindedness, No home country bias

INTERNATIONAL BUSINESS

What is International Business?

Business activities that involve the transfer of resources, goods, services, knowledge, skills or information across national boundaries

International vs. Domestic Business

- International business is the outgrowth of domestic business
- **International entrepreneurs:** Individuals or companies that invest and operate in another country without a home base
- Two key differences between International and Domestic Business
 1. **Environmental dynamics** (Currency, inflation, interest rates, accounting practices, cultures, social customs, laws, political stability)
 2. **Operational Nature** (Communication, coordination, motivation, differences in organisational principles and management philosophies)
 - Operational complexity is a lot higher due to global integration
 - Internet cannot replace face-to-face communication
 - People interpret financial incentives differently (HR management)
 - International Business, is thus, more complex and interesting than domestic business

WEEK 3

READINGS

The New Rules of Globalization

(Bremmer, 2014)

- Summary: Article looking at the current climate of global expansion, and how MNCs should go about international business in the modern age of ‘guarded globalisation’
- Focus on looking at the governments motives, and how to adjust business strategy accordingly
- China: Lower prices create disincentives for quality control
- Previously: Western markets were extremely competitive, going global – good for every country

- Developed or emerging economies

INDUSTRY-BASED VIEW OF STRATEGY

When we talk about Industry analysis, we are focusing on External environment.

External environment analysis: THREE LEVELS

First level: Industry level

Second level: Strategic group analysis (segmenting industry)

Third level: Competitor analysis

SWOT Analysis

- Strengths/Weaknesses – Internal assessment
- Opportunities/Threats – External assessment

Industry Competitions and the IO Model

Industry: A group of firms producing products (goods and/or services) that are similar to each other

Structure-Conduct Performance (SCP) Model

Primary contribution of the Industrial Organisation (IO) economics model

- Structure: Structural attributes of an industry
- Conduct: The firm's actions
- Performance: The result of the firm's conduct in response to industry structure

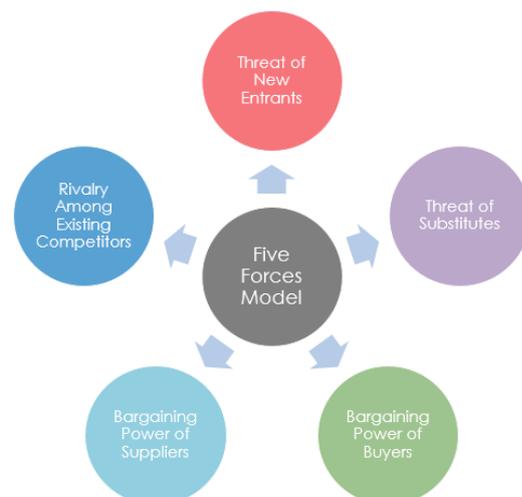
Attributes of Industry Analysis

- Industry Average Profitability
 - This varies depending on the industry
- Entry barriers
 - Financial backing – more expensive to join certain industries
 - High barriers – hard to join new industry, low barriers – easier for new companies
- Speed of change
 - Some industries are moving very fast (high intake industries)
 - Other industries evolve more slowly
 - Apple – fast, PnG – moderate

The Five Forces Framework

SCP extended, 1980 by Michael Porter

- **Apply in Consulting Project**
- Systematic model – 'User friendly'
- Key proposition:
 - The focal firm performance critically depends on the degree of competitiveness of the five forces within an industry
 - The stronger and more competitive these forces are, the less likely the focal firm is able to earn above-average return, and vice versa
- Industry based view – **not about performance of individual firms – looks at the overall industry**
- Using Five Forces
 - Can be used to evaluate what new industries to enter



WEEK 6

READINGS

Why is Property Right Protection Lacking in China? An Institutional Explanation (Li, 2004)

- McDonald's example – opposing company was able to win the case due to having a close relationship with Chinese government – demonstrates the disadvantage foreign companies have due to state capitalism

Relationship between formal and informal institutional constraints and the expropriation of property rights:

- In China, there is a complex link between formal and informal constraints
- “Informal constraints from the bedrock for formal constraints”
- “Strong informal constraints may increase the efficiency of formal constraints”
- Constraints ‘define the rules’ of the game
 - o Provide incentives for the ‘players’
- Strong formal constraints reduce uncertainty

Guanxi – important part of business activity in China

- Having weak formal institutions leads to the follow on effect of guanxi – meaning companies need to have decisions made via who they know rather than through formal constraints such as laws etc.
- In China – lack of formal constraints leads to guanxi (needing to use personal networks and connections)
- Expropriation: Seizing of foreign assets
- Guanxi is more pervasive than the use of personal relationships in Australia
 - o While similar to a degree, Chinese business relies on Guanxi – in the article “from obtaining projects and getting jobs to settling disputes” – in Australia, it is more subtle e.g. To get an interview
 - o Guanxi with local government is vital for firm operations and performance in China
- Cognition based trust – rational and instrumental in nature – more closely linked to networking

Policy and strategic options for China: to improve property right protection

- Aim: to reduce risk
- China must improve its institutional environment (both informal and formal constraints)
- Continue to implement new laws
- Develop informal constraints (culture) that supports the safeguarding and preservation of property rights
- Fundamentally amend the constitution & develop culture that respects property rights

GENERAL NOTES

FIVE FORCES: The combination of these five forces determines degree of competition and the industry average profitability. Not all industries are the same.

- Apply 5 forces to evaluate what industries to enter
 - o Help find best position within the industry
 - o This can help you go above the industry average profitability

WEEK 12

GENERAL NOTES

International entry selection

1. Where? (Location)
2. When? (International Entry Timing)
3. What? (What to Internationalise)
4. How? (Entry Mode Selection)

WHERE? (LOCATION)

Where, refers to the country and location choice for internationalisation.

There are 5 main factors to consider...

There are trade-offs between them – Some factors are more important. Need to justify choices.

1. Cost/Tax Factors

- Critical to ensure profit
- Many companies only think about labor cost in terms of salary, but forget about quality of labor (need to consider training cost)
- Financing cost – borrowing money is different across countries
- Institutional analysis helps to understand this (E.g. investment incentives)
- Profit repatriation costs (transferring profit back to home country)

2. Demand Factors

- Assuming population or GDP = customers. This is not the case.
- Population are not necessarily target customers

3. Strategic Factors

- Don't assume you have the infrastructure you need
- Consider if there are the complementary industries you need
 - Support each others
- As a late-mover, can you overcome barriers if there is industrial concentration?
- Is the labor force qualified and productive?

4. Regulatory Factors

- Be aware of policies that hinder your business (INSITUTIONAL BASED VIEW)
- Is entry even allowed?
- FDI policies – might even vary at the regional level, or even cities

5. Socio-political Factors

- All related to informal institutions
 - Political risk and instability
 - Cultural barriers
 - Attitudes toward foreign business – local governments and customers sometimes criticise FDI or foreign businesses
 - Corruption?

Micro-Context	Macro-Context
Cost/Tax Factors <ul style="list-style-type: none"> - Transport costs - Wage rate - Land availability and costs - Construction costs - Costs of raw materials and resources - Financing costs - Tax rates 	Regulatory Factors <ul style="list-style-type: none"> - Industrial policies - FDI Policies - Availability of special zones Socio-political Factors <ul style="list-style-type: none"> - Political instability - Cultural barriers - Local business practices

- Patient before you make money

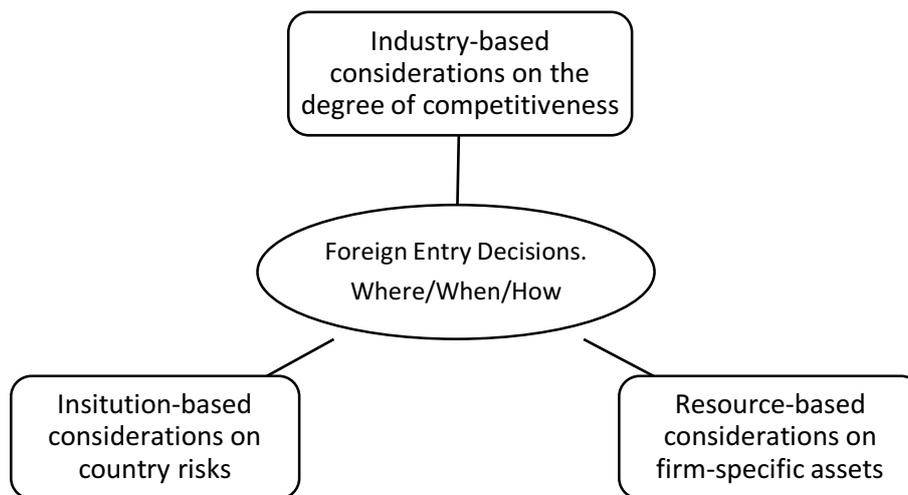
WOS MERGERS & ACQUISITIONS

- Cross-border purchase or exchange of equity involving two or more companies
- Failure rate for acquisition is 70%
- Make sure you buy the right company
- Buying the company is one thing, integration is another challenge

NOTE: TRADE-OFFS IN MODES

- Cost vs. Benefit analysis

Take a Holistic Approach to Entry Mode Strategy.



WEEK 13

GENERAL NOTES

FUNDAMENTAL QUESTION OF UNIT: What determines the International Success or Failure of Firms?

Summary

1. Globalisation and International Business
2. Strategy and Global Strategy
3. International Business Strategy

FINAL EXAM

Content:

- All lecture slides (Week 1-13) – MOST IMPORTANT
- All relevant text book chapters (posted on Canvas)
- All basic concept, theories and key issues

Does not cover:

- Two or three weekly optional readings
- Does not cover materials discussed in tutorials
- Blue Ocean strategy, Canvas food for thought, extra links etc.

FORMAT: Six questions total