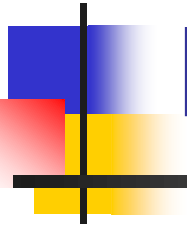


The global content of business





The Role of International Business

- To buy, sell and trade goods and services across national boundaries

Did You Know?

McDonald's serves 45 million customers a day at 29,000 restaurants in 120 countries.

Why Nations Trade

- To obtain raw materials and goods that are:
 - Otherwise unavailable
 - Available elsewhere at a lower price





Absolute Advantage

- A monopoly that exists when a country is the:
 - Only source of an item
 - Only producer of an item
 - Most efficient producer of an item
- Example: DeBeers Consolidated Mines, Ltd.
 - Virtually controls the world's diamond trade



Comparative Advantage

- A country specializes in products that it can supply more efficiently or at a lower cost than it can produce other items
- Example:
 - U.S. agricultural commodities, such as corn and wheat



Trade Between Countries

- Importing
 - The purchase of goods and services from foreign sources
- Exporting
 - The sale of goods and services to foreign markets

International Trade Barriers

- Economic
- Legal/political
- Social/cultural
- Technological





Economic Barriers

- The level of a country's economic development
 - Industrialized nations – U.S., Japan, Great Britain, Canada
 - Less-developed countries – Africa, Asia, and South America
- The level of existing infrastructure
- Currency exchange rates



Political & Legal Barriers

- Laws and regulations
- Tariffs and trade restrictions
 - Import tariffs, exchange controls, quotas, embargos, anti-dumping regulations
- Political barriers
 - Political instability, cartels



Social & Cultural Barriers

- Understanding the differences among the cultures of countries can be important to a firm
 - Spoken and written language
 - Body language and personal space
 - Family roles
 - Perception of time
 - Religious holidays and local customs

Technological Barriers

- Varying levels of technological development and infrastructure





The Global Environment

■ Pacific Rim

- important economic players include Japan and China
 - four tigers - Korea, Taiwan, Singapore, and Hong Kong
- ***Asia-Pacific Economic Cooperation (APEC)*** - trying to reduce:
 - trade barriers
 - establish general rules for investment
 - develop policies that encourage foreign investment
- holds promise in facilitating and strengthening international business relationships



The Global Environment (cont.)

■ North America

- ***North American Free Trade Agreement (NAFTA)*** - an economic pact that combined the economies of the U.S., Canada, and Mexico
 - provides access to previously protected markets in each country
 - Mexico - will have to bolster its infrastructure and take care of troubling environmental issues
 - ***Border Environment Cooperation Commission (BECC)*** - addresses environmental concerns of communities on the border

■ Rest of the world

- globalization has left out three huge, high-potential regions
 - these regions have a major share of the earth's natural resources



Consequences Of A Global Economy

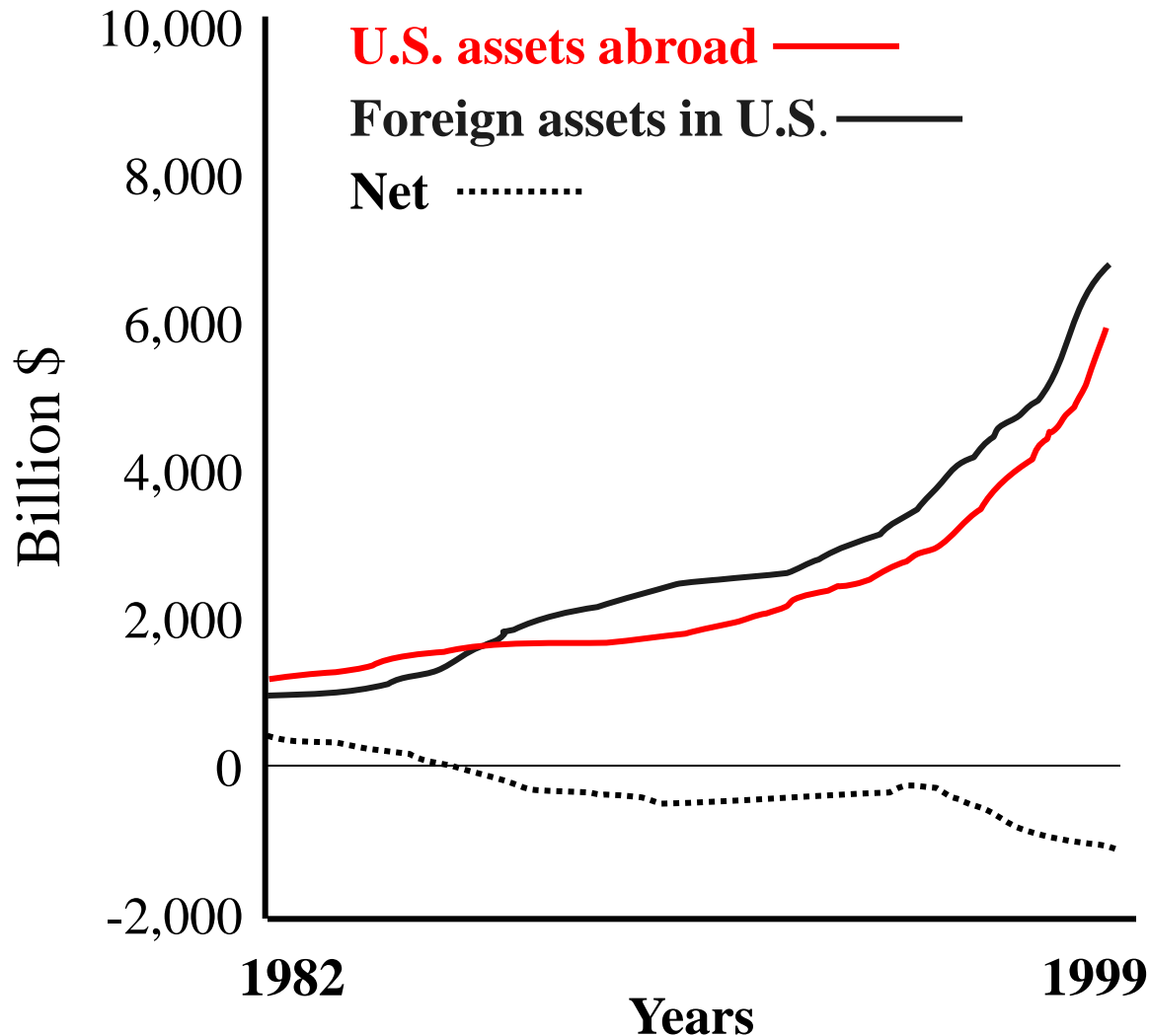
- Four consequences of the global economy
 - the volume of world trade has grown at a faster rate than the volume of world output
 - experts forecast increased competition as trade is liberalized
 - **foreign direct investment (FDI)** is increasingly important
 - major investments have been among the U.S., Europe, and Japan
 - imports are penetrating deeper in to the world's largest economies
 - result of a trend toward the manufacture of component parts
 - companies around the world find *their home markets under attack from foreign competition*



Consequences Of A Global Economy (cont.)

- Meaning of these consequences for managers
 - **opportunities are greater** - movement toward free trade has opened up many formerly protected markets
 - **the environment is more complex** - challenge of doing business in countries with different cultures
 - have to coordinate globally dispersed operations
 - **the environment is more competitive** - must deal with cost-efficient overseas competitors

International Investment Position of the U.S. At Yearend, 1982-99





The Global Environment

- Global environment
 - becoming more integrated than ever before
 - **World Trade Organization (WTO)** - rules apply to over 90 percent of international trade
 - moved from reducing tariffs to eliminating nontariff barriers
- European unification
 - **European Union (EU)** - allows goods, services, capital, and human resources to flow freely across national borders
 - goal is to strengthen Europe as an economic superpower
 - **Maastricht Treaty** - agreement to adopt a common European currency
 - impact is hard to predict

Trade Agreements, Alliances & Organizations

- GATT
- WTO
- NAFTA
- EU
- MERCOSUR
- APEC
- World Bank
- IMF





GATT and NAFTA

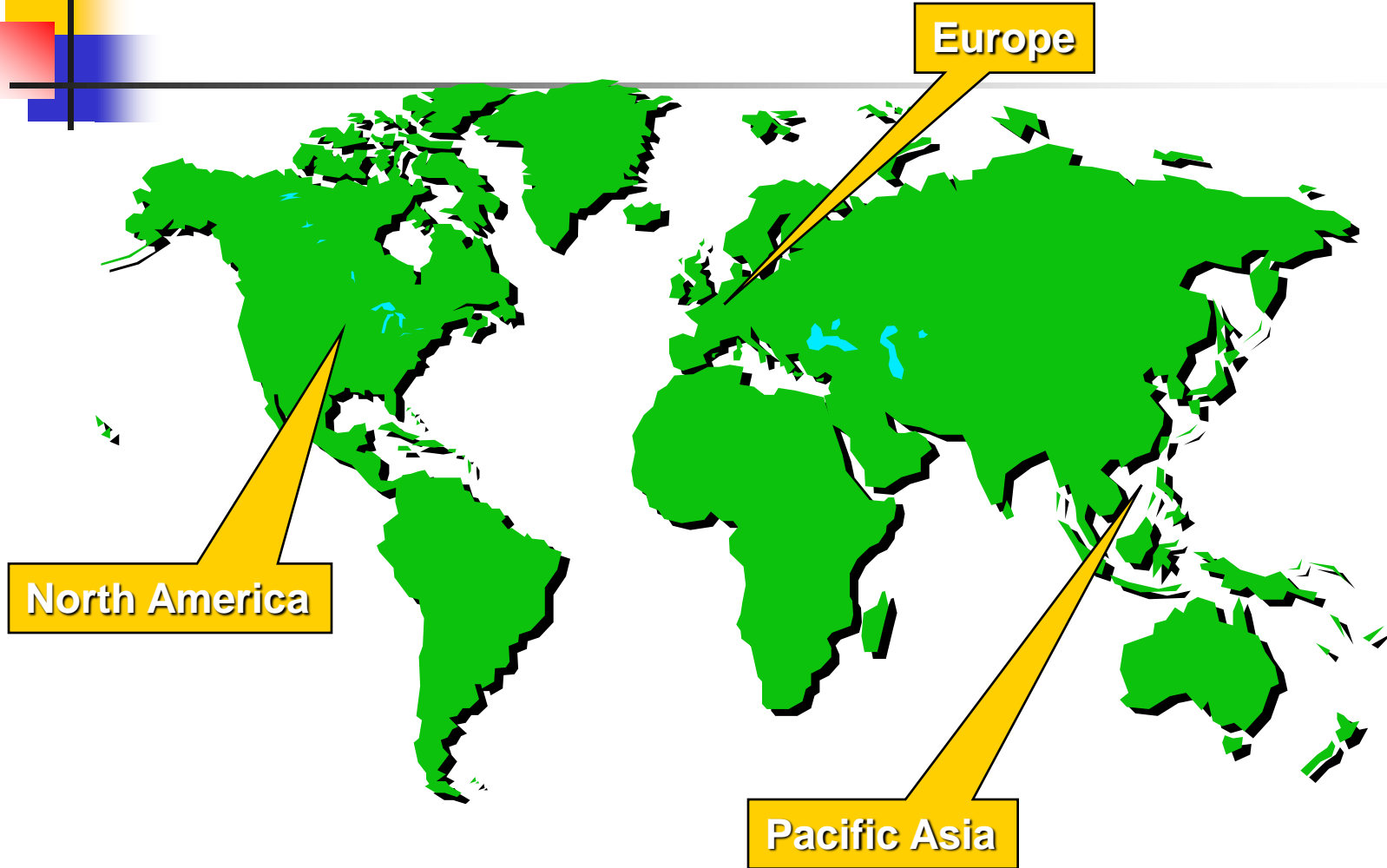
- General Agreement on Tariffs and Trade (GATT):
 - Provides a forum for tariff negotiations and discussion
- The World Trade Organization (WTO)
 - Deals with the rules of trade between nations
- North American Free Trade Agreement (NAFTA):
 - Eliminates most tariffs and trade restrictions on agricultural and manufactured products between Canada, Mexico, and U.S. (1994-2009).



Levels of Involvement in International Trade

- Import/Export
- Trading Companies
- Licensing & Franchising
- Contract Manufacturing
- Joint Ventures & Alliances
- Direct Investment
- The MNC

Major World Marketplaces





U.S. And Foreign Direct Investments (1995)

	United States investment abroad	Foreign direct Investment in U.S.
Canada	\$ 81,387	\$ 46,005
Europe	363,527	360,762
Latin America	122,765	22,716
Africa	347	936
Middle East	7,982	5,053
Asia and Pacific	125,968	124,615



Global Strategy

- Pressures for global integration
 - ***universal needs*** - consumer tastes in different countries are similar with regard to certain types of products
 - create strong pressures for a global strategy
 - ***pressures to reduce costs*** - impetus for global integration of manufacturing
 - key international competitors located where factor costs are low
 - ***global strategic coordination*** - response to global competitive threats
 - centralize decisions regarding the competitive strategies of foreign subsidiaries



Global Strategy (cont.)

- Pressures for local responsiveness
 - *consumer tastes and preferences differ significantly* among countries
 - requires customized product and/or marketing messages
 - *differences in traditional practices* among countries
 - *differences in distribution channels and sales practices* among countries
 - *economic and political demands* imposed by the host government



Organizational Models

<u>Pressures for global integration</u>	High	Global Views the world as a single market. Operations are controlled centrally from the corporate office.	Transnational Specialized facilities permit local responsiveness. Complex coordination mechanisms provide global integration.
	Low	International Uses existing capabilities to expand into foreign markets.	Multinational Several subsidiaries operating as stand-alone business units in multiple countries.
		Low	High
		<u>Pressures for local responsiveness</u>	



Global Strategy (cont.)

- Choosing a global strategy
 - ***international model*** - helps companies exploit their existing core capabilities to expand into foreign markets
 - ultimate control exercised by the parent company
 - core functions are centralized in the parent company
 - ***advantage*** - facilitates the transfer of skills and know-how from the parent company to the subsidiaries
 - ***disadvantages*** - offers little latitude for responding to local conditions
 - does not provide the opportunity to achieve a low-cost position by means of scale economies



Global Strategy (cont.)

- Choosing a global strategy (cont.)
 - ***multinational model*** - uses subsidiaries with substantial discretion to respond to local conditions
 - each subsidiary is a self-contained unit
 - each subsidiary can customize its products and strategies
 - ***advantage*** - less need for coordination and direction from corporate headquarters
 - ***disadvantages***
 - higher manufacturing costs
 - duplication of effort
 - cannot realize scale economies
 - difficult to launch coordinated global attacks against competitors



Global Strategy (cont.)

- Choosing a global strategy (cont.)
 - **global model** - enables a company to market a standardized product in the global marketplace
 - product manufactured in locations where mix of costs and skills is most favorable
 - companies tend to become the low-cost players in any industry
 - **advantage** - often able to realize scale economies
 - **disadvantages**
 - less responsive to consumer demands in different countries
 - requires increased coordination, paperwork, and staff



Global Strategy (cont.)

- Choosing a global strategy (cont.)
 - ***transnational model*** - functions are centralized, either at headquarters or in subsidiary locations
 - major components may be manufactured in centralized production plants to realize scale economies and then shipped to local plants
 - local plants finish product assembly to fit local needs
 - ***advantage*** - fosters communications among subsidiaries
 - ***disadvantages***
 - requires elaborate formal mechanisms to achieve appropriate communications
 - requires transfers of managers among subsidiaries
 - headquarters must play a proactive role in coordinating activities



Entry Mode

- Exporting

- most manufacturing companies begin global expansion as exporters

- ***advantages***

- realize scale economies
- consistent with a pure global strategy

- ***disadvantages***

- manufacturing costs in home country may exceed those in lower-cost locations
- high transportation costs
- threat of tariff barriers



Entry Mode (cont.)

■ Licensing

- foreign licensee buys rights to manufacture a company's product in its own country for a negotiated fee
 - licensee provides most of the capital to start the overseas operation
- ***advantage*** - avoid the costs and risks of opening an overseas market
- ***disadvantage*** - may lose control of technological expertise to the overseas company



Entry Mode (cont.)

■ Franchising

- similar to licensing
- used primarily by service companies
- company sells limited rights to use its brand name
 - receives a lump-sum payment and share of the franchisee's profits
- franchisee must abide by strict business rules established by franchisor
- ***advantage*** - entry mode is similar to licensing
- ***disadvantage*** - quality control may suffer



Entry Mode (cont.)

- Joint ventures
 - formal business agreement with a foreign company
 - ***advantages***
 - local partner's knowledge of local business conditions
 - sharing of development costs and risks
 - local laws may make this the only feasible entry mode
 - ***disadvantages***
 - loss of control over technology
 - shared ownership means potential loss of control over subsidiaries



Entry Mode (cont.)

- Wholly owned subsidiaries
 - an independent company owned by the parent corporation
 - ***advantages***
 - maintain control of technology when competitive advantage is based on technology
 - retain tight control over foreign operations
 - ***disadvantages***
 - most costly entry mode
 - must bear the entire risk of establishing a foreign operation

Comparison Of Entry Modes

Advantages

Exporting	Licensing	Franchising	Joint Venture	Wholly owned subsidiary
Scale Economies	Lower development costs	Lower development costs	Local knowledge	Maintains control over technology
Consistent With pure Global strategy	Lower political risk	Lower political risk	Shared costs and risks	Maintains control over operations
			May be the only option	

Disadvantages

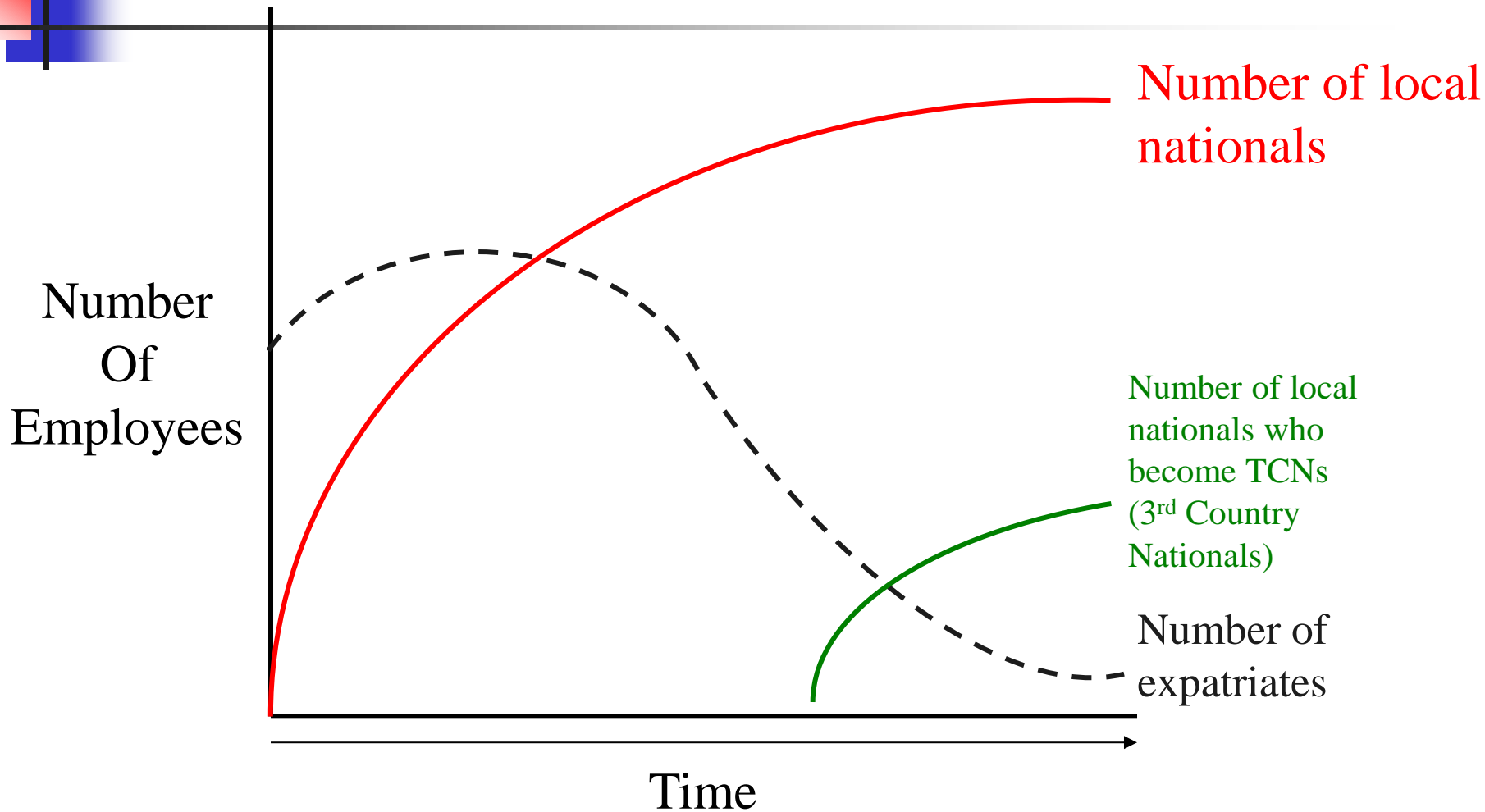
No low-cost Sites	Loss of control over technology	Loss of control over quality	Loss of control over technology	High cost
High transportation costs			Conflict between partners	High risk
Tariff barriers				



Managing Across Borders

- A foreign subsidiary may be staffed with:
 - ***expatriates*** - parent-company nationals who are sent to work in a foreign subsidiary
 - working internationally can be very stressful
 - ***host-country nationals*** - natives of the country where an overseas subsidiary is located
 - over time, reliance increases on host-country nationals
 - available, familiar with the local culture, and tend to cost less
 - local governments may provide incentives for hiring them
 - ***third-country nationals*** - natives of a country other than the home country or the host country of an overseas subsidiary
 - can soften political tensions between host and local country

Evolution Of A Foreign Subsidiary



Managing Across Borders (cont.)



- Skills of the global manager
 - critical shortage of U.S. managers equipped to run a global business
 - **failure rate** - percent of expatriate managers that come home early
 - causes for failure include:
 - personal and social issues
 - spouse's inability to adjust to new surroundings
 - adjustment requires flexibility, emotional stability, empathy for the culture, communication skills
 - unusual for women to be sent on foreign assignments
 - success rate higher for women than men



Managing Across Borders (cont.)

- Understanding cultural issues
 - represents the most elusive aspect of international business due to obliviousness to our own cultural conditioning
 - ***culture shock*** - the disorientation and stress associated with being in a foreign environment
 - ***Geert Hofstede*** - four dimensions along which cultures differ
 - ***power distance*** - acceptance of unequal distribution of power
 - ***individualism/collectivism*** - preference for acting on one's own or as a part of a group
 - ***uncertainty avoidance*** - threat stemming from uncertainty
 - ***masculinity/femininity*** - relative value attached to quantity of life versus quality of life



Managing Across Borders (cont.)

- Ethical issues in international management
 - issues of right and wrong get blurred as we move from one culture to another
 - for example, bribes
 - accepted part of business in some countries
 - U.S. - ***Foreign Corrupt Practices Act*** (1977) - prohibits U.S. employees from making payments to foreign officials
 - codes of conduct - established by companies to:
 - define permissible actions
 - provide procedures and support systems to deal with ambiguous situations
 - core values exist that are embraced by most nationalities



Satu