

Multinational Firms

- What differences are they facing abroad?
 - o Political and legal system
 - o Culture
 - o Currencies
 - o Entry mode
 - o Emerging markets
 - o Government intervention and regional economic integration
 - o Globalization and theories of international trade and investment

Chapter 1 – International Business

A global phenomenon – Facebook

- Exemplifies the globalization of business and converging lifestyle worldwide
- Included risk and advantages when Facebook doing international business
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Globalization

- A macro-trend of intense economic interconnectedness among the nations of the world

Internationalization 國際化

- The tendency of companies to deepen their international business activities systematically
- Led to widespread diffusion of products, technology, and knowledge worldwide

International Business (cross-border business)

- Firm's performance of trade and investment activities across national border led to Globalization of markets
- **Globalization of markets**
 - o Ongoing economic integration 一體化 and growing interdependency 相互依存 of countries worldwide
- Firms organize, source, manufacture, market, and conduct other value-adding activities on an international scale
- In class
 - o Trade and investment activities by firms across national borders leads to globalization of market
 - o Firm strategy may have to change
 - o Diversity option
 - o Diverse opportunity

Globalization of markets

- Ongoing economic integration and growing interdependency of countries worldwide (Macro-trend of intense economic interconnectedness among the nations of the world)
 - o Growth of international trade
 - o Substantial flows of capital, technology and knowledge
 - o Emergence of global financial systems

- Greater national collaboration through global institutions

4 Reasons International Business is a big deal

1. A contributor to national economic well-being - 為國民經濟福祉作出的貢獻
 - a. Leads to increasing national prosperity 繁榮, including gains in literacy and health care
 - b. Builds middle class in emerging countries
2. A competitive advantage for the firm
 - a. Increase sales
 - b. Location and scale economies -> ultimately benefits consumers
3. An activity with societal implications 社會意義
 - a. Impact on environment
 - b. Job losses in local markets
 - c. Being a good corporate citizen is extra important
4. A source of competitive advantage for you?
 - a. Additional opportunities
 - b. Opportunities for more interesting work

Elements of International Business Transactions (2 parts)

- International Trade (1)

- Cross-border exchange of products and services across national border
 - **Exporting**
 - Sale of products/services to customers located abroad from a base in the home country or a third country
 - **Importing (global sourcing)**
 - Procurement of products/services from foreign suppliers for consumption at home
- **Nature of International Trade**
 - The rate of growth of export activity has outpaced the growth of gross domestic product for the last few decades (Export > GDP)
 - We buy less and less from home country – trade for more
 - Cheaper and better products and services
 - Rise of emerging markets during the last 30 years – huge exports and increase imports
 - Advanced economies are outsourcing many of the products they consume (China, India, Mexico)
 - **Advances in:**
 - Information and transportation technologies
 - Decline of trade barriers
 - Liberalization of markets
- **International services trade**
 - Services account for about one quarter of all international trade

- **International Investment (factors of production) (2)**
 - The transfer of assets to another country or the acquisition of assets in that country
 - Services account for about one quarter of all international trade
 - (face greater challenges and barriers than merchandise trade)
 - (growth of services > products)
 - **Portfolio Investment**
 - Passive ownership of foreign securities (“short-term”) and bond to gain financial returns
 - **Foreign direct Investment (FDI)** – foreign- market entry strategy
 - Physical presence abroad through acquisition or construction of productive assets (“long-term”) such as land, plant, equipment, capital, and technology
 - Companies usually undertake FDI for the long term and retain partial or complete ownership of the assets they acquire

Participants in International Business

- **Focal Firm**
 - The initiator of an international business transaction
 - It conceives 構想, design, and produces offering intended for consumption by customers worldwide
 - **Multinational Enterprise (MNE)**
 - A large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries
- **Distribution channel intermediary 中介**
 - Specialist firm that provides various logistics and marketing services for focal firms as part of international supply chain
- **Facilitator 主持人**
 - A firm or an individual with special expertise in banking, legal, advice, customs clearance, or related support services that helps focal firms perform international business transaction
 - **Freight forwarder**
 - A specialized logistics service provider that arranges international shipping on behalf of exporting firms, much like a travel agent for cargo
- **Governments**
 - Active in international business as suppliers, buyers, and regulators
- **Multinational enterprise (MNE)**

- Large company that performs business activities through a network of subsidiaries and affiliate located in multiple countries
- Samsung, Sony, Disney
- **Small and medium-sized enterprise (SME)**
 - Manufactures or service providers with fewer than 500 employees, comprising over 90% of all firms in most countries
 - Increasingly engage in international business
- **Born global firm**
 - A young entrepreneurial company that initiates international business activity very early in its evolution, moving rapidly into foreign markets
 - Instagram, Airbnb
- **Non-governmental organizations / State-owned enterprises (SOE)**
 - Many of these non-profit organizations conduct cross-border activities
 - They pursue special causes and serve as advocates for social issues, education, politics, and research

Reason why the firms internationalize

- Seek opportunities for growth through market diversifications
 - Ikea, H&M
- Earn higher margins and profits
 - Foreign markets are often more profitable
- Gain new ideas about products, services, and business methods
 - FM refined its knowledge for making small, fuel-efficient cars in Europe
- Better serve key customers that have relocated abroad
 - Suppliers often follow big customers
- Be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products
 - Apple sources parts and components from the best suppliers worldwide
- Gain access to lower-cost or better-value factors of production
- Develop economies of scale in sourcing, production, marketing, and R&D
 - Airbus lowers its overall costs by sourcing, manufacturing, and selling aircraft worldwide
- Confront international competitor more effectively or thwart the growth of competition in the home market

Why study international business

- Facilitator of global economy and interconnectedness
- Contributor to national economic well-being
- A competitive advantage for the firm
- A competitive advantage for you
- An opportunity to support ethics, sustainability and corporate citizenship

International business risks

- **Cross-cultural risk**
 - Occurs when a cultural misunderstanding puts some human value at stake 危及人類的價值
 - When cultural-based differences in language, lifestyles, attitudes, customs, and religion ‘jeopardize’ business strategies or interpersonal relationships
 - Cultural differences
 - Negotiation patterns
 - Decision-making styles
 - Ethical practices
- **Country risk/political risk**
 - Potentially adverse effects on company operations and profitability caused by developments in the capital, legal, and economic environment in a foreign country
 - When a host country’s political, legal and economic environment adversely impacts a company’s operations or profitability
 - Harmful or unstable political system
 - Laws and regulations unfavorable to foreign firms
 - Inadequate or underdeveloped legal system
- **Currency risk**
 - Risk of adverse fluctuations in exchange rates
 - Currency fluctuation may **reduce**:
 - The value of firm’s assets
 - Operating income (profit)
 - Currency exposure
 - Asset valuation
 - Foreign taxation
 - Inflationary and transfer pricing
- **Commercial risk**
 - The firm’s potential loss or failure from poorly conceived or executed business strategies, tactics, or procedures
 - Failure due to poorly developed or executed business strategies
 - Poor business partner, market entry, pricing, and product decisions

- The consequences of commercial failure are usually more costly internationally than domestically
 - Related to cross-cultural, political, and currency risks
 - Weak partner
 - Operational problem
 - Timing of entry
 - Competitive intensity
 - **Others:**
 - Environment issue
 - Political issue
 - Different culture norm
 - Different local law
 - Language
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Chapter 2 – Globalization of Markets 市場全球化

Globalization and Trade

- Understand positive and negative aspects of globalization
- Comparative advantage verses
 - Loss of local jobs
 - Problems at local communities
 - Poor conditions at factories abroad
 - Rise of emerging markets
 - Pollution and corruption
- Why and How globalization happens
 - Understand big trends in globalization and where they will take us

Globalization of Markets

- The gradual integration and growing interdependence of national economies
- Declining trade barriers and rapid changes in communications, manufacturing, and transportation technologies are enabling firms to internationalize much more rapidly and easily than ever before
- Allows the firms to view the world as one large marketplace for goods, services, capital, labor, and knowledge
- **Value Chain**
 - Then sequence of value-adding activities the firm performs in the course of developing, producing, marketing, and servicing a product

Phases of Globalization

- 1st phase – 1830 – 1880
 - o Aided by railroads, ocean transport; resulting in the rise of mass production and growing trade
- 2nd phase – 1900 – 1930
 - o Fueled by electricity and emergent modern technologies; early MNEs
- 3rd phase – 1948 – 1970
 - o End of WW II; Marshall Plan; Gradual reduction of trade barriers, especially under General Agreement on Tariffs and Trade (GATT)
- 4th phase – 1980 – present
 - o Fueled by information and communications technologies. Rapid liberalization of Emerging Markets

Dimensions of Globalization

- Increased trade of products and services
 - o Integrating and interdependency of national economics
- Regional economic integration blocks
 - o NAFTA, APEC, EU,
- Growth of global investment and financial flows
- Convergence of consumer lifestyles and preferences
 - o iPhone, fashion, Hollywood movies
- Globalization of firm's production activates

Drivers of Globalization

- Worldwide reduction of barriers to trade and investment
- Move to market-based economies and free trade
 - o Industrialization, economic development, and modernization
- Integration of world financial market
- Advances in technology (also reduces the cost of doing business)
 - o IT, big data, industry
 - o Social media, communications
 - o Manufacturing and transportation (declining costs, efficiency in fuel consumption)
- Market liberalization and adoption of free market

Consequences of Globalization

- **Societal Consequences (Long-run effects of globalization)**
 - o **Globalization generally leads to:**
 - Higher living standards
 - More efficient resource usage
 - Greater access to technology, product, and services
 - Decreasing number of people living in poverty
- **Negative consequences**
 - o Loss of national sovereignty 國家主權
 - Power shifts to multinominal enterprise and largest countries
 - Some firms are bigger than the economies of many nations

- Offshoring and the flight of jobs
 - Dislocation of jobs
 - Sweat shop
- Effect on the poor
 - Benefits of globalization are not evenly distributed
- Effect on the natural environment
- Effect of national culture
 - Loss of national cultural value and identify
- **Contagion** 傳染
 - The tendency for a financial or monetary crisis in one country to spread rapidly to other countries due to integrated national economies
 - Rapid spread of conditions in one country to the next
 - The great recession
- **Firm Level consequence**
 - New business opportunities
 - New risks and intense rivalry
 - More demanding buyers
 - Proactive internationalization
 - Internationalization of firm's value chain

Internationalization of value Chain

- **Value chain**
 - Value-adding activities performed by the firm in the process of developing, producing, and marketing a product or a service
- Globalization compels firms to internationalize their value chain, and access the benefits of international business
- Because configuring value-adding activities on a global scales leads to:
 - Increase efficiency and flexibility of value chain actives
 - Easier access to customers, input, labor, or technology
 - Benefit from foreign partner capabilities

World Trade Organization (WTO)

- Aim to regulate and ensure fairness and efficiency in global trade and investment
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Chapter 3 - The Cultural Environment

What is Culture?

- The learned, shared, and enduring orientation patterns in a society

- Values, beliefs, customs, arts, and other products of human thought and work that characterized the people of a given society
- Everything that people do, think, and have, as members of their society
- Collective mental programming (Hofstede)
 - o Can be viewed as an iceberg
 - Certain characteristics are visible, but most are not
 - Assumptions, attitudes, values

Key Dimensions of culture

- **Value and beliefs**
 - o Represent judgements about what is good or bad, acceptable or unacceptable, important or unimportant, and normal or abnormal
 - Value common to **Japan, North America, and Northern Europe** include hard work, punctuality, and wealth acquisition
- **Attitudes and preferences**
 - o Are developed based on values, and are similar to opinions, except that attitudes are often unconsciously held and may not have a rational basis
- **Norms**
 - o Unwritten rules, ‘the way we do things around here’
- **Manner and customs**
 - o Refer to ways of behaving and conducting oneself in public and business situation
 - o Present in eating habits, mealtime, work hours and holiday, drinking and toasting, appropriate behavior at social gathering (kiss, handshake, bow)
- **Perceptions of space**
 - o Reflects each cultures’ orientation about personal space and conversational distance
- **Perception of Time**
 - o Dictates expectations about planning, scheduling, profit streams, and what constitutes tardiness in arriving for work and meetings
 - o **Monochronic**
 - A linear, rigid orientation where the individual is focused on schedules, punctuality, and on time as a resource
 - People in the US are often hurried and impatient
 - o **Polychronic**
 - A flexible, non-linear, elastic orientation to time in which the individual takes a long-term perspective
 - Punctuality is relatively unimportant
 - Relationship are valued

- Africa, Latin America, Asia

How does culture develop?

- They are learned:
 - **Socialization** 社會化
 - The process of learning the rules and behavioral patterns appropriate to one's given society, cultural learning
 - **Acculturation** 適應
 - The process of adjusting and adapting to a culture other than one's own

Culture is not

- **Not right or wrong**
 - Cultures is relative with no absolute.
 - Different nationalities simply perceive the world differently
- **Not about individual behavior**
 - Culture refers to a collective phenomenon of shared values and meanings
 - Is about groups
- **Not inherited** 不繼承
 - Culture is derived from the social environment
 - We learn and acquire a set of values as we grow up

How do we understand cultures?

- **Metaphors**
 - Refers to distinctive traditions or institutions strongly associated with a society
 - Used to deciphering attitudes, values, and behaviors
 - American football
 - Japanese garden
 - Spanish bullfight
- **Stereotypes**
 - Are generalizations about a group of people that may or may not be factual, often overlooking real, deeper differences
 - American are loud, stupid
- **Idiom**
 - Expression whose symbolic meaning is different from its literal meaning
 - Phrase that cannot be understood by simply knowing what the individual words mean
 - American doesn't know the meaning of 今晚打老虎

The importance of Culture – why do we care?

- **Cross-cultural risk**
 - Cultural lack of fit (miscommunication) may put some human value at stake
 - Happens when we enter environments characterized by unfamiliar language and unique value systems, beliefs, attitudes, and behaviors