

Power trip assignment nicole boren

[Economics](#), [Money](#)



Power Trip Assignment — Nicole Boren 1. The concept of Foreign Direct Investment refers to the practice of a company from one particular country making physical investments in another country either through acquisitions or purchase of physical machinery, buildings and/or equipment. (Graham & Spaulding, 2005) Over the past decade alone FDI has played a major role in the globalization of business and is seen largely in developing countries rising from 481 billion in 1998 to 636 billion last year. (UNCTAD) Since the end of WWII the definition of FDI has expanded and evolved into what we see today and thus has allowed for the globalization of industries into unforeseen markets and the establishment of relationships that have added in foreign trades etc. (Bureau of Economic Analysis) AES's long term goals were to provide sustainable electricity to the population in a safe and affordable way while decreasing corruption and increasing the quality of life for customers. As AES moved into Georgia collections were suffering as citizens were used to receiving power for zero charge, corruption and unethical practices were being used by residents as well as the government and energy ministry. Georgia was facing destruction from the fall of the Soviet Union and from pressure and influence from Russia as well as local Mafia participants. Under the Soviet Union residents had better jobs which higher salaries thus in positions to lead satisfied lifestyles and after the collapse jobs began to go away and unemployment increased and those with jobs received decreased salaries averaging about \$15 US dollars a month when an average electricity bill was \$24 US dollars a month making the ability of the population to pay these bills impossible. Telasi found itself in politically and economically unstable surroundings full of abandoned and uncompleted infrastructures

etc. The concept of first mover advantage is referring to any advantage that is gained by the first significant company to move into a new market. This concept is debated as to if this is truly an advantage or more of a disadvantage. For AES it would seem to be a disadvantage due to the failure but in reality it was essential for AES to move into the market early because of the potential for monopolization of the market and high margins that could come of such a overtaking. As with all potential first mover advantages the rewards must outweigh the risks the company takes. AES had a real opportunity to form solid relationships or allegiances in order to build an empire of electricity in a region that struggled to provide adequate power supplies to their people. Success in Georgia would have ultimately led to opportunities for growth into Armenia, Azerbaijan, and Turkey as well as potential contractual agreements with Russia. 2. Prior to moving into the Georgia Market AES should have been fully aware of the political economy. AES should have been aware of Georgia's standing under the Soviet Union as well as more importantly the toll that the collapse of the Soviet Union had on the area. It is important for the company to take into considered what type of law or regulations would affect them as well as the political hierarchy or function of the economy in the area. After the Soviet collapse Georgia found itself in an unstable economy with emerging instances of widespread corruption. Legal framework as nonexistent as well as protection of property laws being inadequate (World Press, 2012) which led to contractual obligations not being upheld as in the instance of taxations and agreed upon criteria between the government and AES not being upheld and the government not upholding their end of contracts to remit payments. (Henisz

& Zelner, 2006) The government worked as a strong vertical hierarchy in which the President had majority rule on most decisions but the government posed as a democracy in which elections took place but they were often rigged and incorrect. All processes worked as a centralized entity with the end all being the President indirectly through his strategic appointments of particular individuals into positions of power. (World Press, 2012) Due to the endemic corruption that ran rampant within the government proceedings a strong and prevalent shadow economy existed in which those corrupted officials made available goods and services with the illusion of these being provided against their wishes. Bribery, theft or being in positions of power was essential to obtaining any type of electricity. All of the items would have been beneficial for AES to examine upon entering into this market as a means to protect themselves from potential corruptions or shady business deals. 3. The culture of Georgia is a very unique one coming from a Soviet influence to what they are currently and thus creates difficulties internally as well as externally for AES. Obstacles occur in that Georgians see Americans taking over and assume there will be power twenty four hours a day without the need to pay for such power. They are used to paying for no power under the soviet rule despite the fact that they were more able to pay for it then. Georgia has been invaded by all of their neighbors who have assisted in the rapid destruction and complete devastation of the country. One of the largest obstacles is the mindset that AES brought in with them in regards to management etc. Setting the vision towards to the future instead of dwelling on the past is hard for Georgians' due to the Soviet mindset in the past which was organized through fear and anguish by the Soviet leaders. The

ideology of the company to facilitate managers taking greater responsibilities for decision making is a new one to employees and presents a huge culture clash in changing the way business is done. Despite the obvious obstacles the culture of Georgia also provides opportunities for success in that the people of Georgia are ready for a 'revolution' and the ousting of corruption and unethical ways by the government. With the indirect support of the media awareness of government hindrances were made public and thus aiding AES in gaining public support which was difficult to begin with. In fact one of the regional managers Mike Stoley is still admired in the area for his public awareness and persona where he showed his compassion and desire to help the people despite the termination of their power due to lack of payment. The key to using the culture of Georgia for success rather than failure again falls back onto understanding in all of its complexity the population and culture as a whole. 4. Widespread corruption most certainly presented obstacles for the success for AES and in my opinion was the most prominent obstacle that AES had to overcome. From the initial entrance of AES into the market here was deception and corruption faced. Before AES getting their 'feet wet' so to speak they faced issues with the reported number of collections and customers which were deceptively reported to AES during their bid to take over Telasi. The Georgian Government itself refused to pay their power bills and often diverted power to accommodate their own needs and selfish endeavors. For instance the National Dispatch Center would divert power from paying residential customers in whole grids to large nonpaying industrial customers leaving entire sectors with no electricity even if customers had paid bill. One example was that of a family member of

a government official who was having a home built and constructors needed more power so a grid was diverted to that construction site away from another sector of residents leaving them in the dark. A major example of governmental abuse is the Azoti chemical facility which is own by the President. This plant receives nearly \$6 million US worth of power yearly and paid zero dollars for that power. The amount of power used would be a enough to power nearly the entire region for an entire winter month. As residents saw the extent of corruption and the success of such they begin to pay off workers in order to have power restored or resorted to breaking meters and jerry rigging up power supplies again. In order for a person to work for the fuel energy minister of Georgia the President looks at who will provide ' free' energy. These ministers will call and demand energy to be reconnected and the national dispatch obeys as they are obviously controlled by the government and ministry but regularly blames power failures on Telsai. 5. In hindsight AES would more than likely explain their failure by acknowledging the things that were done insufficiently before entering the Georgian energy sector. A lack of adequate preparation and organization would most certainly be on the list of causes aiding in the failure of AES in the region. Despite some of the faults of AES' entrance the majority of the failure burden would be placed on the extent of the corruption and the reach this corruption has throughout the Energy Sector all the way to the employees at Telasi itself. There are many things that could have been done differently in the region but the three mentioned below would be the most critical items to change in my opinion. The first thing that AES should have done different is to fully understand what exactly the

environment was for which they were entering. The extent and reach of the corruption was underestimated if acknowledged at all and in addition to that gross underestimation there were also other factors that complete information was not obtained on. While some items were small obstacles that should have been easily overcome the extent of these issues caused the smallest items to become the largest obstacles for AES to overcome. The relationship and influence of Russia and Mafia ties was not fully examined or understood realistically, the true number of customers was nearly ten percent more than claimed, the official reported collection rate was extremely exaggerated at 40% but in reality the figure was closer to 4-10%, the billing system was not computerized and all were handwritten in ledgers without adequate documentation of payments or billings, employee payroll was processed in the local currency as well as other products such as sour cream and finally the state of the offices in which AES was operating from was inadequate and bordering criteria to be condemned. (Henisz and Zelner, 2006) AES should have also invested further and right away in instilling greater infrastructure not only externally but internally as well as adopting organizational structure despite the companies typical dismissing of such organization. If AES would have examined closer the issues surround billing and would have taken notice to the fact that customers were in some cases paying their balances but the monies were never making it past the meter workers or cashiers who were pocketing their money for their own benefit they would see the necessity for something as simple as an organizational structure. In addition to the rampant theft of monies by internal employees there were massive instances of customers stealing power from locations

such as hospitals and other residents etc. the implementation of organizational structure would have created processes in which the over spending on certain items could have been consolidated and prioritized and in turn saved AES long term on the total amount of monies invested into the region and assisted in better investing those funds where they would have more impact and aid in furthering the overall agenda and goal of the organization. In addition to the two items that could have been done differently above a major strategic move that could have been made is in the field of hydroelectricity. According to the Library of Congress Georgia has a substantial hydroelectric potential that despite being tapped into was not being utilized to its full capacity. (Library of Congress, 1994) In years after the review by the Library of Congress of Georgia's Energy Resources more substations were modified to allow for hydroelectricity but still nowhere near the capacity to which Georgia has available. A major avenue which could have greatly assisted AES in being successful would have been to invest in the purchase of hydroelectric facilities initially in order to have control over generation of power from their initial entry into Georgia's energy market as well as creating more of these power sources in order to assist in 'stockpiling' of energy as well as keeping control over more portions of the generation of energy. There are many things that could have been done differently and every business would have ideas on how to be successful but in all of those one ideal that is sure to be found is that concept of being fully aware of the environment of the market and region in which the company is entering into.