Ibus2101 lecture summary

Business, Company

Ibus2101 Lecture Summary Week 1 Why would a firm like to invest abroad? The Indigenous Firm Cost-Reduction Motives Strategic Motives Market Motives The Indigenous Firm Cost-Reduction Motives Strategic Motives Market Motives Week 2 What is globalisation? Globalisation refers to the shift towards a more integrated and interdependent world. -Growth of world trade has accelerated since the early 1980s. Drivers of globalisation Includes 1. Political drivers -Decline in trade and investment barriers, including reduction in tariff (4% on manufactured goods but high on agricultural products). -More than 2, 000 bilateral treaties to protect and promote trade and FDI (eg, FTA). 2. Technological drivers -Transportation technology. -IT & information technology: microprocessor and telecommunication 3. Economic & cultural drivers. What is economic globalisation? -Globalisation of markets: Merging of separate national markets in one huge global market place. -Globalisation of production & service: Companies sourcing goods/services around the globe to reduce cost and improve quality. Globalisation of markets Theodore Levitt, Harvard Business Review: " Companies must learn to operate as if the world were one large market. -The emergence of global markets for " standardized" consumer products (" a new commercial reality" -Erosion of national and regional consumer preferences (" global products") -The ubiquity of desire for goods of the best quality and reliability at the lowest price. Implications Multinational Corporations (MNCs) vs. Global corporation (GC): Fox vs. Hedgehog. -End of MNCs, move to GCs. Aggressively seek opportunities to create global market and become a global corporation -Do not accept the national differences as given or accommodate them (like MNCs) -Do not presume that marketing means giving what consumers want

rather focus on what they would like -Standardization + low price + modern technology is a must. Globalisation of production Sourcing of goods and services from locations around the world to take advantage of: -Differences in cost or/and quality of the factors of production (labour, land, capital and knowledge). -Historically and primarily confined to manufacturing enterprises -Information technology helps to outsource service activities to low-cost producers in other nations Global web of suppliers: global products Optimal dispersion of productive activities around the globe Globalisation of services 1. Business process outsourcing (IT based business processes) 2. Customer service (voice and non-voice) -Call centre -Telephone marketing -Customer surveys -Email services 3. HR and payroll accounting -Recruitment advertising -Education and Training 4. Finance and accounting, book keeping -Tax consulting -Risk management -Financial analysis and reporting 5. Content development -Animation -Document management Location of outsourcing Location of outsourcing -Geographical information systems 6. Purchasing and logistics outsourcing outsourcing Onshore outsourcing | Offshore Outsourcing | Internal Onshore provisions | Captive Offshoring | In-house provision In-house provision National National International International Pros & Cons of Globalisation Pros: * Lower prices for goods and services * Increase the living standards * Economic growth stimulation (capital flows & low interest rates) * Countries specialize in production of goods and services that are produced most efficiently (productivity) * Spurs innovation and knowledge diffusion Pros: * Lower prices for goods and services * Increase the living standards * Economic growth stimulation (capital flows & low interest rates) * Countries specialize in production of

goods and services that are produced most efficiently (productivity) * Spurs innovation and knowledge diffusion Cons: * Wealthy, advanced countries are lost or less paid * Little benefit for undeveloped countries * Widen the gap between the rich and poor * hurt the environment * expose national economies to the greater uncertainty of the global economy * loss of sovereignty (supernational institutions) Cons: * Wealthy, advanced countries are lost or less paid * Little benefit for undeveloped countries * Widen the gap between the rich and poor * hurt the environment * expose national economies to the greater uncertainty of the global economy * loss of sovereignty (supernational institutions) Three Views on Globalisation -A new force sweeping through the world in recent times: a Western ideology about exploiting and dominating the world through MNEs -A long-run historical evolution since the dawn of human history -A pendulum that swings from one extreme to another from time to time: a balanced and realistic perspective Implications of globalisation include: -Bring more complexity -Challenge the ethics and old beliefs -Require more creativity What is international Business? The business activities that involve the transfer of resources, goods, services knowledge, skills or information across national boundaries IB May involve: -Individuals -Government bodies -International institutions -Companies Various types of firm players Multinational Enterprise (MNE): a firm with international/foreign direct investment (FDI), service or manufacturing, over which it maintains effective control (MNC vs. GC). International firm: a firm engaged in trade activities but without an FDI component. Small and Midsize international Enterprises (SMIE) Born global firms Motives to go international Two motives either: Traditional motivations:

Market seeking: -To leverage core competencies -To augment the small home market Cost reduction-seeking Resource seeking: -To secure key supplies -To access low-cost factors (e. g. low labour costs) Emerging motivations: Efficiency seeking: -Economies of scale: experience effects -Huge R&D investments -Shortening product life cycle Scanning and learning capability: -Access to new technology/ information worldwide -‘ Global learning’/ innovations Competitive positioning -Cross-subsidisation -Ability to play the ‘ global chess game’ Complexity in managing International Business Managing an international business is different from managing a domestic business Environmental Dynamics: Currency, inflation, interest rates, accounting practices, cultures, social customs, laws, and political stability Operational Nature: Communication, coordination, motivation, differences in organisational principles and management philosophies. Liability of foreignness What is a global industry? Global industry is: 1. An industry in which firms must compete in all world markets of that product in order to survive. 2. An industry in which firms gain economies of scale or economies of scope across markets. Market Drivers -Common customer needs -Global customers -Global market channels -Transferable marketing Low to High (ranking, Multi-domestic to Global) Baked goods — Book publishing — Toothpaste — Soft drinks — Automobiles — Computers — Aircraft “ Measures by: % of WW sales attributed to standardized products". Cost Drivers -Global scale economies -Sourcing efficiencies & Logistics -Factor of production differences -High product development costs -Rapidly changing technology Low to high (ranking) Soft drinks — Baked goods — Retail Banking — Toothpaste — Automobiles — Computers — Aircraft “ Measures by: % of WW

market needed to achieve MES. Government drivers -Unrestrictive trade and investment policies -Compatible technical standards -Common marketing regulations Low to high (ranking) Retail banking — Aircraft — Automobiles — Computers — Soft drinks — Baked goods — Toothpaste Measures by: % of countries that possess uniform or mutually recognised (technical) standards Competitive drivers -High two-way trade/cross border FDI -Global competitors -Interdependence among countries Low to high (ranking) Baked goods — Retail banking — Soft drinks — Automobiles — Toothpaste — Aircraft Measures by: % of WW market attributed to imports/exports. % of WW market attributed to top 4-8 firms. What is a global company? It consists of a four dimensional construction. Globalisation of Corporate mindset: -Capital base -Market presence -Supply chain. Week 3 Part 1: FDI & FDI theories Types of international investments -Portfolio investment -Foreign direct investment FDI occurs when a firm seeks direct management control over the foreign assets -A firm becomes a multinational enterprise (MNE) Types of FDI -FDI flow and FDI stock -Vertical & horizontal FDI -Equity Types of FDI Vertical FDI takes two forms: -Backward vertical FDI is an investment in an industry abroad that provides inputs for a firm's domestic (current) production processes. -Forward vertical FDI occurs when an industry abroad sells the outputs of a firm's domestic (current) production processes. Horizontal FDI: -FDI in the same industry abroad as company operates in at home (vs. existing markets). FDI theories Macro level theories -FDI by MNEs as international capital flows (interest rates) -Strong vs. weak currency (exchange rate) -Location theory of international investment (supply and demand) -Supplement to international trade (trade vs. anti-trade oriented

MNEs) Micro level theories (e. g. MNE theories) -Shift attention to firms rather than nations -Based on theories of firm and industrial organisation. Why FDI? — Monopolistic advantage theory FDI is preferred by MNEs because: The firm controls one or more resources, offers unique products and services that provide it a degree of monopoly power relative to foreign markets and competitors. Key sources of monopolistic advantage include: Proprietary knowledge, patents, unique know-how and skills, and sole ownerships of other assets Why FDI? — Internalisation theory Internalisation theory: -Seeks to explain why firms often prefer FDI over exporting or licensing as a strategy for entering foreign markets -When market imperfections are making transactions less efficient a company may undertake FDI. 1. Impediments to the free flow of factors and products between nations. 2. Impediments to the sale of know-how. -Export & licensing are highly dependent on market mechanisms. Exporting -Transportation costs and trade barriers can limit exports -FDI may be a response to actual or threatened trade barriers such as import tariffs or quotas. Licensing/franchising: suggests that licensing has three major drawbacks -The firm's competitive advantage may be not amendable to licensing -Does not give a firm the control over manufacturing, marketing, and strategy in the foreign country -Firm could give away valuable technological know-how to a potential foreign competitor. Why FDI in certain location -According to John Dunning's eclectic paradigm (OLI), it is important to consider: 1. OWNERSHIP / 2. LOCATION / 3. INTERNALISATION -Location-specific advantages: arise from using resource endowments or assets that are tied to a particular location and combine usefully with the firm's own unique assets.

Externalities Eclectic paradigm (OLI) Ownership-specific advantage (CSA+FSA) -Superior knowledge or skills, e. g. brand, technology, management know-how -To overcome the initial cost, e. g. ‘ the liabilities of foreignness’ -Countries of origins effect Location-specific advantage -The FDI destination (local market) must offer factors such that it is advantageous for the firm to locate its investment there. (E. g. land, weather, capital, know-how, cost/quality of labour). Internalisation advantage (market imperfection) -The ability to leverage a firm’s strategic assets more effectively through its own subsidiaries than through contractual relations (e. g., licensing) with outsiders. The pattern of FDI Strategic rivalry perspective: -Firms in some industries often undertake FDI within very close time periods, and in similar locations. -FDI flows reflect strategic rivalry among firms in oligopolistic industries (Knickerbocker) -This leads to multipoint competition, when firms compete with each other in different markets. -Product life cycle: firms undertake FDI at a particular stage (Ray Vernon). -Firms invest in other advanced countries when local demand in those countries grows large enough to support local production. AND then shift production to low-cost, developing countries when product standardisation and market saturation create price competition and cost pressures. The stages theory of internationalisation: Stages theory: An incremental & sequential approach to internationalisation Part 2: (EM) MNEs Multinational enterprises -Enterprises, which seek management and control of value-adding activities in two or more countries MNEs: Complexity & degree of internationalisation. Multinational firms, multinational corporations (MNCs), multinational enterprises (MNEs), global corporation, and transnational

enterprise/corporation: A company must make a FDI for it to be a multinational firm. Why do MNEs exist? Disadvantage of being foreign: -In dealing with a host country's cultural, political, social, legal and competitive environments To become an MNE (OLI paradigm), a company: Must have an ownership advantage -To offset a company's disadvantage of being foreign: The liability of foreignness. -To provide it with a leg-up on domestic and foreign competitors Can leverage host country resource endowments advantage Can benefit more via internalisation. EM MNEs FDI from emerging markets to developed markets Obstacles -Latecomers -Resource constraints -Lack of knowledge -Underdeveloped & sheltered environments A springboard perspective: (FOR traditional MNEs and EM MNEs) Compensate their competitive weaknesses -Acquire vs. exploit/leverage vs. evolutionary Overcome their latecomer disadvantage -Pull vs. push factors Counter-attack global competitors -Truly global player Bypass stringent trade barriers into advanced markets -Invest directly or in a third country Alleviate domestic institutional and market constraints -Be able to concentrate more on important things Secure preferential treatments from home governments -Reverse investment & round tripping (increase of both inflows & outflows) Exploit competitive advantage in other emerging & developing countries Motivations of EM MNEs * Asset seeking * Opportunity seeking Motivations of EM MNEs * Asset seeking * Opportunity seeking Reasons impelling them to spring * Their late mover position in international markets * Strong foothold of global rivals in their backyard * Fast change of technological and market landscape * Shortened life cycle of industries and products * Their deficiencies in core competences and strategic assets Reasons impelling

them to spring * Their late mover position in international markets * Strong foothold of global rivals in their backyard * Fast change of technological and market landscape * Shortened life cycle of industries and products * Their deficiencies in core competences and strategic assets Reasons encouraging them to spring * Home government support for going global * Willingness of global players to share or sell strategic resources * Offshore availability of standardized technology * Desire to hit the core and key international markets * Entrepreneurial leadership Reasons encouraging them to spring * Home government support for going global * Willingness of global players to share or sell strategic resources * Offshore availability of standardized technology * Desire to hit the core and key international markets * Entrepreneurial leadership Springboard perspective Systematically and recursively use international expansion as a springboard to: * Compensate their competitive weaknesses * Overcome their latecomer disadvantage * Counter-attack global competitors * Bypass stringent trade barriers into advanced markets * Alleviate domestic institutional and market constraints * Secure preferential treatments from home governments * Exploit competitive advantage in other emerging and developing countries Springboard perspective Systematically and recursively use international expansion as a springboard to: * Compensate their competitive weaknesses * Overcome their latecomer disadvantage * Counter-attack global competitors * Bypass stringent trade barriers into advanced markets * Alleviate domestic institutional and market constraints * Secure preferential treatments from home governments * Exploit competitive advantage in other emerging and developing countries Unique challenges * Poor corporate

governance * Post-spring integration and organization difficulties * Lack of global experience, managerial competence and professional expertise * Weak product/process innovation Unique challenges * Poor corporate governance * Post-spring integration and organization difficulties * Lack of global experience, managerial competence and professional expertise * Weak product/process innovation Unique activities * Inward internationalization (OEM, ODM, OBM) * Risk-taking entry modes (acquisitions or greenfield) * Path departure in location selection * Radical in investment size and commitment Unique activities * Inward internationalization (OEM, ODM, OBM) * Risk-taking entry modes (acquisitions or greenfield) * Path departure in location selection * Radical in investment size and commitment EM MNEs (Refer to page 35-36 Week 3 Lecture) The assumption of the OLI framework -The motivation: exploit its ownership (competitive) advantage in international markets A firm without an ownership advantage -The motivation: improve the overall competitiveness of the firm and to compensate for competitive disadvantages - a springboard perspective on internalisation for emerging market MNEs. Summary FDI base theories include: 1. Internalisation theory 2. OLI paradigm 3. Stages model 4. Strategic rivalry Traditional MNEs, and their new challengers Emerging Market MNEs 1. The springboard perspective 2. The contrast between MNEs and EM MNEs Week 4 International Expansion Strategy: I & II Dupont’s Entry strategies into China -Has a great deal of international experience and expertise, and have a variety of entry strategies they use. -In China, they used a partnership with Shanghai Photomask Precision Company, and established another with China

Worldbest Development to produce photomasks and Spandex, respectively. -They also established joint ventures with companies like BASF to overcome trade barriers and establish distribution. -Finally, they also established wholly owned subsidiaries to make products that require proprietary technologies they cannot share with others. -No company has only one entry strategy. Most choose entry strategies depending upon the necessary goal requirements. Why go abroad — Strategic Factors -Market development: offer growth & efficiency opportunities -Resource access: Secure supply of key & low-cost resources -Management: Co-ordination of global activities -Learning: Understand cutting edge technology; Learn to compete in difficult & sophisticated markets. Why not go abroad — Liability of foreignness The inherent disadvantage foreign firms experience in host countries because of their “ non-native" status. > Liability is manifested in two dimensions: -The numerous differences in formal and informal institutions in different countries (e. g., regulatory, language, and cultural differences). Failure to recognize these rules may cost foreign firms dearly. -Customers discriminate against foreign firms, sometimes formally and other times informally. Key Success factors: overcome liability of foreignness -Superior technologies -Superior brand and marketing capabilities -Superior logistics and organisations -Superior knowledge about the cultural and institutional intricacies Propensity to internationalise -Given the same driving forces and constraints, still not every firm is ready for going abroad, or at least at different rates, why? -Prematurely venturing overseas may be detrimental to overall firm performance, especially for smaller firms whose margin for error is very small. Firm size, domestic market size, and propensity/rate to

internalise International Entry Readiness Before you go international do you have? -Source of sustainable competitive advantage? -Understanding of the uniqueness, complexity and challenges in IB? -Well-formulated and well implemented IB strategy for pace, direction and stage? Where to enter — location choice Where, that is country and location within country depends upon a number of factors. Among them are: 1. Cost/ Tax Factors (transportation, wage, availability of land and its costs, construction costs, material costs, financing costs, tax rates, investment incentives, profit repatriation costs) 2. Demand Factors (market size and growth, customer presence, local competition) 3. Strategic Factors (Investment infrastructure, industrial concentration, supply/distribution linkages, workforce productivity, complementary industries) 4. Regulatory/ Economic Factors (Industrial policies, foreign direct investment policies, availability of economic zones) 5. Socio-political Factors (Political risk and instability, cultural barriers and openness, local practices, government efficiency and corruption, attitudes toward foreign business, community characteristics, pollution control) 6. Strategic objectives: growth and competitive factors 7. Integration Factors: access to trading blocs and integrated economies 8. Market Orientation Factors: whether primarily target markets are available from the host location. Cultural/Institutional Distances and Foreign Entry Locations Cultural Distance -The difference between two cultures along some identifiable dimensions (such as power distance). Institutional Distance -The extent of similarity or dissimilarity between the regulatory, normative, and cognitive institutions of two countries. -Firms from common law countries are more likely to be interested in other common law countries -Colony coloniser links

boost trade by 900% Two schools of thought have emerged: -Stage models in which firms enter culturally similar countries during the first stage of internationalisation, and as they gain confidence, enter culturally more distant countries in later stages. -Critics of stage models argue that considerations of strategic goals such as market and efficiency are more important than cultural/ institutional considerations as suggested by stage models. International location selection (Where) Location-specific advantage Geographical features difficult to match by others -Singapore, Austria, Turkey, Miami Clustering of economic activities (agglomeration) — industry related -Knowledge spill over among closely located firms that attempt to hire individuals from competitors. -A regional skilled labour force available to work for different firms -A regional pool of specialised suppliers and buyers. Matching strategic goals with locations International Entry Timing (When) Advantages -This relates to timing of market entry in comparison to other enterprises. -Timing is important because it determines the risks and potential returns from the investment. -Early mover advantages include factors like market power, more preemptive opportunities, and strategic advantage over latecomers. Disadvantages -Face environmental and operational risk that can come from host governments' experience, underdeveloped investment laws and regulations, protectionism, difficulty in overcoming early growth stages, shortage of workers, underdeveloped support services, lack of financing, uncertain foreign exchange, consulting cost burdens, poor infrastructure systems, and unstable market structures. Early Mover Case study Automobile industry in China First mover success / (failure): Volkswagen / (Peugeot) Late mover success / (failure): GM / (Ford) -

Being a first mover has its advantage and disadvantages -Being a ‘ fast follower’ can sometimes similar or better results than a first mover -Being a late mover may or may not be fatal — all varies with the situation. What to internationalize International Entry Mode Selection (How) -Entry Modes are specific forms or ways of entering a target country to achieve the strategic goals related to presence in that country. -These can be trade related, transfer related, and FDI related. The choice of Entry modes: A Hierarchical Model International entry modes Trade related: Exporting and Importing -Often the only available choices for small and new firms wanting to go international. -Provides an avenue for larger firms that want to begin their international expansion with a minimum investment. -Exporting and importing can provide easy access to overseas markets -Strategy usually is transitional in nature. Export Licensing -An agreement that allows one party to use an industry property right in exchange for payment to the other party. -By licensing to a firm already there, the licensor may avoid entry costs. -Licensee usually may be a small firm that lacks financial and managerial resources -Companies that spend a relatively large share of their revenue on R&D are likely to be licensors -Companies that spend very little on R&D are more likely to be licensees. Franchising -Business arrangement under which one party (the franchisor) allows another (the franchisee) to operate an enterprise using its trademark, logo, product line, and methods of operation in return for a fee -Widely used in fast food and hotel/ motel industries -With minor adjustments for the local market, it can result in a highly profitable international business Contract agreements Joint Ventures International Joint Venture (IJV) -An agreement under which two or more partners from different

countries own or control a business -Non-equity venture -Equity joint venture Advantages -Improvement of efficiency -Access to knowledge -Political factors -Collusion or restriction in competition WOS green-field -An overseas operation that is totally owned and controlled by an MNC -MNC’s desire for total control and belief that managerial efficiency is better without outside partners -Some host countries are concerned that the MNC will drive out local enterprises and other prohibit fully owned subsidiaries -Home country unions sometimes view foreign subsidiaries as an attempt to “ export jobs" -Today many multinationals opt for a merger, alliance, or joint venture rather than a fully owned subsidiary. Merger & Acquisitions -The cross-border purchase or exchange of equity involving two or more companies -The strategic plan of merged companies often calls for each to contribute a series of strengths toward making the firm a highly competitive operation Requirements among Entry Modes Trade-offs in Modes (4 = highest, 1 = lowest) (4 = highest, 1 = lowest) How to enter? Making strategic choices A company may have a variety of entry choices for different countries and tasks -Entry strategies may change over time -Opening case: Starbucks: Franchising -> Joint Ventures -> WOS -China’s Haier in the US: Direct exports -> FDI (green-field projects) -Entry strategies, even when successful, do not guarantee international success; post-entry strategies are also crucial. International entry strategy: A holistic approach