International Business

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EXECUTIVE SUMMARY

As more countries become market-oriented and economically developed, the distinction between foreign and domestic markets is becoming less pronounced. In the global economy, businesses must expand beyond their home countries to thrive. While developed markets have been traditional targets, emerging markets offer new growth opportunities despite their challenges. Globalization, characterized by borderless economies and increased competition, necessitates that companies adopt international strategies. All organizations are increasingly attempting to redefine themselves as truly global.

This module provides insights into managing international operations, emphasizing the significance of emerging markets and how to navigate cultural and regulatory differences. It prepares for the global market, detailing strategies for success and the integration of various management systems.

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MODULE INTRODUCTION

Module Description

International business today is shaped by global market integration, recession risks, emerging markets' growth, and environmental sustainability demands. Companies must navigate these forces, as none are exempt. Success hinges on international managers' ability to devise and execute effective strategies in this intricate global landscape.

This module aims to give students up-to-date knowledge on the challenges of running multinational and local businesses in different countries.

Module objectives

Upon completion of this module, students should be able to:

01	Understand the importance of international business in the era of globalization and its components
02	Comprehend cultural differences and their impact on international business.
03	Applying market research to support decision-making in international business.
03	Analyse global market signals to identify international business opportunities
03	Evaluate and create international marketing plans outlined in a business plan report that supports international business

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Hisrich, R. D. (2016). International entrepreneurship: Starting, developing, and managing a global venture. Los Angeles: SAGE Publications.

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MODULE CONTENT

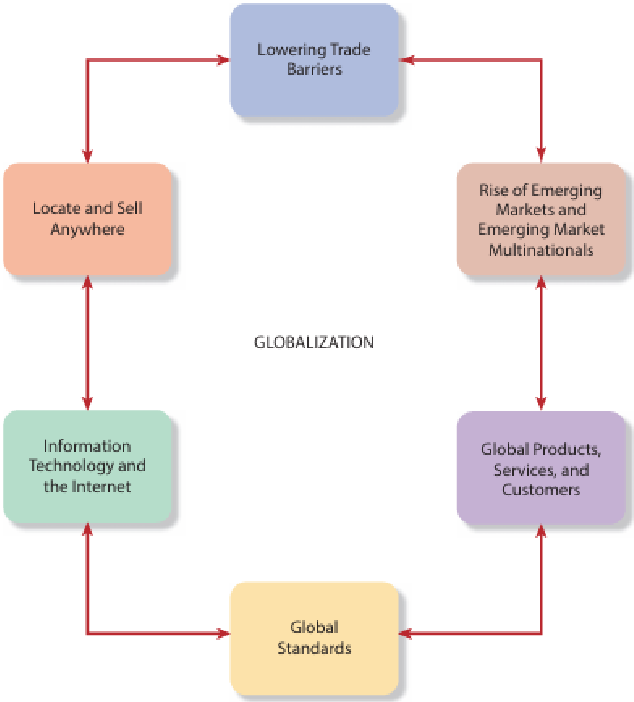
Chapter 1. Introduction to International Business

Globalization has transformed economies into a borderless, interconnected landscape where businesses operate globally, beyond domestic confines. This trend has intensified competition, reduced trade barriers, and accelerated international trade. Capital and investment now move across borders seeking optimal returns, while the Internet enables even small businesses to instantly become global players. Consequently, companies must adapt to this new reality, as domestic success no longer guarantees long-term profitability or survival.

A company participates in international business when it extends its business operations beyond its domestic borders. The most straightforward example is international sales: producing goods in one country and selling them in another. Going beyond national borders offers diverse international opportunities beyond sales. Multinational companies (MNCs) are firms that operate in multiple countries, with many being multinational corporations that are publicly traded and owned by shareholders.

There are series of global drivers towards more interconnectedness world economy, necessitating that businesses to enggange in international activities to thrive and prosper. These trends include the declining importance of national borders, a surge in global trade and investment, the rise of globally recognized products and consumers, the increased adoption of the Internet and cutting-edge information technology, the heightened role of developing economies in the world market, and the creation of global standards for quality and manufacturing. These globalization drivers, which are further explored, are critical for businesses aiming to thrive in a globalized world.

Figure 1.1.
Globalization Drivers



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

Globalization Drivers:

1. Lowering Trade Barriers
    - Global tariffs have significantly decreased from an average of 45% in the mid-1900s to 3.8% in the early 2000s due to negotiations like the General Agreement on Tariffs and Trade (GATT) and the establishment of the World Trade Organization (WTO).
    - The WTO, along with regional agreements like the EU and NAFTA, work towards reducing trade barriers and fostering global trade. Emerging economies are increasingly establishing regional partnerships, like ASEAN, to enhance trade activities. While the WTO views free trade as successful, critics argue it favors developed nations and can lead to environmental and labor issues.
2. Locate and Sell Anywhere
    - Emerging markets like China, Hong Kong, and South Korea are key players in global trade as top importers and exporters, indicating potential trade growth.
    - Multinational companies (MNCs) not only trade but also establish global networks for various operations and invest directly in foreign countries, known as foreign direct investment (FDI). Asian emerging markets are drawing significant foreign investments, highlighting their growing impact on the global economy.

3. Rise of Emerging markets
    - Emerging markets have been key to globalization, offering multinational companies (MNCs) cost-effective manufacturing and service provision.
    - Viewing emerging markets merely as low-cost production sites is an oversimplification. These markets are growing destinations for multinational sales, with significant consumer class expansion and rising middle-income populations, offering vast potential. Rural areas, in particular, show high demand growth, with India's consumer goods market projected to increase significantly.
    - Moreover, companies are leveraging emerging markets for innovation, creating products like Tata's Nano car and GE's portable ultrasound, driven by unique local challenges. These innovations meet local demands and can also be launched in developed markets, highlighting emerging markets' key contribution to worldwide innovation.
4. Global Product, Services, and Customers
    - Despite cultural and systemic differences, customers worldwide are seeking similar products and services, leading to the rise of global products and competition.
    - The trend of global customers shopping across borders for the best deals is accelerating globalization, with companies offering universal products to meet this demand. This shift is expected to continue as developing nations evolve into major consumer markets.
5. Global Standards
    - Global design standards are becoming prevalent, particularly for tech products, allowing for universal compatibility and use.
    - This standardization reduces manufacturing costs and market barriers, benefiting consumers with lower prices and companies with broader market access. While global standardization is advancing, full adoption may be slow due to unique local conditions in emerging markets.
6. Information Technology and the internet
    - The explosive growth in information technology and the Internet enables MNCs to reach global customers and manage operations worldwide. With over 3.4 billion people online, individuals can shop anywhere, and companies can sell globally.
    - Tools like email, the World Wide Web, and social media allow MNCs to communicate across borders instantly. Geographically dispersed organizations are connected virtually through computer networks.
    - Investors are going global, seeking financing in global markets that target the best companies worldwide.
    - Decreasing computer costs empower small companies with capabilities once exclusive to large multinationals.
    - The use of the Internet for supplier searches facilitates global customer behavior.

Chapter 2. Global Context

2.1. Culture & International Business

National culture is a set of shared values, beliefs, and rules that guide how people behave in a society. It helps identify who they are, what actions are right, and sets limits on what's not allowed. By providing predictability, culture ensures that people's actions are not random. Like the term "American dream" encapsulates the idea that success can be achieved through hard work in the US.

A nation's culture is expressed in various forms. Cultural beliefs, for instance, reflect a society's view of truth. Cultural norms dictate acceptable behaviors.

To explore cultural differences across countries, we will examine two widely recognized cultural frameworks. While various models exist (such as Trompenaars' and Ronen and Shenkar's frameworks), our focus will be on the Hofstede framework and the GLOBE framework.

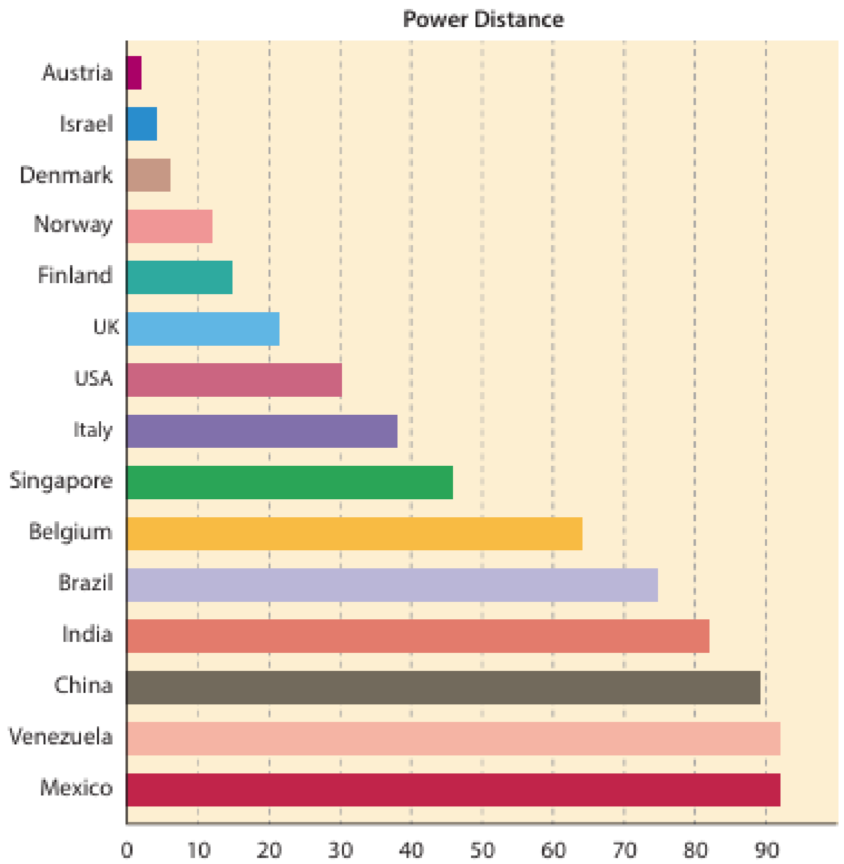
- Hofstede's model, despite its 1970s origins and occasional perception as dated, remains relevant according to recent research reviews.
- Meanwhile, the GLOBE studies offer a contemporary perspective, enhancing Hofstede's work by introducing additional cultural dimensions that further clarify societal differences.

2.1.1. Hostede's Model of National Culture

Hofstede, a Dutch researcher, created the Hofstede model of national culture. Hofstede surveyed more than 88,000 IBM employees across 72 countries. He focused his research on 40 countries and later expanded to include an additional ten countries and three regions. His model, centred around diverse values and work-related beliefs, sheds light on the link between national culture and business practices. It serves as a fundamental framework for comprehending the range of international business customs we'll explore further.

Power distance is the first cultural dimension identified by Hofstede. It measures a society's tolerance for inequality and hierarchical authority. In societies with high power distance, inequality is considered as normal, and those in positions of power receive special privileges. Hofstede's cultural dimension model assigns scores to countries, ranging from 100 (high power distance) to 0 (low power distance). (Figure 2.1.)

Figure 2.1.
Power Distance Dimensions



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

In international business, power distance has significant implications. In societies characterized by high power distance, multinational companies (MNCs) typically require managers who exhibit strong leadership qualities. Employees in such cultures show deference to their supervisors and expect clear instructions. Managers are expected to assert their position. Consider the experience of a US vice president meeting Indian executives. When she tried to arrange chairs, an Indian executive ignored her, believing it was a task beneath her status. High power distance cultures expect executives to behave accordingly.

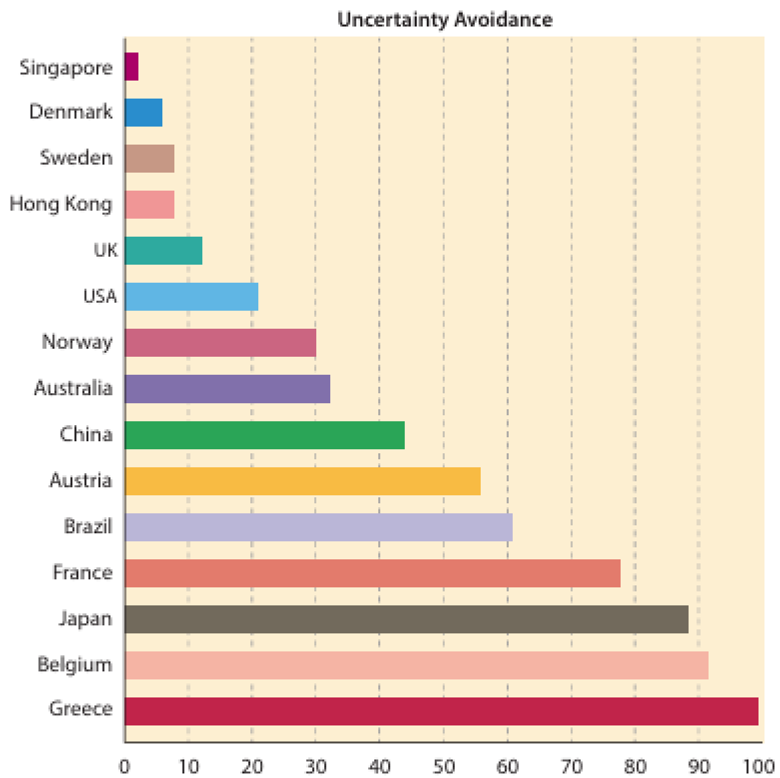
Power distance affects international business, as high power distance societies require leaders who command respect and provide clear guidance. For example, a US vice president's attempt to arrange chairs was seen as inappropriate by an Indian executive due to cultural expectations of status. Additionally, companies like Exxon Mobil train employees to respect authority regardless of age. Power distance influences business practices, often interacting with other cultural factors.

Uncertainty avoidance, the second cultural dimension proposed by Hofstede, measures a society's comfort with uncertainty and unpredictable situations (Figure 2.2.). In cultures with high uncertainty avoidance, order and predictability are emphasized through strict rules and regulations. Risky situations cause stress and upset in such societies.

Nordic and Anglo countries like Sweden, Denmark, the USA, and Australia have low uncertainty avoidance, meaning they are at ease with change and uncertainty. Conversely, Latin American emerging markets and Latin European countries like France and Spain have high uncertainty avoidance, where clear rules and order are preferred to manage stress and anxiety in daily life.

In international business, high uncertainty avoidance societies benefit from structured approaches. Multinational companies (MNCs) should provide clear instructions to reduce anxiety among subordinates. Written rules and procedures reinforce expectations, ensuring employees understand their roles. This adherence to guidelines is crucial in such cultures.

Figure 2.2.
Uncertainty Avoidance Dimensions



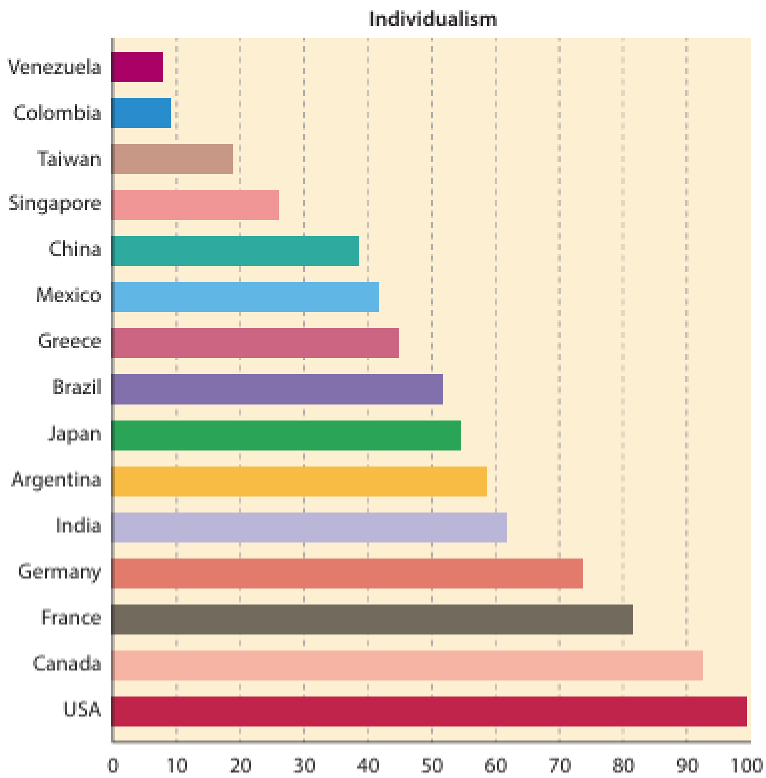
Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

Hofstede's concept of **individualism** dimension measures how much a society values the individual's role within a group. (Figure 2.3.). Societies high in individualism celebrate personal accomplishments, while collectivist societies prioritize group affiliations and collective rewards.

The US and other Anglo cultures like the UK and Australia score high on individualism, valuing personal achievements. Conversely, Asian and Latin American emerging markets score lower, highlighting the importance of social groups and collective values over individual accomplishments.

In societies with lower individualism, multinational corporations (MNCs) tend to value group connections and loyalty when hiring and promoting. In such collectivist cultures, it's important for MNCs to appreciate group dynamics and consider rewarding teams as a whole to foster unity and prevent disputes.

Figure 2.3.
Individualism Dimensions



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

Masculinity cultural dimension measures a society's focus on traditional masculine traits like career success and financial reward (Figure 2.4.). High masculinity societies prioritize work and often have gender-specific roles, while low masculinity societies place greater importance on life quality and don't emphasize work as much.

In Anglo nations like the US and UK, where masculinity scores are high, multinational corporations (MNCs) will find that employees place a significant emphasis on their careers, often working long hours with job recognition serving as a key incentive. On the other hand, Nordic countries such as Sweden, Denmark, and Norway, which have lower masculinity scores, have workforces that prioritize quality of life, evident in shorter work hours and extended vacations. For example, in France, it's common for employees to receive about 40 days of vacation, in contrast to the US's 15 days. French companies often provide perks like company-owned vacation properties, reflecting the country's lower masculinity levels and the value placed on life outside of work.

In societies with high levels of masculinity, there tends to be greater gender inequality regarding occupations. In more masculine societies, jobs are clearly categorized by gender, and certain roles are automatically reserved for males. Unfortunately, high masculinity is associated with a worse work environment for women. Conversely, in less masculine societies, occupations are less strictly gender-based, and the work environment may be more inclusive and equitable

Figure 2.4.
Masculinity Dimensions

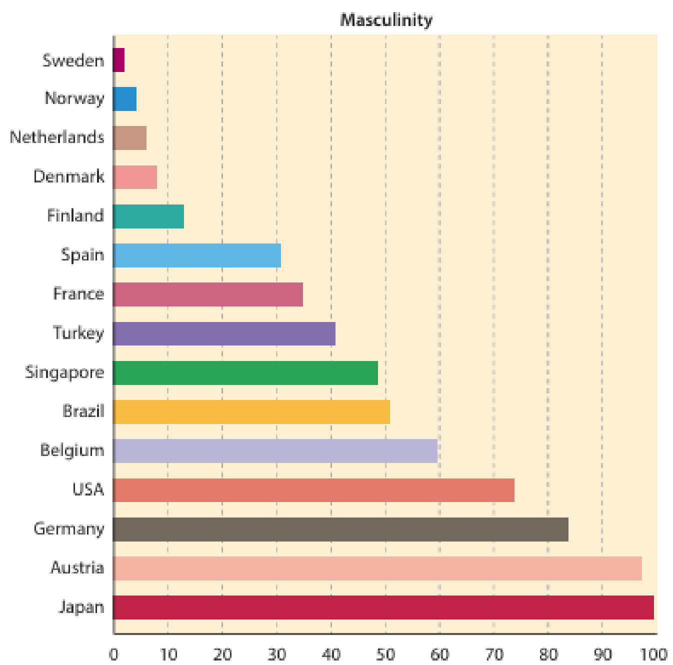


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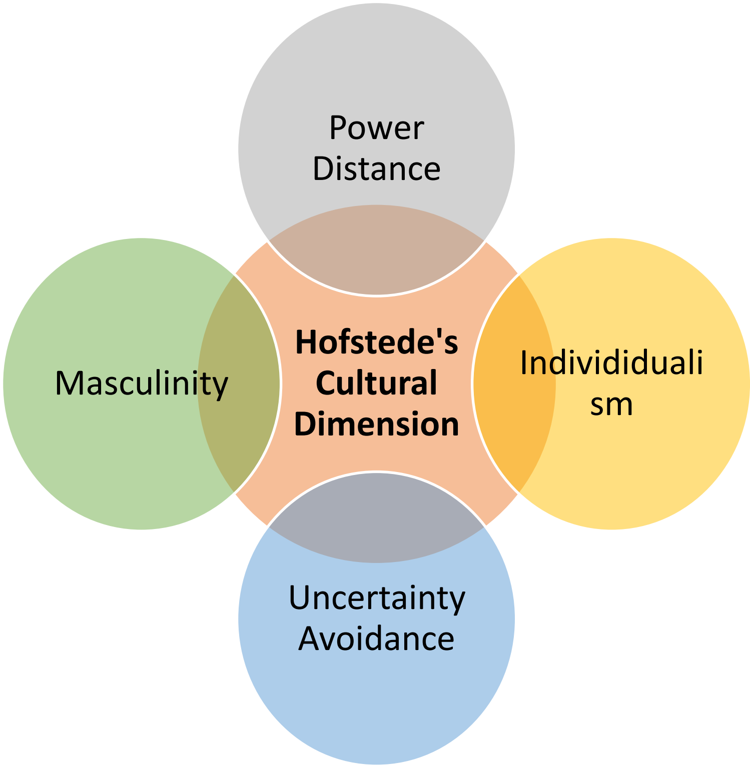
Figure 2.5.
Hofstede's Cultural Dimension



The Hofstede model is a cornerstone for understanding cultural variances but has been critiqued for its simplicity, reliance on dated data from IBM managers, and lack of adaptability to cultural changes over time. Despite this, it remains a valuable tool for multinational managers and continues to be relevant, as evidenced by recent reviews and the subsequent GLOBE studies that build upon Hofstede's work.

2.1.2. GLOBE studies

The Hofstede model helps us understand how cultures differ, but it's based on old data. The newer GLOBE project, with research from 62 countries, updates these cultural insights, covering areas like authority, risk handling, group behavior, confidence, and gender equality. Despite criticisms, both models contribute to understanding cultural implications for multinational managers.

Yet, the GLOBE researchers identified three dimensions that stand out for their uniqueness. These are:

1. Future orientation,
2. Humane orientation, and
3. Performance orientation

There three dimensions will be explored further.

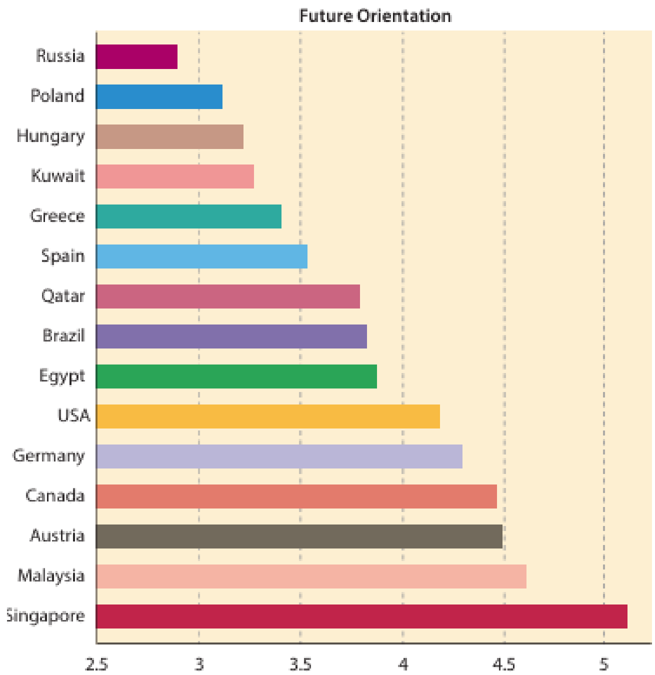
The concept of **future orientation**, which gauges the extent to which people's present actions are seen as shaping their future, mirrors Hofstede's long-term orientation. The GLOBE's measure of future orientation is preferred for its recency and broader societal scope (Figure 2.5.).

In cultures with low future orientation, people tend to be spontaneous and prioritize enjoying the current moment. For instance, former communist emerging market societies like Poland, Russia, and Hungary exhibit relatively low future orientation scores. Decades of communism may have influenced a preference for instant gratification over long-term planning due to historical deprivation.

Conversely, societies with high future orientation emphasize planning and strategies to achieve future goals. Many Nordic countries score relatively high on this dimension. Their periods of relative wealth enable better long-term planning.

The implication in international business is multinational corporations (MNCs) should anticipate less emphasis on strategic planning in societies with low future orientation. Management systems in such cultures may be less flexible. People may prioritize immediate results over long-term outcomes when working with MNCs.

Figure 2.5.
Future Orientation Dimensions



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

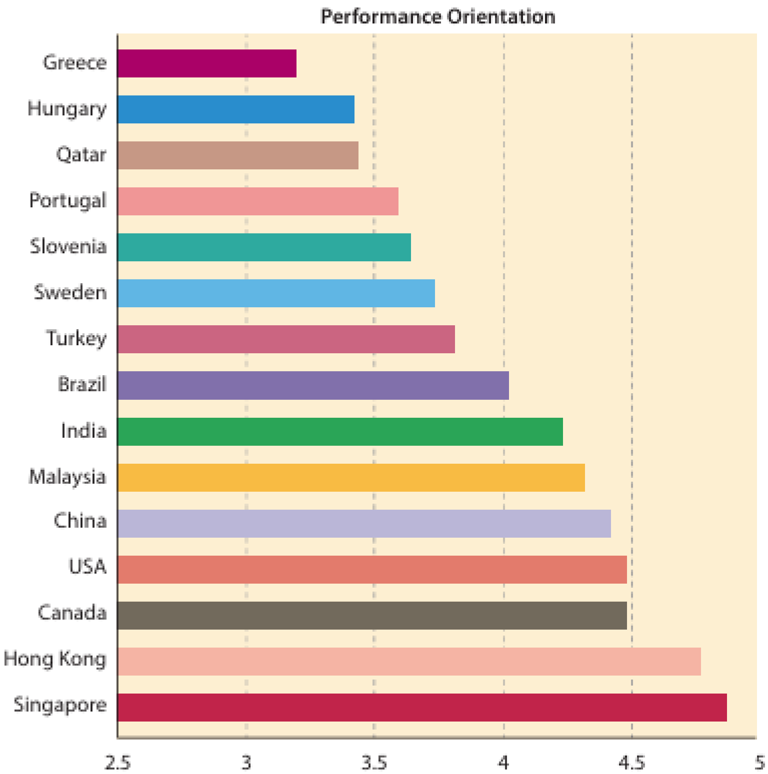
Performance orientation refers to how much a society encourages individuals to innovate, improve their performance, and strive for excellence. It's akin to Weber's Protestant work ethic and reflects the desire for achievement within a society.

Countries like the United States and Singapore score high on performance orientation. In these societies, people are evaluated based on their accomplishments. Status is conferred through achievement. Russia and Greece, for example, have low scores on this dimension. In such cultures, status is given based on characteristics like age, family connections, gender, and education—what we call "ascription societies."

The implications for international business:

- High-performance societies emphasize training and development
- Low-performance societies prioritize family background.
- In high-performance cultures, initiative is rewarded, while low-performance cultures value harmony and integrity over assertiveness.

Figure 2.6.
Performance Orientation Dimensions



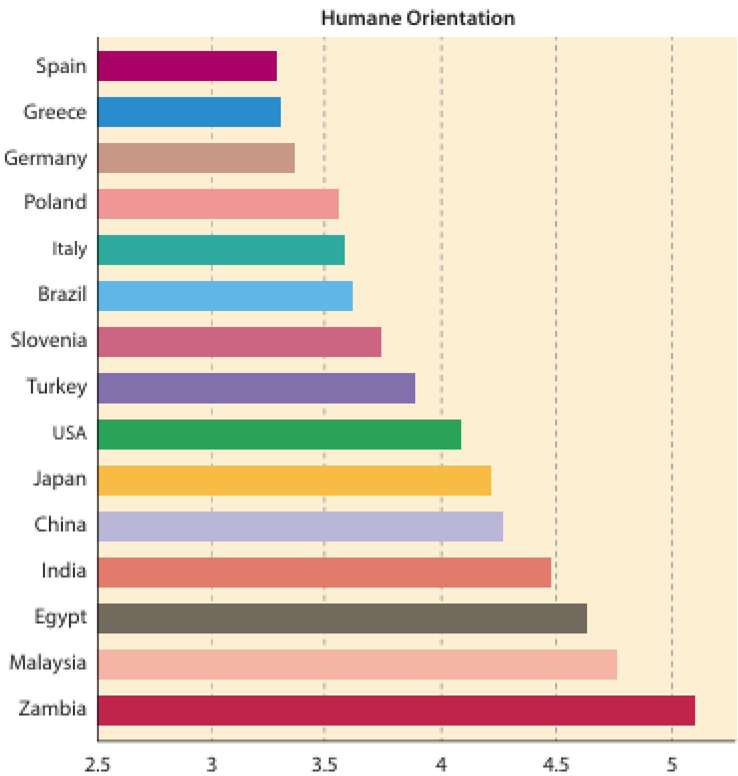
Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

Humane orientation refers to how much a society encourages friendliness, generosity, and caring.

In societies with high humane orientation, people view others as crucial. They value kindness, benevolence, generosity, and love. These cultures emphasize helping one another and providing material and financial support. Many emerging Asian societies exhibit high humane orientation, and even Zambia scores surprisingly high on this dimension. On the contrary, Latin European countries and Germany tend to have lower levels of humane orientation. In such cultures, self-interest and material possessions take precedence.

In the international business context, multinational corporations (MNCs) operating in high humane societies should foster environments based on relationships. Expect informal interactions and a higher level of trust. While, MNCs in low humane societies cultures may encounter more formality and greater state and union control.

Figure 2.7.
Humane Orientation Dimensions



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

GLOBE data, while rich in insights across many countries, can be simplified by grouping them into country clusters. These clusters consist of countries with similar cultural patterns. The ten clusters identified in the GLOBE project include the Anglo, Confucian Asia, Eastern Europe, Germanic Europe, Latin America, Latin Europe, Middle East, Nordic Europe, Southern Asia, and sub-Saharan cluster (Figure 2.8). Country clusters share common cultural patterns.

Figure 2.8.
Globe Country Clusters

Anglo	Latin Europe	Eastern Europe	Latin America	Confucian Asia
Australia	Israel	Albania	Argentina	China
Canada	Italy	Georgia	Bolivia	Hong Kong
Ireland	Portugal	Greece	Brazil	Japan
New Zealand	Spain	Hungary	Colombia	Singapore
South Africa (White)	France	Kazakhstan	Costa Rica	South Korea
United Kingdom	Switzerland (French)	Poland	El Salvador	Taiwan
USA		Russia	Guatemala	
		Slovenia	Mexico	
			Venezuela	
Nordic Europe	**Germanic Europe**	**Sub-Saharan Africa**	**Middle East**	**Southern Asia**
Denmark	Austria	Namibia	Qatar	India
Finland	Switzerland	Nigeria	Morocco	Indonesia
Sweden	Netherlands	South Africa (Black)	Turkey	Philippines
	Germany (former East)	Zambia	Egypt	Malaysia
	Germany (former West)	Zimbabwe	Kuwait	Thailand
				Iran

Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

While cultures vary within these broad classifications, summarizing them into clusters helps condense cultural information. These summaries predict likely cultural traits when specific national data isn't available (Figure 2.9). Multinational corporations (MNCs) benefit from understanding cultural similarity. Entering countries with cultures akin to their own is less risky. Clusters provide readily available insights.

Like the Hofstede model, the GLOBE model faces criticism. Some argue that questionnaire-based research can't fully assess a country's cultural profile due to cultural complexity. Despite critiques, using the Hofstede and GLOBE models is a solid starting point. They reveal critical cultural differences. Understanding national culture reduces the risk of cultural missteps in international business. National culture significantly influences business norms and etiquette

Figure 2.9.
GLOBE Country Clusters and Cultural Dimensions

Cluster	Performance Orientation	Assertiveness	Future Orientation	Humane Orientation	Institutional Collectivism	In-group Collectivism	Gender Egalitarianism	Power Distance	Uncertainty Avoidance
Comparison with Hofstede	Unique	Masculinity	Long-term orientation	Unique	Collectivism	Collectivism	Femininity	Power Distance	Uncertainty Avoidance
Anglo	High	Medium	Medium	Medium	Medium	Low	Medium	Medium	Medium
Confucian Asia	High	Medium	Medium	Medium	High	High	Medium	Medium	Medium
Eastern Europe	Low	High	Low	Medium	Medium	High	High	Medium	Low
Germanic Europe	High	High	High	Low	Low	Low	Medium	Medium	High
Latin America	Low	Medium	Low	Medium	Low	High	Medium	Medium	Low
Latin Europe	Medium	Medium	Medium	Low	Low	Medium	Medium	Medium	Medium
Middle East	Medium	Medium	Low	Medium	Medium	High	Low	Medium	Low
Nordic Europe	Medium	Low	High	Medium	High	Low	High	Low	High
Southern Asia	Medium	Medium	Medium	High	Medium	High	Medium	Medium	Medium
Sub-Saharan Africa	Medium	Medium	Medium	High	Medium	Medium	Medium	Medium	Medium

Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

2.1.3. National Culture and Business Culture

A society's business culture encompasses the shared values, beliefs, and norms that shape how business activities are conducted within that society. It's crucial to understand because it guides proper business conduct, much like national culture does. **Business etiquette**, which includes the dos and don'ts in business interactions, is shaped by this culture.

In business, the level of formality in addressing colleagues varies by culture. In the U.S., workplace interactions are generally informal, and people rarely use titles or surnames. Conversely, in countries like China and India, there's a greater emphasis on formal titles and surnames due to a cultural respect for hierarchy, a concept referred to as power distance. This reflects an understanding and acceptance of unequal power distribution, with formal titles used to show deference to those higher up.

In places where there's a big gap between leaders and workers, like some countries in Asia, people are expected to act very formally. This includes wearing formal clothes, being punctual, and sharing business cards.

Having good relationships with business partners is also very important. In China, people look for partnerships that will last a long time and they take their time to trust each other. This is not the same in the United States, where business agreements are usually made for a shorter time. This difference is partly due to collectivism, which values close personal relationships, especially in business. So, when American companies work with Chinese ones, they should focus on building a good relationship first, even if it takes longer than they're used to.

2.2. Implication of Social Institution, Economic, Legal, and Political.

Emerging markets often lack the support systems—like financial services, legal frameworks, and enforcement mechanisms—found in more developed markets. This can hinder entrepreneurs from accessing funds and make it difficult for lenders to recover loans. Weak local governance may lead to disregarded laws and a business culture where bribery is common, as observed by multinational employees in these markets.

Social institutions are structures that shape societal roles, norms, and values. They're crucial for understanding a country's business climate, including its economic, legal, and religious systems. These institutions influence business practices and are stable in developed economies, supporting market operations. However, they may be weak in emerging markets, presenting challenges for multinational companies and international business.

The **economic system** is the framework that directs business operations and the creation of goods and services. It varies based on who makes the decisions: the government in a centrally planned economy, or private individuals in a capitalist society.

1. A capitalist economy is driven by private individuals seeking profit, with minimal government intervention, seen in countries like the UK and USA.
2. In contrast, a socialist economy is state-controlled, typical in nations like Cuba and North Korea.
3. Most countries have mixed economies, blending private enterprise with government-managed sectors, such as healthcare and education, found in Sweden and India. In the corporatist model, typical of mixed economies, the government partners with businesses to meet shared objectives, rather than prioritizing shareholder profits. This model blends market freedom with government oversight of key sectors. However, excessive government control can cause inefficiency and waste, prompting a shift towards more market-driven economies.

Economic markets are mainly divided into three types, with emerging markets often being mixed economies where government intervention is common. Multinational companies (MNCs) must navigate these interventions, which can be unpredictable.

Transition economies, shifting from socialism to market-based systems, pose unique challenges due to past practices like government-set prices and lack of strategic business functions. MNCs must adapt to these environments, which may include institutional voids and varying levels of economic freedom.

The Heritage Foundation's Index of Economic Freedom is a tool for multinational companies to evaluate a country's business environment.

- The degree of economic freedom, determined by factors like trade policy, taxation, and property rights, affects how easily business can be conducted. Countries are rated across a spectrum from 'free' to 'repressed' based on these criteria..
- Expect greater challenges in countries with lower economic freedom.

Figure 2.10.
Index of Economic Freedom

Free	Mostly Free	Moderately Free	Mostly Unfree	Repressed
Hong Kong	Ireland	Poland	Sri Lanka	Angola
Singapore	Canada	Peru	Egypt	Ecuador
Australia	Chile	Thailand	Indonesia	Argentina
Switzerland	Mauritius	France	Tanzania	Venezuela
New Zealand	Japan	Ghana	Vietnam	Burma
	Colombia	Mexico	China	Turkmenistan
	Taiwan	South Africa	Russia	Ukraine
	Czech Republic	Slovenia	Brazil	Cuba
	Norway	Armenia	Algeria	North Korea
	Finland	Jamaica	Nigeria	Bolivia
	Austria	Panama	Tunisia	Iran
	UAE		Kenya	Zimbabwe

Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

The legal system consists of regulations, laws, and rules that influence individual decisions and establish accountability for their actions in any society. For multinational companies, the international business law system is crucial. It includes the laws and rules of each nation that impact business decisions within that country.

The **World Bank's 'Doing Business' project** Offers essential insights into the critical factors to consider when conducting business in any country. There are four key aspects related to international business, including starting a business, employing workers, getting credit and enforcing contracts. The 'Starting a Business' metric objectively assesses the considerations for entrepreneurs or multinationals when launching a commercial or industrial business with over 50 employees. It evaluates the number of registration procedures, time spent, associated expenses, and the minimum capital required as a percentage of income. This provides valuable insights for anyone planning to open a business in a specific country.

Enforcing contracts is the final indication of the country's legal environment is the degree to which contracts can be enforced. Multinational companies often expand to new countries through strategic alliances and agreements, which are contract-based.

- The 'Enforcing Contracts' measure indicates the time and effort required to settle commercial disputes legally.
- The country's commitment to uphold and enforce them determine the effectiveness of these contracts.

Political risk is the potential threat posed by social, political, or economic factors in a foreign country that could impact an organization's global operations. As more multinationals invest abroad, they encounter political risks, including potential damage to foreign plants or difficulties repatriating currency. Surprisingly, countries with high political risk often offer the best opportunities. The challenge for multinationals lies in accurately predicting and managing these risks. Local businesses are also affected by political risk.

Political risk can take various forms:

- Political interference by elected or unelected officials.
- Unilateral contract cancellations.

Negative impacts of political risk on multinationals include:

- Constraints on currency conversion, limiting access to capital.
- Governmental conditions affecting plant control.
- Higher levels of political violence and contract breaches.
- Influence on the government's ability to enforce legal and bureaucratic systems.
- Asset confiscation through nationalization.
- Forced sale of operations (expropriation).

To assess political risk, consider:

- Political stability, ease of transitioning to new governments, freedom of non-governmental institutions (e.g., trade unions), social unrest, and political violence.
- Other factors like resilience of the political system, social inequality, unemployment, corruption, terrorism threats, and infrastructure risks.

Chapter 3. Multinational Corporations Operation

3.1. Entry Strategies

International managers must strategically choose their mode of entry—exporting, partnering with local firms, or setting up their own facilities—when expanding into new countries with multinational strategies. These choices fall under the category of entry strategies.

The popular entry strategies are:

1. **Exporting**
   - Exporting means selling products to customers in another country.
   - Exporting is the simplest method to enter international markets.
   - Companies often start with **passive exporting**. It involves minimal effort, treating overseas orders like domestic ones. Example: A company receives an order through its website or at a trade fair and handles the foreign customer like any other customer.
   - Small businesses may begin as passive exporters and then expand to more complex programs. Even larger companies sometimes use passive exporting.
   - Once a company moves beyond passive exporting, there are two general export strategies for the multinational company, **indirect and direct exporting.**
   - Smaller firms and beginning exporters usually find indirect exporting the most viable option. In indirect exporting, intermediary or go-between companies provide the knowledge and contacts necessary to help a company sell internationally. Indirect exporting provides a company with an export option without the complexities of doing it alone The most common **intermediaries** are the Export Management Company (EMC) and the Export Trading Company (ETC)
   - Multinational companies can allocate significant resources to exporting, including dedicated export departments and international sales teams.

2. **Licensing**
   - International Licensing is a contractual agreement where a local company (licenser) allows a foreign company (licensee) to use its intellectual property. In licensing, the licenser provides intellectual property such as patents or trademarks, while the licensee compensates with royalty payments.
   - Licensing is method offers a cost-effective and relatively safe strategy for companies to grow internationally. It's not limited to small firms; even large multinationals opt for licensing under favorable conditions. The licensing agreement specifies the partnership's legal framework.
   - In international franchising, the franchisor provides the franchisee with a full business setup, including trademarks and know-how. The franchisee must

follow strict rules for consistent operations, and the franchisor earns royalties from the franchisee's sales.

- When considering international licensing managers often consider three factors:
    - The product:
      The ideal products for licensing are typically a company's older technologies or those about to be updated. This approach allows companies to monetize existing inventions while they develop new ones.
    - The characteristics of the target country in which the product will be licensed.
      Local market features that increase product costs, like tariffs or quotas can make licensing a more appealing option than exporting or other market entry methods. This is because licensing can avoid these extra costs associated with selling finished goods in markets with trade barriers
    - The nature of their company:
      If a company doesn't have enough money, skills, or staff to handle exports or foreign investments, licensing is a better choice. It simplifies the process by eliminating the need to oversee international activities, hire export specialists, or set up production abroad.
      This makes licensing a convenient and resource-efficient option for global business expansion

Figure 3.1.
License Agreement content

What you get to use	How can you use it?	How do the licensors get paid?	Other issues to consider
• Trademarks: Brand names such as Hilton	• Who: Which companies have the right to use the licensed asset?	• Currency: In what currency are payments made to the licensor?	• Law: In what country will the contract law apply?
• Designs: The right to use the same design or production processes of the licensor	• Where: Identifies the nations in which the licensee is allowed or prohibited from operating	• Method: Types of payments, which can be lump sum, installments, royalties as a percentage of profits	• Language: What is the official language of the contract?
• Patents: The right to use otherwise legally protected processes or inventions such as a cancer drug	• Performance: What exactly is required of the licensee?	• Minimum payments: Agreements stating the minimum payment	• Disputes: What type of dispute-resolution mechanism will be used?
• Copyrights: The use of intellectual property such as computer software or written material	• Improvements: What happens if the licensee or licensor makes improvements in licensed property?	• Other: Fees for product improvements, technical assistance, training, etc.	• Reports: What and when must the licensee report?
• Products and Processes: The use of standardized process such as real estate selection and products that have instant name recognition	• Conflicts: Franchisors and franchisees can often have conflict stemming from a number of issues. Agreements need to be in place to deal with such conflicts.	• Other: Fees for product use and training, etc.	• Training: Who should be trained? What types of training should be provided? What standard processes should be implemented to deal with all managerial aspects?
• Knowledge: Access to special knowledge or technology such as a reservations system in a hotel group	• Duration: How long does the license contract last?	• Schedule: When payments to the licensor are due	• Penalties: What penalties are in place if either party fails to live up to the agreement?
	• Confidentiality: Specific provisions in the agreement that require the licensee to protect trade secrets or designs from others		• Inspections and audits: What are the rights of the licensor to monitor the licensee?
			• Termination: How to end the agreement

Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

3. Strategic alliances

Strategic alliances are employed by multinational companies for various reasons. These reasons often stem from the idea that when two or more companies possess distinct capabilities, their collaborative efforts can result in competitive advantages. The other reasons are as follows:

- Local partner’s market knowledge
- Government requirement
- Sharing risks
- Sharing technology
- Economies of scale

4. **Foreign direct investment.**
   - Foreign direct investment (FDI) represents the most advanced level of global business expansion. It typically involves a multinational company owning operations in another country, either partially or fully. FDI allows for establishing various subsidiaries abroad, such as research and development, sales, or manufacturing. FDI also includes acquiring or merging with foreign companies.
   - **A greenfield investment** occurs when a multinational company establishes a new operation in a foreign country, starting from the ground up. The term suggests starting afresh, similar to constructing a new facility on an untouched meadow, although in practice, it often involves purchasing existing land or buildings for development.

When deciding on an entry strategy, international managers need to evaluate broader strategic factors, including:

1. The company's strategic goals related to profit or knowledge acquisition.
2. The company's strengths and abilities.
3. Regulations imposed by the local government.
4. Features of the intended product and market.
5. The geographical and cultural gap between the home and target countries.
6. The balance between risk management and operational control.

3.2. International Marketing & Supply Chain Management

Multinational corporation managers must navigate global market differences and use common aspects to compete effectively. Deep market research is essential to inform product, distribution, pricing, and promotion strategies. While some products may be extended with minimal changes, often adaptations are necessary. The internet plays a crucial role in product accessibility, and global pricing is shaped by local competition, distribution margins, and regulations. The marketing communication mix, encompassing advertising, promotions, and personal selling, is how MNCs engage with customers globally.

International marketing research is the process of collecting information about foreign markets to help managers understand customer preferences and make smart decisions for both global and local marketing. It's essential for creating effective marketing strategies, identifying customer groups, and planning for business growth. The process begins with identifying the necessary marketing information, often utilizing secondary data previously collected by organizations like governments or international bodies.

Figure 3.1.
Dimensions and Measured of Market Potential Index (MPI)

Dimension	Measures	Secondary Data Sources
Market Size	• Electricity Consumption (2012) • Urban Population (2014)	• World Bank, *World Development Indicators*
Market Intensity	• GNI per Capita Estimates Using PPP (2014) • Private Consumption as a percentage of GDP (2014)	• World Bank, *World Development Indicators*
Market Growth Rate	• Compound Annual Growth Rate (CAGR) of Primary Energy Use (2008–2013) • Compound Annual Growth Rate (CAGR) of GDP (constant 2005 US$) (2009–2014)	• US Energy Information Administration, *International Energy Annual* • World Bank, *World Development Indicators*
Market Consumption Capacity	• Consumer Expenditure (2014) • Income Share of Middle-class (2013) • Household Annual Disposable Income of Middle-class (2014)	• Euromonitor International, *Global Market Information Database* • World Bank, *World Development Indicators*
Commercial Infrastructure	• Cellular Mobile Subscribers (2014) • Households with Internet Access (2014) • International Internet Bandwidth (2013) • Number of PCs (2014) • Paved Road Density (2014) • Population per Retail Outlet (2015) • Available Airline Seats (2015) • Logistics Performance Index (LPI) (2014)	• International Telecommunication Union, *ICT Indicators* • World Bank, *World Development Indicators* • Euromonitor International, *Global Market Information Database* • World Economic Forum, *Global Competitiveness Report* • World Bank, *Logistics Performance Index*
Market Receptivity	• Per Capita Imports from US (2015) • Trade as a Percentage of GDP (2014)	• US Census Bureau Foreign Trade Division, *Country Trade Data* • World Bank, *World Development Indicators*
Economic Freedom	• Economic Freedom Index (2015) • Political Freedom Index (2015)	• Heritage Foundation, *The Index of Economic Freedom* • Freedom House, *Survey of Freedom in the World*
Country Risk	• Business Risk Rating (2015) • Country Risk Rating (2015) • Political Risk Rating (2015)	• Swiss Export Risk Insurance, *Country Risk Survey* • Coface, *Country Risk Survey* • Credimundi, *Country Risk Survey*

Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

Primary Data do not previously exist. Hence, needs to be gathered specifically for international managers, primary data do not previously exist. Surveys are common, asking customers about satisfaction, service preferences, reasonable prices, and spending habits. Customer panels can track changes over time. Small groups of actual or potential customers (focus group) can discuss topics relevant to international managers. There will be language challenges. Creating questionnaires in different languages requires more than translation. Back translation ensures consistency. Cultural biases can affect responses. Some cultures tend to respond in specific ways, while others may be less willing to participate.

To build a knowledge advantage, research procedures must adapt to local conditions. Hiring local market research companies enhances cultural sensitivity. International research is costlier but should prioritize information quality. Integrating new research with multinational programs can be complex. Lastly, assessing market size and demand is crucial before entering a foreign market.

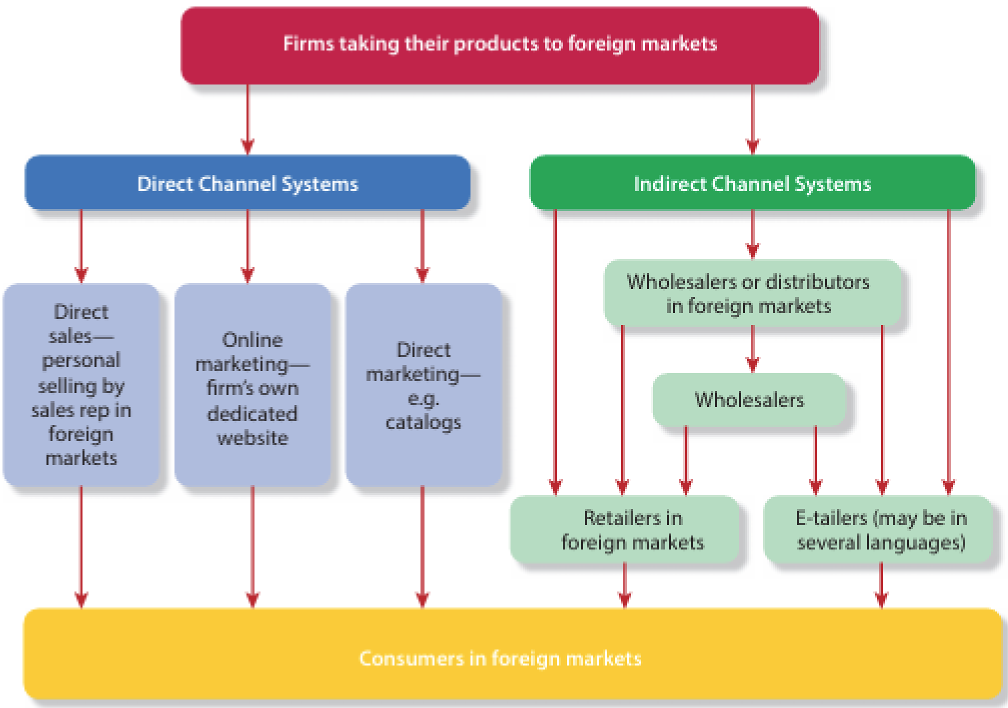
Segmentation involves grouping consumers based on their preferences and needs. This allows multinational companies to customize marketing programs and products to address specific requirements. Sometimes, research can unveil global or regional segments which comprise customers with similar needs from different countries.

Understanding consumer preferences across countries is crucial as the key consideration in Global-Local Balance. When segment is global or regional, marketer should consider to take advantage of standardized marketing. However when the segment in unique within a country will require tailored offerings.

A brand serves as a product's unique identity, encompassing its name, logo, symbols, jingles, color scheme, distinctive packaging, design, and any other elements that forge a connection with the product and distinguish it. Multinational companies are often confronted with the decision to adopt a universal brand strategy or tailor brands for regional or individual country markets. **A global brand** maintains a uniform identity worldwide, offering consistent benefits, features, and branding elements like names, logos, and taglines that carry the same significance for consumers globally.

Distribution Channels: These intermediaries, including wholesalers and retailers, ensure products reach end users. Besides traditional retail stores, products are increasingly sold through e-tailers—online stores. Rarely, companies directly distribute to consumers, often via the Internet. However, selling individual items this way is usually cost-prohibitive.

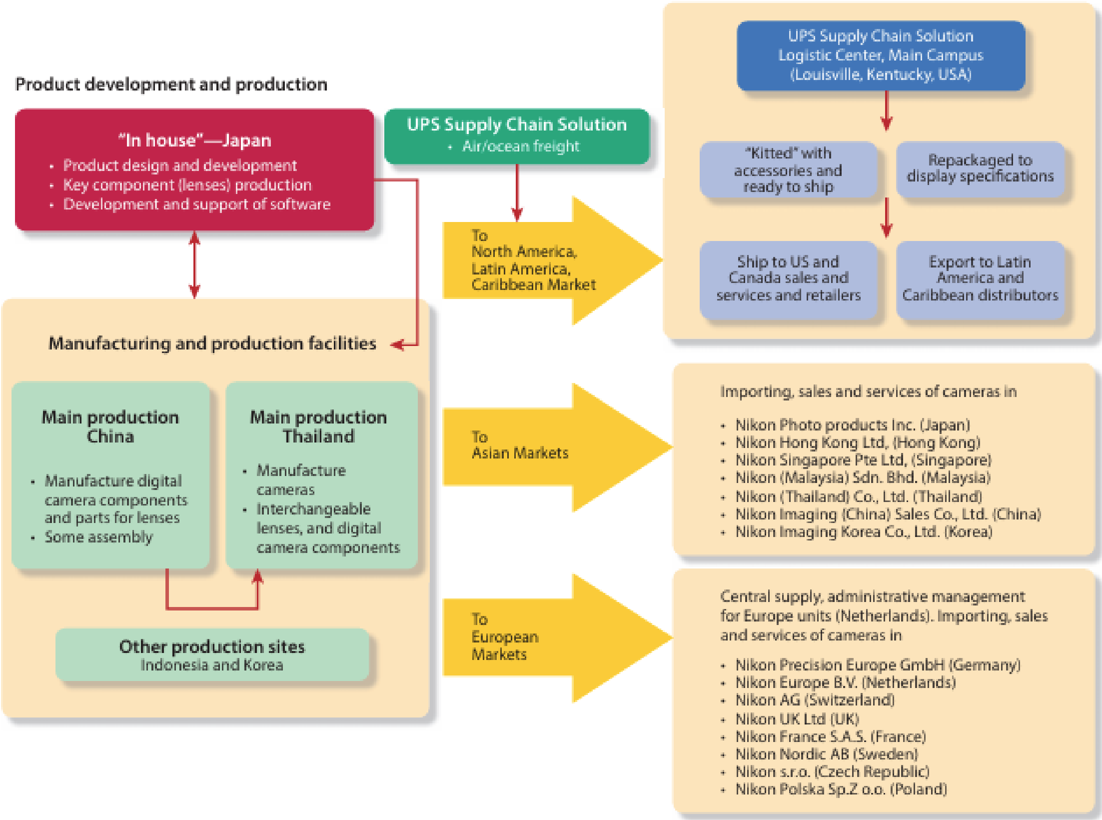
Figure 3.2.
Example of Global Distribution Channels



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

Supply Chains: These encompass all tasks and services connecting a product from raw materials to the consumer. Distribution channels form the latter part of the supply chain, delivering products to end users. In addition to the production process, the supply chain encompasses the acquisition of subcomponents, subassemblies, and raw materials used in product manufacturing. Supply chains encompass various activities, including transportation of goods, inventory management, order processing, materials handling, and warehousing. Given that many product parts and materials come from other countries, supply chains are often global.

Figure 3.2.
Digital Camera Supply Chain



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

Setting **pricing** in global markets is crucial to a marketing plan, as it significantly affects a multinational company's income and profit margins. It is vital that the pricing not only accounts for the product's costs but also mirrors the value that overseas consumers attribute to the product, which ultimately determines their willingness to purchase it. Additionally, the international manager must navigate various other elements such as competition, distribution networks, and local government regulations, which add layers of complexity to pricing decisions.

Products are often discovered through word-of-mouth from friends and family, yet the most common source is through **multinational company's communication mix**. This includes mass media advertising across print, radio, online, and television platforms; promotional activities like coupons, in-store signage, event sponsorships, or competitions; and direct sales efforts in retail locations or through home visits. The communication mix encompasses all tools a multinational company employs to inform, promote, and convince consumers to purchase and use its products.

When entering international markets, this mix presents distinct challenges due to the global-local conundrum that significantly affects communication strategies. Mass media advertising is typically the most noticeable aspect of the communication mix. However, language barriers pose significant issues, and cultural sensitivities, particularly regarding religion and gender, must be carefully navigated. Moreover, advertising standards and the availability of media channels vary greatly across nations.

Despite these variances, advancements in communication technology are inducing significant shifts. Satellite broadcasts and the internet are rapidly diminishing national borders, with the latter acting as a harmonizing agent in the communication mix.

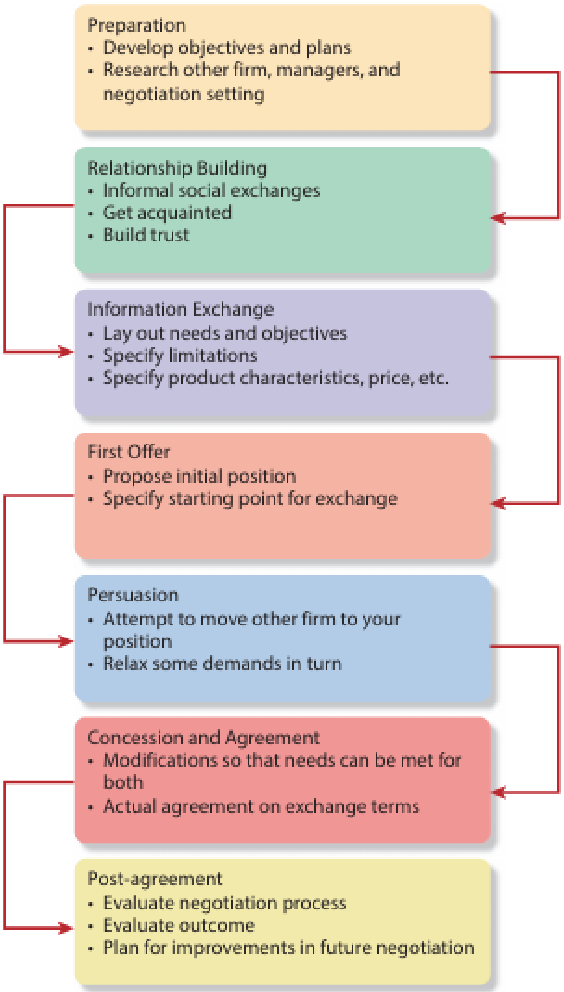
The effectiveness of promotions is often contingent on local management due to the diverse legal and cultural landscapes, which limits the scope for universal promotional campaigns. However, sponsoring major global sports events stands out as a notable exception, offering substantial brand-building benefits for multinational corporations, albeit at a high cost.

Given the vast differences in marketing communication practices and local regulations, it's crucial to seek local expertise, often provided by advertising agencies. These agencies craft and place print, TV, and radio ads, ensuring they reach the intended audience. Multinational companies benefit from establishing local branches with staff who have a deep understanding of the regional market. While hiring these agencies can be costly, they are valuable in avoiding expensive errors and can assist in creating and coordinating standardized communication strategies where feasible and suitable.

Personal selling, where a company's representative engages with customers individually to sell products, is a costly yet effective method of communication for multinational corporations. This approach is particularly suited for complex, high-value items like aircraft or industrial plants. Multinational companies employ local sales representatives because they play a crucial role in bridging cultural differences.

Cross-cultural negotiation poses significant challenges in global sales. Despite having capable local representatives, managers from local buying companies and foreign selling companies frequently need to collaborate to negotiate agreements. The success of these negotiations hinges on the international managers' ability to adapt and accommodate cultural differences effectively. The success of these negotiations hinges on the international managers' ability to understand and adapt to cultural differences. Preparation is key, involving research on negotiation topics, objectives, the parties involved, the company, and the context.

Figure 3.3.
Cross-cultural negotiation process



Source: Cullen, J. B., & Parboteeah, P. (2018). International business: Perspectives from developed and emerging markets. New York, NY: Routledge.

The process of building relationships starts when representatives from both companies meet, focusing on establishing trust. The substantial work in cross-cultural negotiation commences during the exchange of information and the initial offer.

Subsequently, persuasion forms the core of the negotiation, where each party endeavors to convince the other to understand and accept their perspective. The final agreement is usually reached after both sides make some concessions to meet mutual needs. After an agreement is reached, the process is reviewed to identify successful strategies and areas for improvement, enhancing future negotiations.