MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE

O. M. BEKETOV NATIONAL UNIVERSITY
of URBAN ECONOMY in KHARKIV

Khrystyna Kalashnikova

INTERNATIONAL BUSINESS STRATEGIES

LECTURES

(for 4st-year full-time students specialty
073 – Management, 281 – Public administration)

Kharkiv – O. M. Beketov NUUE – 2021

Kalashnikova Kh. International business strategies : lectures for 4st-year full-time students specialty 073 – Mamagement, 281 – Public administration / Kh. Kalashnikova ; O. M. Beketov National University of Urban Economy in Kharkiv. – Kharkiv : O. M. Beketov NUUE, 2021. – 77 p.

Author PhD of Economics Sciences, Associate Professor, Kh. Kalashnikova

Reviewer

S. Plotnytska, doctor of Economic Sciences, Associate Professor of the Department of Management and Public Administration, O. M. Beketov National University of Urban Economy in Kharkiv

Recommended by the department of management and public administration, record № 1 on 29.08.2019.

CONTENTS

PREFACE…………………………………………………………………. 4
THEME 1 CONCEPTUAL FOUNDATIONS OF INTERNATIONAL BUSINESS STRATEGIES…………………………………………………….. 7
THEME 2 MULTINATIONAL COMPETITIVE STRATEGY: GLOBAL CONTEXT………………………………………………………………… 13
THEME 3 MANAGEMENT IN INTERNATIONAL BUSINESS………….. 20
THEME 4 THE INSTITUTIONAL AND CULTURAL CONTEXT OF MULTINATIONAL COMPETITIVE STRATEGY………………………… 30
THEME 5 MULTINATIONAL OPERATIONAL AND FUNCTIONAL STRATEGIES…………………………………………………………... 34
THEME 6 ETHICAL MANAGEMENT IN THE INTERNATIONAL CONTEXT………………………………………………………………… 38
THEME 7 DYNAMICS OF GLOBAL STRATEGY………………………… 44
TEST QUESTIONS……………………………………………………….. 55
REFERENCES…………………………………………………………….. 75

PREFACE

The purpose of the discipline "International Business Strategies" is to form in future professionals the skills and abilities to use the tools of strategic analysis in addressing practical issues in the field of international strategic management.

Tasks of the discipline "International Business Strategies":

– forming an idea of the essence and methodology of international strategic planning;

– mastering modern concepts developed by domestic and foreign researchers in the field of international business strategies;

– creating a holistic view of students about modern strategic management in multinational companies, its methodological approaches and role in improving the competitiveness of the organization operating in the international market;

– identify the most important and typical stages of international strategic planning;

– study of the algorithm of strategic planning at the enterprise;

– formation of skills of choosing the most effective international strategy for the enterprise depending on its type of activity.

Senior managers in multinational enterprises have a healthy appetite for knowledge that will improve their firm's performance. They want to know which models from the international business strategy literature can actually be applied in their own firm.

The academic subject of international business approaches the empirical phenomena of doing business across borders at a variety of levels of analysis, using a variety of theoretical frameworks.

The most important levels of analysis are:

– the individual manager;

– the firm;

– the industry;

– the country;

– the global economy.

Over the history of international business, different phases of research dominance have led to one level or another being privileged in order to give clarity to the analysis. For instance, internalization theory and the product cycle hypothesis privilege the level of the firm. Analyses of global strategy emphasize the industry level and institutional analysis has the macro-environment as its core. Individual managers, too, have been studied, investigating their decision-making and often the impact of national cultures on their attitudes and style.

In order to reconcile these differing levels of analysis, the international business research community has often focused on a "big question". This has included explaining the flows of foreign direct investment (FDI), exploring the existence, strategy and organization of multinational enterprises (MNEs) and understanding and predicting the development of the internationalization of firms and globalization.

The geographical comparison is the most obvious for international business; comparisons across nations are fundamental to its *raison d'être*. This has great advantages for the research area and for its central factor, the multinational enterprise, because this is a single firm operating in more than one country.

The MNE performs an experimental function holding "firm" constant and varying "context". We can see that a firm (and its managers) may behave differently, respond to different stimuli and take different decisions according to the geographical space in which it is operating. This type of analysis need not only operate at the national level; it is important, for instance, in comparing cities, often the key factor in location decisions.

The second key comparison is historical time. Firms that are "successful" in time (t) are not necessarily successful in time ($t + l$) and "loss of competitiveness" over time is a major issue for countries, regions, cities, firms and economic blocs. Concepts of growth, development, decline and loss all have a temporal element.

Combining analyses of firms and industries over space and time are key contributors of international business theory.

International business has centered on the actions and outcomes of decisions by firms operating across borders. There is a long tradition of international economics examining trade: flows of goods and services exported and imported across national frontiers.

This tradition largely abstracted from the institution of the firm. It was a focus on the firm as an institution that undertakes not only trade but also investment across borders that created international business as a distinct subject.

This was allied to the distinction between direct foreign investment where the firm owns and controls an entity in the host country (the one receiving the investment), thus giving the source countries (investing) parent firm control over part of a foreign country's economic activity as distinct from portfolio foreign investment, where a source country entity simply acquires a non-controlling share of a foreign firm.

THEME 1 CONCEPTUAL FOUNDATIONS OF INTERNATIONAL BUSINESS STRATEGIES

At its simplest, international business is easily defined: doing business across international frontiers. There are many methods (modes) for companies to engage in business internationally and the management and coordination of these complex activities has become a specialized field of study as “international management”.

The reason firms venture abroad is simple: they do so to obtain things that are not available at home. Firms import goods and services, labour, technology, skills and inputs that are unavailable or more expensive at home. The analogue of this is that firms export a similar portfolio of goods, services and assets because foreigners cannot obtain these things at all or as cheaply at home.

It has become traditional to examine the motives for foreign direct investment into:

- market seeking;
- resource seeking (more generally, locationally fixed input seeking);
- efficiency (lower cost) seeking;
- asset seeking.

This represents a set of factors that are not transferable from the foreign country, they are locationally fixed. If they were not locationally fixed then they could be transferred internationally by trade or license and there would be no need to undertake foreign investment. Moreover, foreign direct investment is preferred because this allows the investor to control the resources. Markets, natural resources or inputs, cheap labour (or a lower tax rate) and certain types of locationally fixed assets are the target and control of these is the key reason for foreign direct investment (FDI).

International business strategy means effectively and efficiently matching an MNE’s internal strengths (relative to competitors) with the opportunities and challenges found in geographically dispersed environments that cross international

borders. Such matching is a precondition to creating value and satisfying stakeholder goals, both domestically and internationally.

Most complex issues in international business strategy revolve around just seven concepts (fig. 1.1).

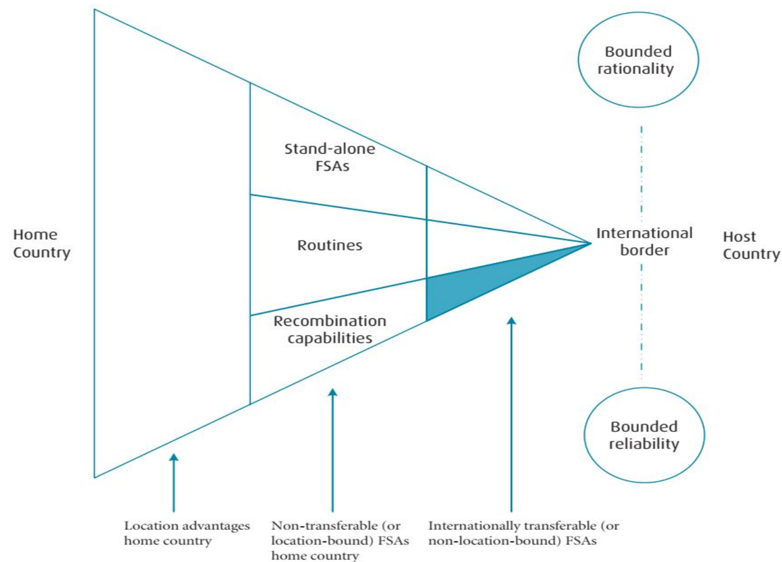

Figure 1.1 – Core concepts

Differences among authors are usually just variations on these central themes. These seven concepts form a unifying framework that constitutes the essence of international business strategy, and reflects the foundations of global corporate success:

1. Internationally transferable (or non-location-bound) firm-specific advantages (FSAs).

2. Non-transferable (or location-bound) FSAs.

3. Location advantages;

4. Investment in – and value creation through – recombination.

5. Complementary resources of external actors (not shown explicitly in figure).

6. Bounded rationality.

7. Bounded reliability.

The triangular shape in the model represents the pyramidal nature of the firm's advantages: on the broad base of the location advantages (LAs) of its home country (left) it builds a smaller subset of FSAs that are location bound (LB; middle), and then a still smaller subset that are non-location-bound (NLB; right). Bounded rationality and bounded reliability influence the ability to transfer and exploit these non-location-bound FSAs across the international border to the host country.

The ***first three concepts*** above (*internationally transferable FSAs, nontransferable FSAs and location advantages*), as a set, reflect the distinct resource base available to the firm, critical to achieving success in the marketplace.

Expressed in practical, managerial terms, this resource base has various components, either owned by – or accessible to – the firm:

1. Physical resources, including natural resources, buildings, plant equipment, etc.

2. Financial resources, including access to equity and loan capital.

3. Human resources, including both individuals and teams. These individuals and teams have both entrepreneurial and operational (or efficiency-related) skills.

4. Upstream knowledge, including sourcing knowledge, as well as product and process-related technological knowledge.

5. Downstream knowledge, critical to the interface with customers, and related to marketing, sales, distribution and after-sales service activities.

6. Administrative (governance-related) knowledge regarding the functioning of the organizational structure, organizational culture and organizational systems.

7. Reputational resources, including brand names, a good reputation for honest business dealings, etc.

A firm can have FSAs – i.e., strengths relative to rival companies – in each of the above resource areas. The nature, level and contestability of these strengths vis-à-vis rivals is not always fully understood by outsiders, but these strengths should, in principle, be identifiable through a properly conducted benchmarking exercise. The firm's particular location may contribute significantly to this distinct resource base, especially if this location provides privileged access to specific resources

external to the firm itself. Thus, FSAs and location advantages can be intimately related. For example, FSAs such as patents in the upstream knowledge area, or brand names in the reputational resource area, confer value only if supported by a favourable property rights regime (patent laws, trademark protection, etc.) that protects proprietary knowledge. The specifics of the property rights regime are different in each nation, and can thus represent a location advantage for firms with substantial proprietary knowledge and operating in countries with a favourable regime, in this case institutionalized through government intervention.

Routines reflect the distinct ability to combine further the above resources, in unique ways valued by the firm's stakeholders. Routines are stable patterns of decisions and actions that coordinate the productive use of resources, and thereby generate value, whether domestically or internationally. The combination ability expressed in routines is a higher-order FSA, because routines are more complex than an FSA derived from distinct but stand-alone resources. Therefore, rival companies face more difficulties imitating or otherwise acquiring it.

The ***fourth concept***, *recombination*, constitutes the heart of international business strategy: international corporate success requires more than just routines, whether internationally transferable or location-bound ones, that allow for stable and predictable patterns in combining resources. The highest-order FSA is the ability, not just to combine reliably the MNE's existing resources, but to recombine its resources in novel ways, usually including newly accessed resources, whether in a limited geographic space (in which case the firm engages in domestic product diversification or innovation) or internationally.

In the international context, MNEs must engage in the artful orchestration of resources, especially knowledge bundles, as a response to differences between national and foreign environments, and to satisfy new stakeholder demands in these foreign environments. In practical terms, entrepreneurial judgment is at the heart of the MNE's recombination capability: individuals inside the MNE act as entrepreneurs and craft new ways of combining and deploying the resources under their control as a response to perceived business opportunities.

A resource recombination capability is thus a precondition to value creation and satisfying stakeholder needs when operating in complex international settings.

The ***fifth concept***, *complementary resources of external actors*, represents the additional resources, provided by external actors but accessible to the MNE, which may be necessary to fill resource gaps and achieve success in the marketplace.

Finally, the ***sixth and seventh concepts***, *bounded rationality and bounded reliability, reflect the behavioural characteristics* (of both senior MNE managers and other relevant economic actors) that may impede international success. Bounded rationality implies limits to the capacity of individuals to absorb, process and act upon complex and often incomplete information.

Now that location advantages have been discussed, all the pieces are in place for us to show a pictorial representation of the essence of international business strategy.

Figure 1.2 shows the basic linkages among internationally transferable FSAs, location-bound FSAs and location advantages.

On the left-hand side of figure 1.2, as noted above, location-bound FSAs in the home country often result from privileged access to location advantages, or from a more efficient and effective use thereof as compared to other companies. The location advantages themselves may in principle be generally available to all firms operating in a specific location, and therefore only reflect an advantage vis-à-vis firms operating elsewhere. In general, a domestically operating firm may have both routines and even recombination capabilities that lead to great business success domestically, but are only partially usable in an international context.

The shading of the middle of the host country triangle emphasizes the importance of developing new, LB FSAs in the host country. These LB FSAs complement the FSAs the firm has transferred from the home country, and are critical to achieve the firm's goals, in terms of accessing and benefiting from the location advantages (LAs) of the host country. If the firm commands insufficient FSAs internally to access and benefit from these LAs, it may draw upon

complementary resources of external economic actors to achieve its goals in the host country.

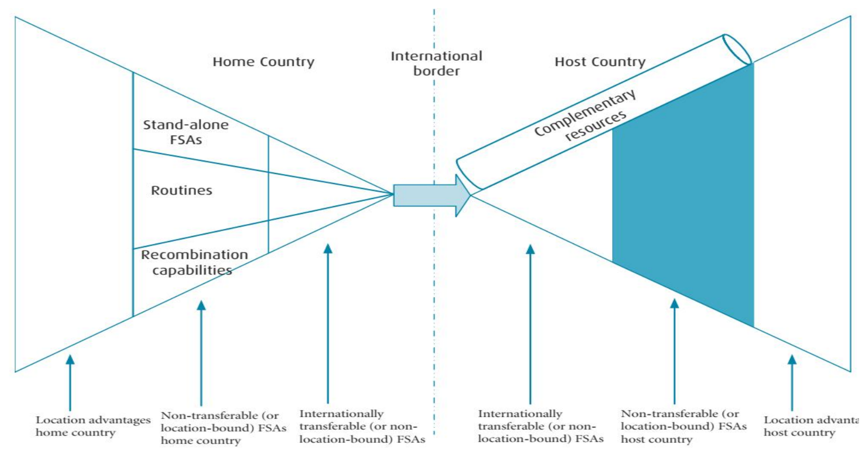

Figure 1.2 – The essence of international business strategy

This linking process often requires developing new, location-bound FSAs in the host country. As a result, the existing base of internationally transferable FSAs is extended with a location-bound component, thereby improving its exploitation potential in the host country. This is a common resource recombination activity performed by the MNE. In other words, the new location-bound FSA bundle improves access to the location advantages of the host country. However, such national responsiveness is often difficult to achieve and may require substantial investments.

THEME 2 MULTINATIONAL COMPETITIVE STRATEGY: GLOBAL CONTEXT

Strategy provides a plan of action to achieve certain goals and to win over competition. It goes beyond planning and day-to-day decision-making and demands consistency in objectives and actions, as well as a focused drive and understanding of competitive conditions. In addition to this strategy formulation, an effective strategy implementation is a requisite for success.

For a *successful strategy formulation*, a firm should have clear goals and have necessary resources and capabilities to achieve them. At the same time, the firm should be aware of its business and its external environment, including customers, competitors and suppliers.

The knowledge of internal and external factors will enable the firm to formulate a strategy. This strategy then needs to be effectively implemented and later evaluated to see whether it has provided the desired results or not. The evaluation and lessons learned will provide feedback for the next period's strategy formulation, in addition to the new internal and external factors. This is illustrated in Figure 2.1.

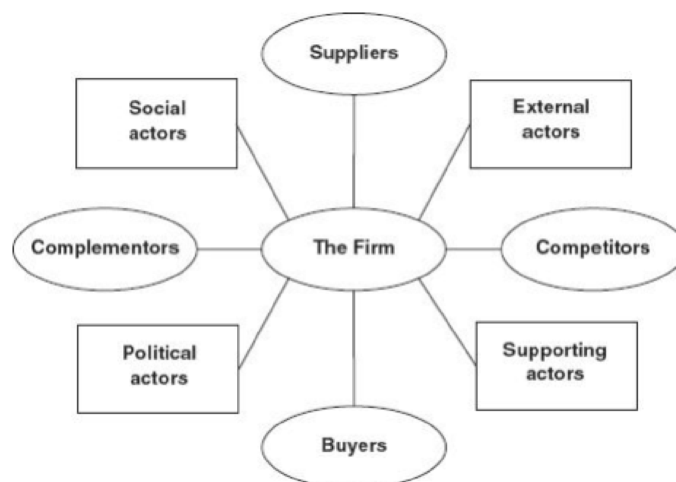

Figure 2.1 – The firm and its external relationships

The strategy is formulated at four levels: corporate level, business level, product level and brand level.

Although strategy at these levels has to be interrelated and inter-dependent, they are formulated at different levels, corporate strategy is often done at top level, while business or product strategy is done at middle or divisional levels. An effective implementation of strategy is a requisite to achieve the strategic goals set out in the strategy.

In most industries, strategy is an ongoing process and needs to be adapted according to changing environments and sometimes due to changing objectives of the firm.

The *main objective* of most businesses is to create value and profit for its stockholders. But to achieve that it has to achieve value for its customers, because if customers do not see any value in dealing with the firm they will not deal with the firm for a second or a third time. The product or services of the firm have to be valued by the customers. In the same way, a firm has to create value for its suppliers and employees. If the suppliers and the employees do not see value in dealing with the firm, they will not deal with it and will go to competing firms. The purpose of the firm is not only to create value for its stockholders but for its stakeholders.

This is perhaps not consistent with the belief that the main objective of the firm is to make profit for its owners advocated by many scholars. However, considering the impact of external environment and that a firm has to create value, not only for its owners but also for other stakeholders, we believe stakeholder perspective is more relevant than stockholder perspective.

This view is also supported by the increasing importance of corporate social responsibility (CSR). **Strategy** is also influenced by the competitive conditions in an industry. Different factors in the industry would influence the firm and its value creation as it is trying to achieve better results than other firms in the industry. Here Porter’s five forces model provides a good illustration of the competitive conditions in an industry as illustrate by Figure 2.2.

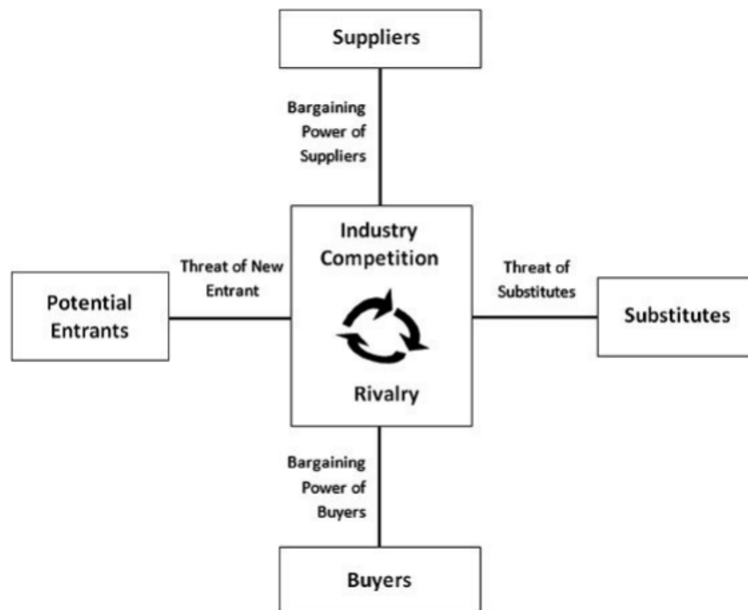

Figure 2.2 – Porter's competition framework

Porter's model analyzes the profitability of an industry. The strength of the five competitive forces can influence the profitability in an industry. For example, customers will not be willing to pay a high price for a product if cheaper substitutes are available, also, if an industry is making good or excessive profits, it will attract new rivals unless there are barriers to entry. For example, if an industry has very capital intensive and demand high capital investments, it will discourage new rivals, especially smaller firms, to enter the industry.

The intensity of competition (rivalry) in some industries influences the profitability and will influence the nature of competition from price-centered to non-price dimensions such as innovations and advertising. Finally, the relative power of suppliers in an industry depends upon the number of alternatives available to producers and the relative cost of switching between different suppliers.

Porter's model enables us to do an industry analysis and an investigation into how the relationships between these five forces can enable us to forecast profitability in a particular industry. This will allow a particular firm to position itself in an industry where future profitability is higher as the competitive forces are weaker. In

some cases, dominant firms try to change the industry structure by weakening the forces that are too powerful to change the rules of the game. Finding a crucial success factor for strategic purposes is not an easy task.

International business encompasses all commercial activities that take place to promote the transfer of goods, services, resources, people, ideas, and technologies across national boundaries.

International business occurs in many different formats:

– the movement of goods from country to another (exporting, importing, trade);

– contractual agreements that allow foreign firms to use products, services, and processes from other nations (licensing, franchising);

– the formation and operations of sales, manufacturing, research and development, and distribution facilities in foreign markets.

Each of these modes has a variety of sub-types including direct exporting, exporting through an agent or distributor, licensing, franchising, turn-key operations, assembly, sales subsidiary and production subsidiary. Joint ownership includes joint ventures (equity or non-equity), alliances (which may imply joint equity shares or no ownership commitment) or minority joint ventures.

Initial entry into the foreign market may be by acquisition, often referred to as "mergers and acquisitions" (M&A) even though the number of mergers – two companies joining together – is rare in practice, or by "greenfield ventures" where a de novo entry is made, all the required assets are put together from scratch. Further development in the foreign market may be by acquisition or organic growth.

"Entry and development" strategy is complex and has several dimensions: ownership strategy, entry strategy and growth strategy. All are predicated on picking the optimal location. Where this ceases to be optimal, MNEs will require exit strategies involving disinvestment.

Internationalization (and de-internationalization) has a time dimension, a dynamic, a sequencing of strategic moves that is complex and subject to a wide range

of influences from the firm itself and from its environment. Analyses of internationalization have to take cognizance of this complexity either by simplification (in a theoretical context) or by "thick description" in insightful case studies.

Successful international businesses recognize the diversity of the world marketplace and are able to cope with the uncertainties and risks of doing business in a continually changing global market.

An international businesses strategy, organization, and/or functional decisions categorize it as:

– a multi-domestic company with independent subsidiaries that act as domestic firms;

– global operations with integrated subsidiaries;

– a combination of the two.

The challenging aspect of international business, however, is that many firms combine aspects of both multi-domestic and global operations:

Multi-domestic – a strategic business model that involves promoting products and services in various markets around the world and adapting the product/service to the cultural norms, taste preferences and religious customs of the various markets.

Multinational – a business strategy that involves selling products and services in different foreign markets without changing the characteristics of the product/service to accommodate the cultural norms or customs of the various markets.

Some of the challenges considered by companies and professionals involved in international business include: Economic Environment, Political Environment, Cultural Environment and Competitive Environment.

Economic Environment

The economic environment may be very different from one country to the next. The economy of countries may be industrialized (developed), emerging (newly industrializing), or less developed (third world). Further, within each of these

economies are a vast array of variations, which have a major effect on everything from education and infrastructure to technology and healthcare.

A nation's economic structure as a free market, centrally planned market, or mixed market also plays a distinct role in the ease at which international business efforts can take place.

For example, free market economies allow international business activities to take place with little interference. On the opposite end of the spectrum, centrally planned economies are government-controlled. Although most countries now function as free-market economies, China—the world's most populous country—remains a centrally planned economy.

Political Environment

The political environment of international business refers to the relationship between government and business, as well as the political risk of a nation.

Therefore, companies involved in international business must expect to deal with different types of governments, such as multi-party democracies, one-party states, dictatorships, and constitutional monarchies.

Some governments may view foreign businesses as positive, while other governments may view them as exploitative. Because international companies rely on the goodwill of the government, international business must take the political structure of the foreign government into consideration.

International firms must also consider the degree of political risk in a foreign location; in other words, the likelihood of major governmental changes taking place. Just a few of the issues of unstable governments that international companies must consider include riots, revolutions, war, and terrorism.

Cultural Environment

The cultural environment of a foreign nation remains a critical component of the international business environment, yet it is one of the most difficult to understand.

The cultural environment of a foreign nation involves commonly shared beliefs and values, formed by factors such as language, religion, geographic location, government, history, and education.

It is common for many international firms to conduct a cultural analysis of a foreign nation as to better understand these factors and how they affect international business efforts.

Competitive Environment

The competitive environment is constantly changing according to the economic, political, and cultural environments. Competition may exist from a variety of sources, and the nature of competition may change from place to place. It may be encouraged or discouraged in favor of cooperation, and the relationship between buyers and sellers may be friendly or hostile.

The level of technological innovation is also an important aspect of the competitive environment as firms compete for access to the newest technology.

To ensure success in a foreign market, international businesses must understand the many factors that affect the competitive environment and effectively assess their impact.

Transnational strategy takes advantage of the new smallness of the world, by allowing brands and companies to expand their global footprint in the selling of their goods and services, while taking into account cultural and societal differences that shape consumers in their native environment.

That is to say, for example, that a food manufacturer based in the United States may want to expand their presence into Mexico, but must consider the appropriateness of the product in that environment including how to market it based on that specific culture and those customers' behaviors.

THEME 3 MANAGEMENT IN INTERNATIONAL BUSINESS

The analysis in Buckley suggested that international business research succeeded when it focused on, in sequence, a number of big questions that arise from empirical developments in the world economy. The agenda is stalled because no such big question has currently been identified. This calls into question the separate existence of the subject area. This chapter suggests that the analysis of globalization, with a focus on economic geography, arising from the changing strategy and the external impact of multinational enterprises (MNEs) on the world economy, can be that 'big question'.

Researchers also need to take on board challenges to global capitalism and to understand the roots of current discontent. The intention of this paper is to review the literature linking ownership and location strategies to economic geography and theories of globalization and to explore new areas of research.

Markets are globalized by the actions of MNEs. This is a deliberate process, but it is proceeding at a differential pace in different types of market. These strategies revolve around the ability of MNEs to subdivide their activities more precisely and to place them in the optimal location.

At the same time, more sophisticated and wider control strategies ranging from full ownership to market relationships are used to coordinate global activities. This, it is argued in the third section, makes economic geography more important than ever. Where an activity is placed, it interacts with its immediate hinterland and this has profound consequences for changing economic power and development. Finally, the article examines protests against globalization that leads to the concluding research agenda.

Figure 3.1 identifies three levels of markets: financial markets, markets in goods and services and labour markets. Each of these is moving at a different speed towards global integration. Financial markets are already very closely integrated internationally, so that no individual 'national capital markets' can have a sustainable independent existence.

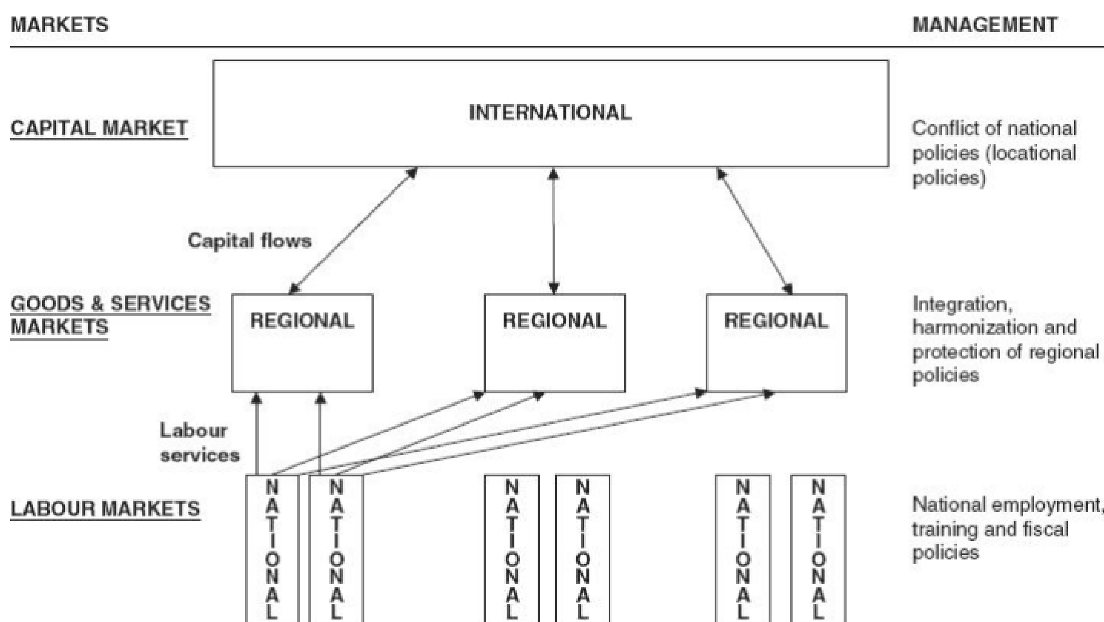

Figure 3.1 – Internationalization of firms: conflict of market

However, attempts at national regulation do persist and the role of localities in the financial markets still provides differentiation.

Despite this, it is legitimate for analytical purposes to hypothesize a single integrated global capital market. ***Regional economic integration*** (REI) is becoming increasingly effective in integrating goods and services markets at the regional level. The relationship between company strategy and policy-making within regional blocs such as the EU is a fascinating area for the development of new research streams.

While the largest MNEs are already perfectly placed to exploit these differences in the international integration of markets, REI offers both large and small firms the opportunity to enjoy the advantages of a large 'home' market, whether it is their native home or their adoptive home. The operation of international capital markets (which allow firms to drive their capital costs down to a minimum) has largely transcended policy on regional integration, although each region would hope to retain its own regional financial center.

It is primarily in the arena of the creation and fostering of regional goods and services markets that firms are enabled to exploit economies of scale across several countries, and that REI offers the most substantial size-of-country benefits.

However, regional integration that encompasses countries with differential labour markets is becoming increasingly beneficial. This regional integration enables costs to be reduced by locating the labor-intensive stages of production in the cheaper labour economies within the integrated area.

Firms that serve just one regional market, as well as those that serve several of the regional goods and services markets of the world through horizontally integrated ***foreign direct investment*** (FDI), are able to complement this with vertically integrated FDI in quality-differentiated labour markets. Vertical integration also reflects the spatial distribution of supplies of key inputs and raw materials. The MNE achieves advantages through both vertical and horizontal integration.

Each strategy is promoted by the 'size-of-country benefits' of REI in goods and services markets, which reduce or eliminate artificial barriers to trade between the members. This maximizes the ability of firms to exploit intra-regional differences in factor abundance, including differentiated human capital.

At industry level, globalization can be shown to have an increasing impact. Gersbach defines globalization at the micro-level as 'the exposure of a productivity follower industry in one country to the productivity leader in another country'. The transmission mechanisms of change across country borders are trade and FDI.

Gersbach found a strong relationship between globalization and productivity differences with the most efficient producers. He concludes that globalization matters and that its influence spreads beyond a single region (for example, Europe, North America).

More attention has been paid to vertical relationships (the supply chain). The differentiation of labour markets is most acute between advanced and less-developed countries that are typically not part of the same regional bloc.

The managers of MNEs are increasingly able to segment their activities and to seek the optimal location for increasingly specialized slivers of activity. This ability to separate and relocate stages of production has led to a boom in manufacturing in China and service activities (for example, call centers) in India.

MNEs are also increasingly able to coordinate these activities by means of a wide variety of mechanisms from wholly owned FDI through licensing and subcontracting to market relationships. The more precise use of location and ownership strategies by MNEs is the very essence of increasing globalization.

In parallel with the growth of the globalization of production, globalization of consumption has accelerated and it is perhaps this which has excited most opposition. The alleged globalization of tastes provokes nationalistic protectionist sentiments and is here analyzed in terms of the balance of strategies within MNEs between ‘local’ and ‘global’ pressures on the firm.

The process of globalization is not only reorganizing power at world level but also at national and subnational levels.

As domestic firms move part of their production to other countries, technology, knowledge and capital become more important than land, the traditional source of state power, and this redefines the function of the state. The loss of sovereignty to supra-national regional institutions is more acceptable than to international institutions that are more remote. The EU is an example of such regional integration and governance.

Social programmes within the EU are enforcing major redistributions of revenue between the individual nations. The nation state as the possessor of the sense of identity is being replaced by subnations and internal regions as government is devolved.

International management is the management of business operations for an organization that conducts business in more than one country.

International management requires knowledge and skills above and beyond normal business expertise:

1) familiarity with the business regulations of the nations in which the organization operates;

2) understanding of local customs and laws;

3) capability to conduct transactions that may involve multiple currencies.

International Strategic Management is a planning process of developing international strategy in the direction of achieving strategic fit between the organization's competence & resources and the global environment under which it tends to operate.

It is an ongoing process that helps an organization to compete in an international scenario.

Service management is a system of supply chain management that connects actual company sales and the customer.

The goal of service management is to maximize service supply chains as they are typically more complex that the supply chain of finished goods.

The purposes of service management is to reduce high costs by integrating products and services and keep inventory levels smaller.

Representative Company Value Chain

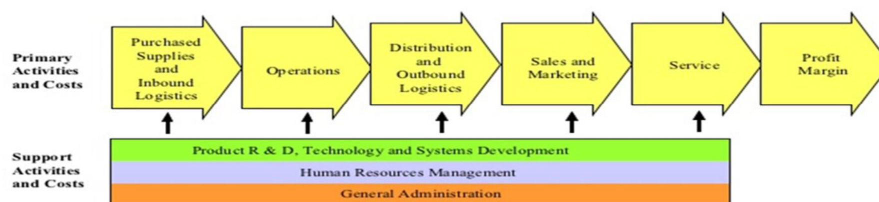

Figure 3.2 – Representative company value chain

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.

International Financial Management is financial management in an international business environment.

International financial management is different because of the different currency of different countries, dissimilar political situations, imperfect markets, diversified opportunity sets.

Currency selection is an active management strategy for a portfolio or fund with a basic set of securities denominated in different currencies.

Payment methods are the way that a buyer chooses to compensate the seller of a good or service that is also acceptable to the seller (tabl. 3.1).

Table 3.1 – Typical payment methods

Typical payment methods	Cash
	Checks
	Credit or debit card
	Money orders
	Bank transfers
	Online payment services (ex: PayPal)

Figure 3.3 shows Payment forms examples.

Figure 3.3 – Payment forms examples

International finance is the branch of financial economics broadly concerned with monetary and macroeconomic interrelations between two or more countries.

International finance helps organizations engage in cross-border transactions with foreign business partners, such as customers, investors, suppliers and lenders.

International sources of financing:

– *Commercial Banks*. Global commercial banks all over provide loans in foreign currency to companies. They are crucial in financing non-trade international operations. The different types of loans and services provided by banks vary from country to country.

– *International Agencies and Development Banks*. Many development banks and international agencies have come forth over the years for the purpose of international financing. These bodies are set up by the Governments of developed countries of the world at national, regional and international levels for funding various projects.

– *Incorporation* offering shares either to the public or to a select group of viable investors;

– *Debenture* issuance of a loan between a company and a lender where the lender is generally a "smaller" entity than the company.

– *Venture Capital Investment*. Venture capitalists make loans to new or expanding businesses, especially established businesses that are crossing international boundaries for the first time. Their services are useful for companies because they will often offer financing in higher-risk scenarios than banks.

– *Conventional Loans*. Banks and other "conventional" financial institutions frequently offer business loans to companies that are expanding into new markets. These loans generally come at a lower interest rate than what a venture capitalist firm would offer, but they usually require collateral as security.

– *Government Grants* many countries do offer grants to legitimate businesses who want to expand into impoverished and low-income areas. Though such grants may not be useful for marketing and sales, they can be decisive when it comes to manufacturing and production.

A natural way to cope with these pressures is to allow each division to deal with external business units, as well as internal ones. In terms of internalization theory, internal markets become ‘open’ rather than ‘closed’.

This provides divisional managers with an opportunity to bypass weak or incompetent sections of the company. It also provides a competitive discipline on internal transfer prices, preventing their manipulation for internal political ends and bringing them more into line with external prices. There are other advantages too.

Opening up internal markets severs the link between the capacities operated at adjacent stages of production. The resulting opportunity to supply other firms facilitates the exploitation of scale economies because it permits the capacity of any individual plant to exceed internal demand. Conversely, it encourages the firm to buy in supplies from other firms that have installed capacity in excess of their own needs.

The alignment of internal prices with external prices increases the objectivity of profit measurement at the divisional level. This allows divisional managers to be rewarded by profit-related pay based on divisional profit rather than firm-wide profit.

Management may even buy out part of the company. Alternatively, the firm may restructure by buying in a part on an independent firm. The net effect is the same in both cases. The firm becomes the hub of a network of inter-locking joint ventures. Each joint venture partner is responsible for the day-to-day management of the venture.

The headquarters of the firm coordinates the links between the ventures. Internal trade is diverted away from the weaker ventures towards the stronger ones, thereby providing price and profit signals to which the weaker partners need to respond.

Unlike a pure external market situation, the partners are able to draw upon expertise at headquarters, which can in turn tap into expertise in other parts of the group.

A network does not have to be built around a single firm, of course. A network may consist of a group of independent firms instead. Sometimes these firms are neighbors, as in the regional industrial clusters described by Best, Porter and Rugman et al.

Industrial districts, such as ‘Toyota city’, have been hailed as an Asian innovation in flexible management, although the practice has been common in Europe for centuries. As tariffs and transport costs have fallen, networks have become more international and ‘virtual’. This is demonstrated by the dramatic growth in intermediate product trade under long-term contracts.

For example, an international trading company may operate a network of independent suppliers in different countries, substituting different sources of supply in response to both short-term exchange rate movements and long-term shifts in comparative advantage. By establishing a network of joint ventures covering alternative technological trajectories, the firm can spread its costs while retaining a measure of proprietary control over new technologies.

The advantage of joint ventures is further reinforced by technological convergence, for example, the integration of computers, telecommunications and photography. This favors the creation of networks of joint ventures based on complementary technologies, rather than on the substitute technologies described earlier.

Joint ventures are important because they afford a number of real options which can be taken up or dropped depending upon how the project turns out. The early phase of a joint venture provides important information that could not be obtained through investigation before the venture began.

It affords an opportunity later on to buy more fully into a successful venture, an opportunity that is not available to those who have not taken any stake. It therefore provides greater flexibility than does either outright ownership or an alternative involving no equity stake.

In the strategic decisions of multinational firms, there has always been a tension between the pressures to globalize and the need to stay local and to serve individual customers. The advantages of global operations are cost-based, maximizing economies of scale and reducing duplication, thus achieving efficiency. The advantages of localization are revenue-based, allowing differentiation to reach all customer niches and achieving responsiveness.

THEME 4 THE INSTITUTIONAL AND CULTURAL CONTEXT OF MULTINATIONAL COMPETITIVE STRATEGY

One obvious place to look for cultural differences is between MNEs from developed countries and the less-developed countries in which they invest.

Global companies have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets.

A global company has a foothold in multiple countries but the offerings and processes are consistent in each country. For example, a major soda brand can set up shop in different countries, but the recipe does not change in the global model. The company uses the same ingredients and manufacturing processes, regardless of local culture. In a global model, the business does not adapt to local norms, but rather, it imposes its existing business model on the country.

The only exception within the global model is the marketing approach to drive sales in individual countries. The product is consistent but messaging must adapt to work within the cultural norms. Marketing is where the two models are difficult to distinguish.

A ***multinational company*** is a business that operates in many different countries at the same time. In other words, it’s a company that has business activities in more than one country.

Multinational companies have investment in other countries, but do not have coordinated product offerings in each country. More focused on adapting their products and service to each individual local market. With this ease of formation and establishment, there come accounting complexities and problems. One of the main complications in dealing with multinational corporations is accounting for and planning around foreign currency exchange rates. Most countries have their own form of currency that fluctuates with the market and political climate in their country.

Multinational companies must keep these changes in mind when doing any type of business abroad. Like the global company, a multinational company operates in multiple countries, and the company adapts marketing messaging to fit each culture group.

Consider the same global soda company example from the section *Global Company Distinctions*. The company is global, because the soda does not change. The recipe, product and process for delivering the product to market is the same in each country.

If that same company allowed each country arm to alter the recipe and production process to be adaptive within the specific market and culture, they would transform to a multinational model, (which is common in the beverage industry). Reducing controls from the central location and distributing the power of the product and process to each arm of the business, makes it a multinational.

A global company is capable of altering the business model to transform into a multinational. The models are not entirely static, and both are influenced by their parent company and top-level leadership.

International companies are importers and exporters, they have no investment outside of their home country. A type of company that has a customer base in a variety of different nations and provides a variety of commodities, goods, products or services that are needed to a variety of nations, international customer base and international population.

Transnational companies are much more complex organizations. They have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market. These type of companies can be considered as a mixture of the global, multinational and international companies.

These type of company are almost similar to the transnational company. These companies have branches and establishments across many countries in the world.

Multidomestic companies mostly have foreign direct investment (FDI) in some of foreign countries where they operate in. Multidomestic companies also

prefer to have a «Decentralized» and key decisions making functions wherein each of their international branches are responsible to take their own key decisions suitable to the respective domestic places.

Bayerische Motoren Werke AG, commonly referred to as BMW is a German company which produces luxury vehicles and motorcycles. The company was founded in 1916 as a manufacturer of aircraft engines, which it produced from 1917 until 1918 and again from 1933 to 1945.

Automobiles are marketed under the brands BMW, Mini and Rolls-Royce, and motorcycles are marketed under the brand BMW Motorrad. In 2015, BMW was the world's twelfth-largest producer of motor vehicles, with 2,279,503 vehicles produced. The company has significant motorsport history, especially in touring cars, Formula 1, sports cars and the Isle of Man TT.

BMW is headquartered in Munich and produces motor vehicles in Germany, Brazil, China, India, South Africa, the United Kingdom, the United States and Mexico. The Quandt family are long-term shareholders of the company (with the remaining shares owned by public float), following brothers Herbert Quandt and Harald Quandt's investments in 1959 which saved the company from bankruptcy.

General Motors Company, commonly referred to as General Motors (GM), is an American corporation headquartered in Detroit that designs, manufactures, markets, and distributes vehicles and vehicle parts, and sells financial services, with global headquarters in Detroit's Renaissance Center. It was originally founded by William C. Durant on September 16, 1908, as a holding company, with the present entity established in 2009 after its restructuring. The company is the largest American automobile manufacturer, and the fourth largest in the world behind Toyota, Volkswagen, and Hyundai. At its peak GM had a 50% market share in the United States and was the worlds largest automaker from 1931 through 2007. As of 2020, General Motors is ranked #18 on the Fortune 500 rankings of the largest United States corporations by total revenue.

General Motors manufactures vehicles in several countries; its four core automobile brands include Chevrolet, Buick, GMC, and Cadillac. It also either owns

or holds a significant stake in foreign brands such as Holden, Wuling, Baojun, and Jiefang. Annual worldwide sales volume reached a milestone of 10 million vehicles in 2016.

Royal Dutch Shell PLC, commonly known as Shell, is a British-Dutch oil and gas company headquartered in the Netherlands and incorporated in England. It is one of the oil and gas "supermajors" and the third-largest company in the world measured by 2018 revenues (and the largest based in Europe). In the 2019 Forbes Global 2000, Shell was ranked as the ninth-largest company in the world (and the largest outside China and the United States), and the largest energy company. Shell was first in the 2013 Fortune Global 500 list of the world's largest companies; in that year its revenues were equivalent to 84% of the Dutch national $556 billion GDP.

McDonald's Corporation is an American fast food company, founded in 1940 as a restaurant operated by Richard and Maurice McDonald, in San Bernardino, California, United States. They rechristened their business as a hamburger stand, and later turned the company into a franchise, with the Golden Arches logo being introduced in 1953 at a location in Phoenix, Arizona. In 1955, Ray Kroc, a businessman, joined the company as a franchise agent and proceeded to purchase the chain from the McDonald brothers. McDonald's had its original headquarters in Oak Brook, Illinois, but moved its global headquarters to Chicago in June 2018.

THEME 5 MULTINATIONAL OPERATIONAL AND FUNCTIONAL STRATEGIES

Multinational companies are faced with two opposing forces when designing the structure of their organization. They are faced with the need for differentiation that allows them to be specialized and competitive in their local markets. They are also faced with the need to integrate. The structures adopted therefore have to find a balance between these opposing needs and also remain in strategic alignment for the company to thrive. Multinational companies have therefore evolved many structural permutations to suit their business needs.

Multinational companies, especially smaller ones, face more organizational challenges than companies operating in only one national market. They have to maintain functional organizational units, but they have to fulfill these functions in different ways, depending on where the business in operating. The essential challenge is to create differentiated organizational units responsible for the foreign markets while coordinating operations across the whole company.

Subsidiary Model

Owning foreign subsidiaries is one of the most basic structural models of a multinational company. The subsidiaries are self-contained units with their own operations, finance and human resource functions. Thus the foreign subsidiaries are autonomous allowing them to respond to local competitive conditions and develop locally responsive strategies. The major disadvantage of this model however is the decentralization of strategic decisions that makes it difficult for a unified approach to counter global competitive attacks.

Product Division

Organizational structure of the multinational company in this case is developed on the basis of its product portfolio. Each product has its own division that is responsible for the production, marketing, finance and the overall strategy of that particular product globally. The product organizational structure allows the multinational company to weed out product divisions that are not successful. The

major disadvantage of this divisional structure is the lack of integral networks that may increase duplication of efforts across countries.

Area Division

Organization using this model is again divisional in nature, and the divisions are based on the geographical area. Each geographical region is responsible for all the products sold within its region. Therefore all the functional units for that particular region namely finance, operations and human resources are under the geographical region responsibility. This structure allows the company to evaluate the geographical markets that are most profitable. However communication problems, internal conflicts and duplication of costs remain an issue.

Functional Structure

Functions such as finance, operations, marketing and human resources determine the structure of the multinational company in this model. For example, all the production personnel globally for a company work under the parameters set by the production department. The advantage of using this structure is that there is greater specialization within departments and more standardized processes across the global network. The disadvantages include the lack of inter department communication and networking that contributes to more rigidity within the organization.

Matrix Structure

Matrix organizational structure is an overlap between the functional and divisional structures. The structure is characterized by dual reporting relationships in which employees report both to the functional manager and the divisional manager. Work projects involve cross-functional teams from multiple functions such as finance, operations and marketing. The members of teams would report both to the project manager as well as their immediate supervisors in finance, operations and marketing. The advantage of this structure is that there is more cross-functional communication that facilitates innovation. The decisions are also more localized. However there can more confusion and power plays because of the dual line of command.

Transnational network

Evolution of the matrix structure has led to the transnational network. The emphasis is more on horizontal communication. Information is now shared centrally using new technology such as “enterprise resource planning (ERP)” systems. This structure is focused on establishing “knowledge pools” and information networks that allow global integration as well local responsiveness.

Home-base-augmenting labs should be located in critical knowledge clusters relevant to the MNE’s businesses, where they will be well positioned to tap into new sources of innovations.

Home-base-exploiting labs should be located close to key markets and the MNE’s own foreign manufacturing units so that the firm’s technological innovations can be rapidly adapted to host country requirements if needed, and absorbed by host country manufacturing operations.

International sourcing and production

The two parameters above allow Ferdows to distinguish among six specific factory roles:

1. Offshore factory: this factory’s primary purpose is simply to access low-cost production factors as an implementer on the input side. The plant’s manufacturing output, typically predetermined by senior management in the home country, is then exported. This factory type typically does not develop new FSAs and receives minimum autonomy.

2. Server factory: this factory’s primary purpose is to manufacture goods and to supply a predefined, proximate national or regional output market. Market imperfections such as trade barriers, logistics costs and foreign exchange exposure usually explain the establishment of such factories in specific host countries. A server factory may engage in some FSA development, but it ultimately has a narrow charter with relatively little autonomy or specialized capabilities.

3. Outpost factory: similar to the ‘black hole’ type subsidiaries, the primary purpose of this factory is to gather valuable information from advanced host country clusters, mainly on the input side. On the actual manufacturing side, this role is

usually combined with that of an offshore (input market driven) or server (output market driven) factory.

4. Source factory: this factory's primary purpose is to gain access to low-cost production factors on the input side, similar to an offshore factory. However, it also receives resources to engage in resource recombination and to develop FSAs that will turn it into a 'best practice' plant in the MNE's network for the assigned product range. It therefore has more autonomy in terms of logistics, product customization, redesign, etc. The MNE sets up source factories in locations with good infrastructure and a skilled workforce.

5. Contributor factory: this factory type is oriented primarily towards the host country or host region output market, similar to a server factory, but it commands stronger capabilities than a server factory. More at the upstream end of the value chain, it is responsible for resource recombination in the form of process improvements, new product development, customizations, etc.

6. Lead factory: this factory type is the most important one in terms of resource recombination and new FSA development. It accesses valuable inputs from the local cluster where it is embedded and plays a key role in localized manufacturing innovation. It is also closely connected with both the key players on the input side (such as research labs) and the end users on the output side.

The International Marketing is the application of marketing principles to satisfy the varied needs and wants of different people residing across the national borders.

Simply, the International Marketing is to undertake the marketing activities in more than one nation. It is often called as Global Marketing, i.e. designing the marketing mix (viz. Product, price, place, promotion) worldwide and customizing it according to the preferences of different nation people.

THEME 6 ETHICAL MANAGEMENT IN THE INTERNATIONAL CONTEXT

Ethics refers to accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organization.

Often a function of differences in economic development, politics, legal systems, and culture.

Certain practices in one country may be unethical when judged by other countries (Western) standards.

Most common ethical issues involve employment practices, human rights, environmental regulations, corruption, and the moral obligation of MNCs.

Source and Nature of Ethical Issues

Employment practices. When work conditions in a host nation are clearly inferior to those in a multinational's home nation, what standards should be applied—those of the home nation, those of the host nation, or something in between?

Examples: Apple iPode and Hongfujin in China; Nike in Vietnam; Levi Strauss and Tan family China.

International business implications: Establish minimal acceptable working standards and audit foreign subsidiaries and subcontractors on a regular basis.

Business ethics:

1. Behavior.
2. Principle.
3. Trust.
4. Responsibility.
5. Relationship.
6. Reliability.
7. Choice.
8. Morality.

Human rights

Rights that we take for granted in developed nations, such as freedom of association, freedom of speech, freedom of assembly, freedom of movement, freedom from political repression, and so on, are by no means universally accepted

Examples: South Africa until 1994; China's human rights record; Myanmar (formally known as Burma); Royal Dutch Shell in Nigeria

What is the responsibility of an MNC when operating in a country where basic human rights are violated? Should the company be there at all?

Environmental pollution

Ethical issues arise when environmental regulations in host nations are inferior to those in the home nation.

Should a multinational feel free to pollute in a developing nation?

'tragedy of the commons' occurs when individuals overuse a resource held in common by all (Garrett Hardin).

Examples: foreign oil companies in Nigeria; Coca Cola plant in Kerala.

Corruption

"Corruption has been a problem in almost every society in history, and it continues to be one today".

Corruption is bad, and it may harm a country's economic development, but there are also cases where payments to government officials can remove the bureaucratic barriers to investments that create jobs.

Examples: Bofors case; Enron; Lockheed case in US; The US Foreign Corrupt Practices Act of 1977

Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 1997).

Moral obligations

Social responsibility for MNCs to give something back to the societies that enable them to prosper and grow.

Example: BP, company policy to undertake “social.

investments” in the countries where it does business.

Sometimes multinationals may abuse their power for private gain.

Example: the British East India Company (1600).

Ethical Dilemmas

What is the accepted ethical principle in international business perspective?

Argument 01: ethical depends upon one’s cultural perspective.

American and European views on capital punishment; Gift giving practices viewed in Asian and Western nations.

Ethical dilemmas – they are situations in which none of the available alternatives seems ethically acceptable.

Employing child labor was not acceptable, but neither was denying the child his/her only source of income.

Personal ethics

Personal ethical code exerts a profound influence on business ethics

An individual with a strong sense of personal ethics is less likely to behave in an unethical manner in a business setting.

Personal ethics comes from sources like our parents, our schools, our religion, and the media.

Decision-making processes

People simply forget that business decisions may also have an important ethical dimension.

Most often ethical considerations are not incorporated into business decision making.

Example: Pfizer's Drug Testing Strategy in Nigeria; Nike's subcontracting decision.

Organization culture

Business climate sometimes do not encourage people to think through the ethical consequences of business decisions.

All decisions are purely economic in nature (profit maximization).

Example: Case of former Enron CEO Kenneth Lay.

"Values" are abstract ideas about what a group believes to be good, right, and desirable, while "norms" are the social rules and guidelines that prescribe appropriate behavior in particular situations.

Unrealistic performance expectations

Pressure from the parent company to meet unrealistic performance goals that can be attained only by cutting corners or acting in an unethical manner.

This creates a pressure-cooker culture.

Example: Lesson from the Enron debacle.

Conversely, an organization culture can do just the opposite and reinforce the need for ethical behavior.

Example: Hewlett-Packard (The HP way).

Leadership

Leaders help to establish the culture of an organization, and they set the example that others follow.

Example: Enron and Hewlett-Packard.

Approaches to Business Ethics

Four commonly discussed approaches to business ethics in the literature:

1. The Friedman doctrine. The Friedman Doctrine by the Nobel laurite Milton Friedman in1970. Friedman's basic position is that the only social responsibility of business is to increase profits, so long as the company stays within the rules of law.

He rejects the idea that businesses should undertake social expenditures beyond those mandated by the law and required for the efficient running of a business But, is it social responsibility a synonym for business ethics? There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say that it engages in open and free competition without deception or fraud.

2. Cultural relativism. All ethics are culturally determined – ethics are nothing more than the reflection of a culture. Accordingly, a firm should adopt the ethics of the culture in which it is operating. If a culture supports slavery, is it OK to use slave labor in a country? In some countries, payment of bribes to government officials is necessary to get business done, and if not ethically desirable, it is at least ethically acceptable.

3. The Righteous Moralist. MNC's home-country standards of ethics are the appropriate ones for companies to follow in foreign countries. Examples: American bank manager in Italy U.S. laws set down strict guidelines regarding minimum wage and working Conditions. Should US MNCs apply the same in a foreign country? It will nullify the reason for investing in that country.

4. The Naive Immoralist. If firms from other nations are not following ethical norms in a host nation, then we should not either. Examples: Drug lord problem; Child labour issues Objections to this view: an action is not always ethically justified if everyone is doing it MNCs do have the ability to change the prevailing practice in a country. It can use its power for a positive moral purpose. Example: BP's zero-tolerance policy to bribes.

How do managers decide upon an ethical course of action when confronted with decisions pertaining to working conditions, human rights, corruption, and environmental pollution?

Five things that an international business and its managers can do to make sure ethical issues are considered in business decisions:

1) favor hiring and promoting people with a well-grounded sense of personal ethics;

2) build an organizational culture that places a high value on ethical behavior;

3) make sure that leaders within the business not only articulate the rhetoric of ethical behavior, but also act in a manner that is consistent with that rhetoric;

4) implement decision-making processes that require people to consider the ethical dimension of business decisions;

5) develop moral courage.

Hiring and promotion

Hire people who have a strong sense of personal ethics and would not engage in unethical or illegal behavior. Actually doing so is very difficult. Give psychological tests. Check with prior employers.

THEME 7 DYNAMICS OF GLOBAL STRATEGY

There are currently few firms that can be classified as domestic firms; even if a firm is not buying and selling in cross-border markets, it is influenced by the events and competition from global environments and firms. The overall objective of the firms is thus to tackle or achieve global competitive advantage.

Most firms view the world as multinational markets but are guided by a global vision. While formulating global corporate strategy, managers aim to identify and target cross-cultural similarities but are guided by the belief that each market requires its own culturally adapted strategy.

Many successful firms of today are following a market-driving strategy. According to this approach, firms do not respond to different markets through adaptation. On the contrary, these firms develop a unique value proposition for customers and aim to change the behavior of customers, competitors and other actors in the market. A market-driving firm claims to educate the market towards better value proposition and buying behavior.

Whether a firm is following a market-driving or market-driven approach, a strategy has to be formulated at a ***global level***. This means that firm would want to benefit from slicing its value chain into small slices, positioning each slice at the most optimal location on the globe. The firm that is able to achieve these global locational advantages will have a better competitive advantage than the firms that perform most of their value creation at home.

According to strategy literature, most firms can be categorized as pursuing one of the three strategies: global strategy, international strategy and multi-domestic strategy.

Firms that follow ***global strategy*** aim to benefit from scale economies and experiential knowledge. These firms perform their value creation activities at a few convenient locations and tend to provide standardized products. These firms, therefore, lack in local responsiveness.

Firms following ***international strategy*** transfer their value creation experience and products that have been developed at home to foreign markets that lack in this experience and capabilities. Although these firms do adapt their products and strategies to local markets to some extent, these and other activities are controlled by the head office.

Firms following ***multi-domestic strategy*** are more concerned with local responsiveness than central control. These firms adapt their products and strategy to every market and decision-making about products, value creation and marketing strategies are decentralized to local market. These firms benefit from local responsiveness but lack in knowledge transfer within the firm between different subsidiaries (Fig. 7.1).

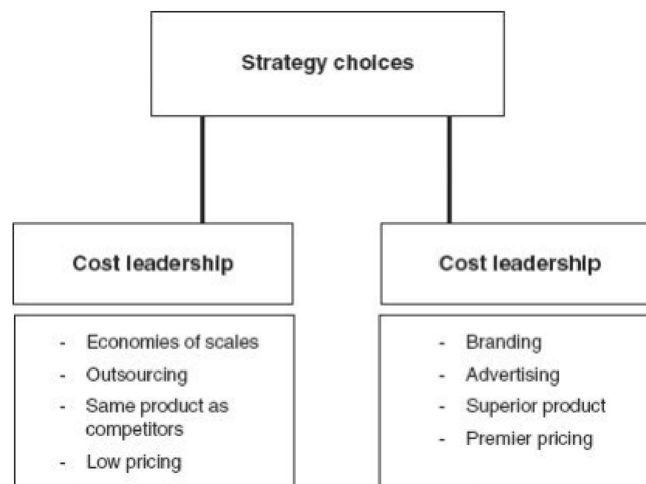

Figure 7.1 – Different strategic choices

Some authors have suggested a fourth strategy, ***transnational strategy***, and profess that to achieve worldwide competitive advantage, cost and revenues have to be managed simultaneously and both efficiency and innovation should be integral to the strategy. The global transnational firm needs to achieve efficiency, flexibility and learning simultaneously. This requires a more sophisticated and differential configuration of competencies and resources. The firm needs to decide which key competencies should be centralized at head office and which competencies and resources should be concentrated at which unit.

This is different from decentralization; such crucial resources are centralized at one unit that is most suitable to achieve specialization. For example, manufacturing, if it is labour intensive, is specialized in a low wage emerging country such as China, and R&D can be centralized in the most suitable country, such as the UK, the USA or Germany. This will help the firm to achieve specialization as well as economies of scale in every activity and competency. This will also make the firm responsive to local capabilities and resources in each market. Other activities, where locational economies of scale are low, can be decentralized to several units to create flexibility. Table 7.1 summarizes these four strategies.

Table 7.1 – Different strategic approaches and configuration of assets and competences

	Multinational	*International*	*Global*	*Transnational*
Strategic approaches	Flexible to be able to respond to local conditions	To achieve efficiency through head office's competencies and diffusion to all units	Centralized global operations to achieve scale economies	Developing global compatibilities and efficiencies simultaneously
Configuration of assets and competencies	Decentralized and locally responsive	Core competencies centralized; others decentralized	Centralized to achieve cost advantages	Dispersed and specialized at different units

Each of these strategies has its advantages and disadvantages and this creates a complex dilemma for firms. If they follow a global strategy, they can achieve cost efficiencies and better control. However, if they follow multi-domestic strategy, the firms can achieve better local responsiveness but the head office risks losing control and economies of scale.

Cost pressure and a pressure for local responsiveness are opposing factors that firms need to tackle while deciding on global strategy. Some authors have suggested that it is not a question of achieving cost advantages or local responsiveness but a question of achieving the right mix, that of which value creation activities should be centralized and which should be localized, and have suggested a "Glocal" perspective on global strategy formulation.

Entry mode dynamics: foreign distributors, strategic alliance partners, mergers and acquisitions.

Entry mode dynamics 1: foreign distributors

MNEs should maintain relationships with local distributors over the long term even after establishing their own local network to handle major clients. In theory, local distributors provide knowledge about the local market, knowledge of local regulations and business practices, existing major customers at low cost, and the ability to hire appropriate staff and develop relationships with potential new customers. Selecting and managing distributors is difficult.

Many MNEs initially establish relationships with local distributors in order to reduce costs and minimize risks. In other words, the local distributor's complementary capabilities (e.g., knowledge of local regulations and business practices, ability to hire appropriate staff and relationships with potential customers) substitute for developing new, location-bound FSAs required to access the host country market, in cases where market success is highly uncertain. Unfortunately, however, after enjoying some early market penetration, sales often flatten and may even start declining. Typically, the MNE then responds by calling into question the effectiveness of the local partner and its ability to make good on performance commitments and expectations.

The MNE's reflex may even be to take control of local operations by buying out the distributor or by reacquiring the distribution rights in order to build a self-owned, dedicated distribution network. The resulting transition period is often difficult, disruptive and costly – problems that could be avoided, through better strategic planning of distributor selection and governance of the relationships with local distributors.

MNEs often select new countries for market seeking purposes in a largely unplanned or reactive way. This approach typically begins with a positive response to unsolicited proposals from local distributors, advertising the location advantages of the host country in which they operate and their own capabilities to help the MNE serve that market.

The MNE then aligns itself with an independent local distributor in order to minimize up-front risk and to tap existing knowledge about the local market and potential major customers at low cost. Here, the distributor is supposed to add complementary capabilities to the MNE's internationally transferable FSAs, which are embodied in the products it wishes to export.

Typically, the MNE invests very little in marketing and business development, as it assumes that the local distributor will take care of these areas critical to foreign market penetration. But in doing so, 'companies cede control of strategic marketing decisions to the local partners, much more control than they would cede in home markets'. The MNE's attitude is to wait and see what can be achieved with such minimal commitment.

Companies usually have success when they evolve from a beachhead strategy to a mix of direct distribution by the MNE itself and long-term relationships with local distributors. This mixed strategy often lets the MNE retain control of distribution where feasible, while relying on the complementary capabilities of distributors where necessary: it seems probable that some national distributors will become part of a mixed distribution system, in which the multinational corporation will manage major customers directly, while other, independent, distributors will focus on discrete segments of national markets or smaller accounts independent local distribuors often provide the best means of serving local small and medium accounts.

In other words, MNEs are advised to maintain relationships with independent local partners for distribution activities over the long term even after establishing their own local network to handle major clients. The key for the MNE is to find the correct balance between three competing objectives: strategic control over important customers, benefits from the local partner's market knowledge and market access, and risk reduction when faced with high demand uncertainty in the new market.

A list of seven guidelines for MNEs when dealing with local distributors. These guidelines should help MNEs avoid the commonly observed pattern of local market underperformance as a result of underinvestment and over-reliance on

distributors, followed by an overcorrection in the form of complete internalization of all distribution activities:

1. Proactively select locations and only then suitable distributors. The MNE should identify for itself the countries it wants to enter, in relation to its strategic objectives (and the related country-level location advantages), and then suitable partners in those countries, rather than expanding inter nationally to particular locations in response to unsolicited proposals from local distributors (e.g., in the context of trade fairs). The best partners are not necessarily the largest distributors, as the latter may already have contracts with (competing) MNEs for similar product lines, and may thus have an interest in dividing the existing local market among MNE rivals, rather than rapidly building the market for one firm.

2. Focus on distributors' market development capabilities. It is critical to find the best 'company fit' in terms of strategy, culture, willingness to invest and to train staff, etc., rather than merely a 'market fit' with those distributors already serving key target customers with related products.

3. Manage distributors as long-term partners. This approach, which may include incentives related to actual sales performance, will make distributors willing to invest more in strategic marketing and long-term development.

Using distributors for short-term market penetration purposes only, and making this clear through distribution rights buy-back clauses in the contract, takes away the incentive for distributor investment in market development and may even increase bounded reliability problems. For example, if the buy-back price depends on sales volumes, irrespective of profit margins achieved, the distributor may attempt to position the MNE's product as a commodity, rather than extract the highest possible price from customers.

The distributor may thereby harm the product's future positioning in the local market.

4. Provide resources (managerial, financial and knowledge-based) to support distributors for market development purposes. MNEs rarely withdraw fully from a new export market. Committing more resources earlier may therefore foster better

relationships with local partners as well as higher performance. The resources provided may include skilled support staff, minority equity participations (e.g., to co-fund investments) and knowledge sharing (e.g., to augment simple equipment selling with related service provision to customers).

5. Do not delegate marketing strategy to distributors. While distributors should be able to adapt the MNE's strategy to the needs of local markets, it is up to the MNE to provide clear leadership in terms of the choice of products to be marketed, the positioning of these products and the size and use of marketing budgets.

6. Secure shared access to the distributors' critical market and financial intelligence. In many cases, local distribution partners may be the only economic actors holding such valuable information in the host country, and their willingness to share this information signals their commitment to becoming a solid, long-term partner. At the same time, the distributors reduce the MNE's bounded rationality problems by improving its limited understanding of the idiosyncrasies of the local market.

7. Link national distributors with each other, especially at the regional level (spanning several countries). Such linkages, in the form of regional headquarters to coordinate distribution efforts, or autonomous distributor councils, may lead to the diffusion of best practices inside the distributors' network, and act as an internal monitoring mechanism, stimulating more consistent strategy implementation throughout the region.

Entry mode dynamics 2: strategic alliance partners

In 1989, Gary Hamel, Yves Doz and C. K. Prahalad wrote an influential HBR article on the dynamics of international strategic alliances. They focused on the phenomenon whereby large MNEs form strategic alliances with equally large foreign firms that are also rivals in the international marketplace.

Such 'competitive collaboration' occurs because MNEs find it increasingly difficult to bear alone the enormous R&D costs – and singlehandedly gain easy access to the scarce resources required – to launch new products. These problems

are amplified in the context of the compressed time frames necessary to stay ahead of rivals. Hamel et al. attempt to explain why some MNEs benefit greatly from these partnerships, in terms of new FSA development, while others do not.

The authors identified four key principles that successful companies adhere to when forming strategic alliances:

1. Collaboration is competition in a different form . . .

2. Harmony is not the most important measure of success . . .

3. Cooperation has limits. Companies must defend against competitive compromise . . .

4. Learning from partners is paramount . . .

Entry mode dynamics 3: mergers and acquisitions

Pankaj Ghemawat and Fariborz Ghadar wrote a classic HBR article in 2000, criticizing the observed trend towards international mergers and acquisitions (M&As), especially those among large MNEs from different regions of the world (the so-called 'global mega-mergers'). Such M&As typically aim to create a company with a much wider geographic reach than that commanded by each partner individually.

Ghemawat and Ghadar ask whether such large-scale M&A transactions between MNEs, attempting to create firms with interregional or even worldwide market coverage, make economic sense. According to the authors, a general belief persists in many industries that increasing internationalization, in the sense of growing interdependence of markets in the world economy, will ultimately lead to industry consolidations whereby only a few large firms, commanding impressive scale economies, will survive. The obvious implication for senior managers is to get big in order to survive. This view is exemplified by the main strategy rule introduced at General Electric by former CEO Jack Welch. This rule, which still prevails in this highly diversified, US-based MNE, states that the firm should be active only in businesses where it can be the number one or two in the world in terms of size, and should divest businesses in which it cannot achieve that goal.

The authors provide a list of six senior management biases, which can all be interpreted as reflections of bounded rationality and, in some cases, also bounded reliability:

1. 'Top Line Obsession' This occurs when senior managers focus too much on growing revenues (the top line of an accounting statement) rather than profits (the bottom line of an accounting statement) because corporate goals for growth are formulated in terms of revenue, and performance incentives are tied to achieving such top line goals. The bounded reliability problem is that, given these ill-conceived incentives, managers do not pursue shareholder interests, nor the interests of consumers or workers, but solely their own interests.

2. 'Stock Price Exploitation' Senior managers are likely to engage in M&A activity if the firm has an overvalued stock price that makes it more affordable to engage in large M&A transactions, or if the managers are looking to maintain an elevated share price based on the promise of operational (cost-reducing) synergies, even if few of these synergies will actually materialize over time. To the extent that senior managers know that the promise of substantial synergies is unlikely to occur and provide false information to relevant stakeholders, there is again a problem of bounded reliability, in this case akin to opportunistic behaviour.

3. 'Grooved Thinking' Senior managers will often follow the traditional mind set within an industry even if it has become obsolete (e.g., the focus of conventional telecoms on maximizing the number of telephone lines under their control, even in the age of the new communication possibilities provided by the Internet).

4. 'Herd Behaviour' Senior managers tend to follow and imitate the actions of their main competitors, especially in oligopolistic industries (e.g., M&A activity in the European banking industry). Herd behaviour can also reduce managers' individual risk of underperforming rival firms. This is another example of bounded reliability, whereby senior managers engage primarily in self-serving behaviour.

5. 'Personal Commitments' Individual senior managers may hold fast to their own personal views in favor of M&As even in the face of evidence that M&As in their industry systematically lead to underperformance.

6. ‘Trust in Interested Parties’ Outside parties such as investment bankers and consultants can influence companies to engage in M&As, thereby furthering their own interests in earning commissions and fees. Here, the source of bounded reliability problems resides with the external parties to the transaction; these parties have an incentive to further their own interests, rather than act in the best interest of the firm that hired them.

As an alternative to pursuing international M&A deals, the authors offer a host of alternative strategies that senior managers can pursue. They caution that companies must remain focused on developing and profitably exploiting FSAs, rather than on attaining a particular scale as measured by revenues:

1. ‘Pick Up the Scraps’ Spin-offs and divestments that arise from the mega-M&As of other companies can offer profitable growth opportunities for the firms that refrained from engaging in large-scale M&As themselves, if the assets are complementary to the buyer.

2. ‘Stay Home’ Many companies have ample opportunity to improve their competitive position locally or in their home region, rather than pursuing large-scale, interregional M&As to expand their geographic reach.

3. ‘Keep Your Eye on the Ball’ Companies can improve their competitive position by remaining focused on developing and exploiting their key FSAs, while their competitors become consumed with pursuing M&A deals and struggle with post-M&A integration.

4. ‘Make Friends’ Strategic alliances offer an alternative expansion trajectory, often with less resistance internally and from external parties such as government regulators.

5. ‘Appeal to the Referee’ Assuming a company cannot, or will not, pursue a mega-M&A itself, it may be able to slow those of its competitors by calling on regulators to review antitrust implications.

6. ‘Stalk Your Target’ In industries where first-mover advantages associated with international market expansion, especially outside the home region, are dubious, it may be best to wait and observe as others test the waters, rather than trying quickly to increase the MNE’s geographic reach through M&As.

7. ‘Sell Out’ If consolidation is economically justified, it may prove more profitable to be the seller rather than the buyer, given purchase price premiums, integration difficulties, etc.

TEST QUESTIONS

1. What kind of four main types of nontransferable FSAs used in the case example below?

In 1996, Kao was Japan's largest consumer goods company, with a quarter of the shampoo market, three quarters of the bleach market and half of the laundry detergent market.

One of the main reasons for Kao's dominant domestic position was its control of a comprehensive distribution system within Japan. Kao owned Hansha, a wholesale distributor, which distributed only Kao's products. As a result, Kao was able to supply small shops easily and also prevent outsiders from entering the market. Moreover, Hansha allowed Kao to gain privileged information on consumers' shopping habits. However, '[I]n Europe and America Kao has failed to build the comprehensive distribution system that it has in Japan'. In 1996, around 20 per cent of Kao's sales came from overseas markets; by 2005, the percentage of foreign sales had risen to 30 per cent, in roughly equal shares from America, Europe and Asia/Oceania. Kao has not been able to replicate its domestic success abroad.

a. local marketing knowledge and reputational resources

b. local best practices

c. stand-alone resources

d. the firm's domestic recombination capability

2. What kind of four main types of nontransferable FSAs used in the case example below?

The immobility of domestic networks has also brought tremendous challenges to many foreign retail banks in Japan, such as Citibank (now Citigroup). Despite its leading position in the US retail banking industry and a large network of branches in the US, Citibank found it difficult to access Japanese customers when it decided to target individual consumers in 1984. It took Citi-Japan a full ten years to break

into the Japanese market. According to Citibank, '[R]etail banking . . . is like the petrol-station business: you've got to have your pumps in all the right locations. In Japan, the best spots are hard to get.' In Japan, land prices were extremely high, and building a profitable retail network required large-scale investments and substantial time to establish the network. Moreover, Japanese consumers tended to view foreign banks as less trustworthy than local banks.

By 1990, Citibank was 'the last of 83 foreign banks in Japan still interested in retail banking'. The number of its retail branches in Japan had grown from 6 in 1985 to 19 in 1993, but it was still a minor player: the smallest Japanese retail bank had 41 branches in 1985.

However, things changed in the mid 1990s, as a result of both Japan's financial turmoil and Citibank's new strategies. In the early 1990s, Citibank hired Masamoto Yashiro from Exxon to head Citi-Japan. With his extensive knowledge of Exxon's retail gas stations, Yashiro saw the need for a large local distribution channel in Japan. Rather than building branches or purchasing a local retailing bank, Yashiro came up with the idea of linking Citi-Japan's financial network with the ATMs of Japanese commercial banks. Although this idea did not come to fruition, Japanese regulators did allow Citi-Japan to affiliate with the Japanese Postal System in 1999. In this way, Citi-Japan gained access to more than 20,000 branches of the Post Office and its ATMs. In return, the Post Office was provided the opportunity to learn about Citi-Japan's funds management capability. This learning was viewed as particularly useful, because the Japanese Post Office was expanding into the banking and insurance business.

When many Japanese banks then encountered severe financial problems, Japanese consumers stopped viewing Citigroup as inferior to Japanese banks. Its affiliation with the Post Office even created the perception that Citigroup was more trustworthy, as the Post Office was widely viewed as the safest institution for deposits in Japan.

Between 1995 and 2000, Citigroup's accounts in Japan rose by 623 per cent. By 1998, it had over a million accounts. In 2001, Citi-Japan's pretax profits reached

$540 million, and it expected its deposit base to grow by 25 per cent to 30 per cent a year. This growth has made Citi-Japan a significant competitor for Japanese banking giants:

а) local best practices;

б) the firm's domestic recombination capability;

в) stand-alone resources;

г) local marketing knowledge and reputational resources.

3. What kind of four main types of nontransferable FSAs used in the case example below?

A typical example is the assessment of service quality in the hotel industry in locations such as Hong Kong versus the US. Hong Kong-based hotel groups such as the Peninsula have developed a high quality of services, partially because of Hong Kong's location characteristics as a regional business centre and travelling site. This quality of services is manifested by a high ratio of employees to rooms, among other factors.

However, when these firms bought US hotels in the late 1980s, such practices were not appropriate, simply because labour in the US is more expensive than in Hong Kong. Therefore, maintaining the same high ratio of employees to rooms, though viewed as a best practice in Hong Kong luxury hotels, was inefficient in US luxury hotels. As a result, the Hong Kong hotel groups had to rely more on other methods to assess and improve the quality of services in their US subsidiaries, such as a focus on more in-house training and the recruiting of more enthusiastic and younger staff:

а) stand-alone resources;

б) local marketing knowledge and reputational resources;

в) local best practices;

г) the firm's domestic recombination capability.

4. What kind of four main types of nontransferable FSAs used in the case example below?

Office Depot, the leading office supply retailer in the US, entered the Japanese market in 1997. Trying to follow its American retailing style, Office Depot found it hard to attract Japanese customers. Office Depot opened stores in Japan following the American format: more than 20,000 square feet in size, wide aisles, signs in English, etc. In other words, the firm's initial focus was on transferring its domestic routines rather than its recombination capabilities.

However, such an American format not only significantly increased the operating costs of the stores, but also failed to meet the habits of Japanese customers. On the one hand, both the personnel costs and the rents in Japan were significantly higher than in the US, resulting in excessive operating costs. On the other hand, Japanese customers did not value the American format: the large size gave them an unfavourable warehouse impression, as they were used to narrow aisles. In addition, the English signs confused them. On top of these problems, Office Depot needed to provide Japanese-style office products, different from American ones, which it had to purchase from local suppliers, who did not necessarily offer them the best possible prices.

More recently, the company has tried to use its recombination ability to adapt to the idiosyncrasies of the Japanese market. For example, it has started to operate both large and small stores, and has strengthened its delivery capabilities. The company has had only limited success: by 2005, Office Depot operated only 24 retail stores under the Office Depot brand, an insignificant number when compared with its 978 Office Depot superstores in the US:

а) local best practices;

б) the firm's domestic recombination capability;

в) local marketing knowledge and reputational resources;

г) stand-alone resources.

5. What kind of four main types of nontransferable FSAs used in the case example below?

The Taiwanese computer manufacturer Acer Inc. engaged in such linking investments when it entered Mexico in 1989. An experienced original equipment manufacturer for IBM and other top international PC companies, Acer did not have a distribution network in Mexico, nor did it benefit from strong brand recognition. Acer therefore contracted out its distribution and marketing activities to Computec de Mexico, a local Mexican distributor, and, in 1992, formed Acer Computec Latinoamerica (ACLA), a joint venture between Acer and Computec. Acer manufactured the PCs, but Computec (and later ACLA) was given high autonomy at the downstream end of the value chain in Mexico. They focused on small businesses and home PCs, and continued to invest in TV advertisements and other marketing media even during the 1994 peso collapse.

This strategy paid off: by 1992, Acer's linking investments had made it the dominant brand in Mexico. ACLA became publicly listed on the Mexican Stock Exchange in 1996:

а) local best practices;

б) the firm's domestic recombination capability;

в) stand-alone resources;

г) local marketing knowledge and reputational resources.

6. What kind of four motivations to perform activities in a host country rather than at home used in the case example below?

Faced with the continuing growth in the demand for energy, oil companies like Total SA are striving to replenish their reserves by developing or buying new oil fields around the world. Total SA, France's largest corporation and the world's fourth largest oil company, has been expanding its access to new reserves through various forms of FDI in the past several years.

For example, in 2003, Total, the Royal Dutch/Shell Group and Saudi Aramco formed a joint venture for gas exploration in an area of 80,000 square miles in southeast Saudi Arabia.

In 2004, Total signed an agreement with the National Iranian Oil Co. (NIOC) and Malaysia's Petronas to develop the South Pars gas field in Iran. This gas field and Qatar's North field, taken together, represent the world's largest gas reservoir.

In 2005, Total acquired Deer Creek, a Canadian company, for 1.35 billion Canadian dollars. Deer Creek 'doesn't produce oil but holds an 84 % interest in the Joslyn permit, an acreage in the Athabasca oil sands region of Alberta':

а) natural resource seeking;

б) strategic resource seeking;

в) efficiency seeking;

г) market seeking.

7. What kind of four motivations to perform activities in a host country rather than at home used in the case example below?

With a population of 1.3 billion and a wealthy middle class of 250 million, China has become an attractive market for many US food services brands, including Kentucky Fried Chicken (KFC), McDonald's, Dairy Queen and Pizza Hut.

KFC was the first US food services company to invest in China, opening the first unit in Beijing in 1987. 'From the opening day the Beijing unit has served an average of 9,000 customers a day. Its astounding popularity has broken all the company's world sales records.' Individual restaurants had sales as high as $4 million per year, and the margins in China were more than twice the US average.

Another early success story has been McDonald's. As early as 1994, its huge 700-seat outlet in Beijing was reportedly serving '20,000 McDonald's customers a day, and as many as 50,000 on holidays':

а) natural resource seeking;

б) efficiency seeking;

в) strategic resource seeking;

г) market seeking.

8. What kind of four motivations to perform activities in a host country rather than at home used in the case example below?

The Korean firm Samsung Electronics is now viewed as very close to its Japanese rival Sony as the world's leading consumer electronics firm58 after years of trying to catch up with foreign technologies in consumer electronics.

From the early 1970s to the early 1990s, Samsung was able to reduce to less than one year its new product development gap behind the leading MNEs from the US and Japan. However, it realized it still needed additional access to advanced foreign technologies. To accomplish this, Samsung strengthened its in-house R&D and acquired/invested in high-tech companies such as LUX, a Japanese producer of high-end audio systems, and the US firm AST Research. Access to the latter firm's technical know-how and patented technology allowed Samsung to reduce its technology sourcing and licensing dependence on IBM and other large firms:

а) efficiency seeking;

б) market seeking;

в) strategic resource seeking;

г) natural resource seeking.

9. What kind of four motivations to perform activities in a host country rather than at home used in the case example below?

Logitech, the world's leading mouse manufacturer, established its first manufacturing plant in Switzerland in 1981. It then established three foreign plants in the US, Ireland and Taiwan, to serve US and European PC manufacturers who wanted their suppliers to be nearby, and to benefit from lower costs and manufacturing design capabilities in Taiwan. After establishing its Irish plant, Logitech closed its Swiss plant.

However, in the first half of the 1990s, Logitech suffered from inefficient manufacturing and an unclear customer focus. In order to remain competitive in an

environment focused on cost cutting, it engaged in efficiency seeking FDI, and started production in 1994 at a plant in Suzhou, China. It simultaneously closed its Irish and US factories, and retained only a small production line for pilot runs in Taiwan.

Logitech reinforced its manufacturing base in China by launching a new factory in 2005. It currently manufactures half of its products at its Suzhou plant, with the other half outsourced to suppliers in Mexico, Hungary, Thailand and China:

а) efficiency seeking;

б) strategic resource seeking;

в) market seeking;

г) natural resource seeking.

10. Choice the correct statement that fits the case example below.

Consider the example of natural resources in Canada. Domestic firms have been able to leverage domestic natural endowments to compete successfully in the resource industry. Ranking fourth in the world in terms of natural resources reserves (subsoil assets and timber resources) behind only Saudi Arabia, Norway and Venezuela, Canada has significant reserves of wood, water, natural gas, oil, gold, coal, copper, iron ore, nickel, potash, uranium and zinc. In 2004, the Toronto Stock Exchange (TSX) and TSX Venture Exchange had over 1,100 mining companies listed, ranging from emerging explorers to world-class producers, and valued at over $118 billion US. As of 2004, major Canadian mining companies included: Alcan Aluminum Ltd., the second largest primary aluminum producer in the world; Inco Limited, the second largest producer of nickel; Barrick Gold Corporation, one of the largest gold mining companies in the world; Noranda, one of the world's largest producers of zinc; and PotashCorp, the world's largest producer of potash. (Inco Limited and Noranda have since been acquired by foreign competitors.).

1. The more effective and efficient use of location advantages by some firms – usually the combination of these location advantages with specific

proprietary resources – may confer to them an additional FSA over other locally operating firms.

2. The presence of a demanding and sophisticated local market for specific products will likely foster local innovation in the relevant industry.

3. Abundant natural resources may help the creation of successful firms in the natural resource industry.

4. A superior educational system will support firms that build upon sophisticated human resource skills.

5. A location advantage accrues to all firms operating in a particular country, for example if the government has created a favourable tax regime for specific economic activities, or general business incentives for skill upgrading of human resources.

11. Choice the correct statement that fits the case example below.

In Germany, the dual system for vocational education and training (VTE) has historically provided a stable source of highly skilled workers for German firms, and has helped these firms build a reputation for high product quality. VTE covers several hundred occupations and focuses on the majority of young Germans who will not pursue university-level studies. The responsibility for training is shared by both public training schools and private companies. Such VTE programs, specialized in printing, optics, automotive assembly, hydraulics, etc., have historically led to 'highly skilled, technologically competent graduates who are thoroughly familiar with the flexible manufacturing systems typical of today's industry'. VTE programs have thereby played an important role in helping a large number of German firms (Siemens, Hoechst, Volkswagen, etc.) retain their competitiveness in product performance and quality.

1. The presence of a demanding and sophisticated local market for specific products will likely foster local innovation in the relevant industry.

2. A superior educational system will support firms that build upon sophisticated human resource skills.

3. A location advantage accrues to all firms operating in a particular country, for example if the government has created a favorable tax regime for specific economic activities, or general business incentives for skill upgrading of human resources.

4. The more effective and efficient use of location advantages by some firms – usually the combination of these location advantages with specific proprietary resources – may confer to them an additional FSA over other locally operating firms.

5. Abundant natural resources may help the creation of successful firms in the natural resource industry.

12. Choice the correct statement that fits the case example below.

In Germany, the dual system for vocational education and training (VTE) has historically provided a stable source of highly skilled workers for German firms, and has helped these firms build a reputation for high product quality. VTE covers several hundred occupations and focuses on the majority of young Germans who will not pursue university-level studies. The responsibility for training is shared by both public training schools and private companies. Such VTE programs, specialized in printing, optics, automotive assembly, hydraulics, etc., have historically led to 'highly skilled, technologically competent graduates who are thoroughly familiar with the flexible manufacturing systems typical of today's industry'. VTE programs have thereby played an important role in helping a large number of German firms (Siemens, Hoechst, Volkswagen, etc.) retain their competitiveness in product performance and quality.

1. The presence of a demanding and sophisticated local market for specific products will likely foster local innovation in the relevant industry.

2. A superior educational system will support firms that build upon sophisticated human resource skills.

3. A location advantage accrues to all firms operating in a particular country, for example if the government has created a favorable tax regime for specific

economic activities, or general business incentives for skill upgrading of human resources.

4. The more effective and efficient use of location advantages by some firms – usually the combination of these location advantages with specific proprietary resources – may confer to them an additional FSA over other locally operating firms.

5. Abundant natural resources may help the creation of successful firms in the natural resource industry.

13. Choice the correct statement that fits the case example below.

In Germany, the dual system for vocational education and training (VTE) has historically provided a stable source of highly skilled workers for German firms, and has helped these firms build a reputation for high product quality. VTE covers several hundred occupations and focuses on the majority of young Germans who will not pursue university-level studies. The responsibility for training is shared by both public training schools and private companies. Such VTE programs, specialized in printing, optics, automotive assembly, hydraulics, etc., have historically led to 'highly skilled, technologically competent graduates who are thoroughly familiar with the flexible manufacturing systems typical of today's industry'. VTE programs have thereby played an important role in helping a large number of German firms (Siemens, Hoechst, Volkswagen, etc.) retain their competitiveness in product performance and quality.

1. The presence of a demanding and sophisticated local market for specific products will likely foster local innovation in the relevant industry.

2. A superior educational system will support firms that build upon sophisticated human resource skills.

3. A location advantage accrues to all firms operating in a particular country, for example if the government has created a favorable tax regime for specific economic activities, or general business incentives for skill upgrading of human resources.

4. The more effective and efficient use of location advantages by some firms – usually the combination of these location advantages with specific proprietary resources – may confer to them an additional FSA over other locally operating firms.

5. Abundant natural resources may help the creation of successful firms in the natural resource industry.

14. Choice the correct statement that fits the case example below.

Consider Ireland's location advantages. The impressive recent growth of Ireland has been attributed to a series of country-specific factors after 1987, including cuts in government spending, tax cuts, lower interest rates, European Union subsidies, the creation of a European single market in 1993, and government investments in education increasing the supply of skilled workers.

All these factors drove the Irish GDP per person from 69 per cent of the EU average in 1987 to 136 per cent in 2003. New EU entrants from central and eastern Europe might want to follow the Irish formula for success, but '[T]his will not be easy', as it is almost impossible to replicate the trajectory over time of the entire portfolio of parameters that led to Ireland's success at the macro-level.

1. A superior educational system will support firms that build upon sophisticated human resource skills.

2. A location advantage accrues to all firms operating in a particular country, for example if the government has created a favorable tax regime for specific economic activities, or general business incentives for skill upgrading of human resources.

3. The presence of a demanding and sophisticated local market for specific products will likely foster local innovation in the relevant industry.

4. The more effective and efficient use of location advantages by some firms – usually the combination of these location advantages with specific proprietary resources – may confer to them an additional FSA over other locally operating firms.

5. Abundant natural resources may help the creation of successful firms in the natural resource industry.

15. Most complex issues in international business strategy revolve around just seven concepts:

a. Location advantages.
b. Investment in recombination.
c. Bounded reliability.
d. Distinct ability to combine resources.
e. Bounded rationality.
f. Complementary resources of external actors.
g. Internationally transferable firm-specific advantages.
h. International relations.
i. Non-transferable firm-specific advantages.

16. Most complex issues in international business strategy revolve around just seven concepts:

a. Location advantages.
b. Investment in recombination.
c. Bounded reliability.
d. Distinct ability to combine resources.
e. Bounded rationality.
f. Complementary resources of external actors.
g. Internationally transferable firm-specific advantages.
h. International relations.
i. Non-transferable firm-specific advantages.

17. Global integration is:

a) the combination of technical and business processes used to combine data from disparate sources into meaningful and valuable information;

b) a process that involves regional groups and regions in coming to agreement on a worldwide level;

c) a process in which neighboring states enter into an agreement in order to upgrade cooperation through common institutions and rules.

18. International business occurs in formats:

a) accumulate facilities in foreign markets;

b) licensing, franchising;

c) contractual agreements that allow foreign firms to use products, services, and processes own nations;

d) exporting, importing, trade;

e) formation and operations of sales, manufacturing, research and development.

19. International business strategy:

a) refers to plans that guide commercial transactions taking place between entities in different countries.

b) refers to the trade of goods, services, technology, capital and/or knowledge at a global level.

c) means effectively and efficiently matching an MNE's internal strengths (relative to competitors) with the opportunities and challenges found in geographically dispersed environments that cross international borders.

d) is the application of marketing principles in more than one country, by companies overseas or across national borders.

20. Regional Integration is:

a) a process that involves regional groups and regions in coming to agreement on a worldwide level;

b) a process in which neighboring states enter into an agreement in order to upgrade cooperation through common institutions and rules;

c) the combination of technical and business processes used to combine data from disparate sources into meaningful and valuable information.

21. The competitive environment is constantly changing according to the:

a) physical environments;

b) political environments;

c) socio environments;

d) cultural environments;

e) economic environments.

22. The political environment of international business refers to:

a) the relationship between government and business, as well as the political risk of a nation;

b) education and infrastructure;

c) technology and healthcare.

23. ___________ refers primarily to the information management system within the MNE, particularly the management of accounting data and personnel performance-related data.

a. Power orientation.

b. Cognitive orientation.

c. Administrative orientation.

d. Strategic orientation.

24. ___________ is the perception by managers of what constitutes the relevant business environment and the main competitive forces in this environment. Managers in different functional areas or operating at different hierarchical levels may not share the same perception of these parameters.

a. Cognitive orientation.

b. Administrative orientation.

c. Power orientation.

d. Strategic orientation.

25. ____________ is the most direct and rigorous way to give managers in-depth knowledge of the MNE's internal network, as well as the abilities to transfer routines abroad and be a catalyst for recombining resources.

a. Management expectation.

b. Management practice.

c. Expatriation.

d. Repatriation.

26. ____________ is the most direct and rigorous way to give managers in-depth knowledge of the MNE's internal network, as well as the abilities to transfer routines abroad and be a catalyst for recombining resources.

a. Management expectation.

b. Management practice.

c. Expatriation.

d. Repatriation.

27. Managers are the physical carriers of the MNE's ___________ capabilities.

a. creation;

b. innovation;

c. recombination;

d. substantial tacit component.

28. ___________ refers to who in the firm has the power to do what.

a. Cognitive orientation.

b. Power orientation.

c. Strategic orientation.

d. Administrative orientation.

29. A key component of the first best practice (creating knowledge and developing global leadership skills) is that both senior management in the expatriate's home country and the individual sent abroad ...

a) identify a few firms with superior expatriate management practices, in terms of job satisfaction, performance and retention;

b) well look after, and therefore as having little to complain about;

c) underestimate the impact of cultural distance on organizational functioning;

d) share a clear understanding of the expatriation's purpose and related expectations.

30. ___________ is the managers' interpretation of the changes occurring in the relevant external environment – specifically, in terms of recognizing the business threats that need to be answered in a particular way and the business opportunities that can be exploited.

a. Cognitive orientation.

b. Administrative orientation.

c. Power orientation.

d. Strategic orientation.

31. The managers in MNEs are best positioned to ...

a) meld both location-bound and non-location-bound FSAs;

b) identify the need for new FSA development in host countries and facilitate such development;

c) engage in the international transfer of non-location-bound FSAs from the home nation.

32. Leaders help to establish the _______ of an organization, and they set the example that others follow.

a) culture;

b) process;

c) peace;

d) alternative;

e) confidence.

33. The major advantage of Matrix Structure is:

a) that there is more cross – functional communication that facilitates innovation;

b) based on the geographical area;

c) the lack of inter department communication and networking that contributes to more rigidity within the organization;

d) developed on the basis of its product portfolio;

e) the decentralization of strategic decisions that makes it difficult for a unified approach to counter global competitive attacks.

34. Most common ethical issues involve:

a) employment practices;

b) the moral obligation of MNCs;

c) human rights;

d) environmental regulations;

e) corruption.

35. Multinational companies haven't evolved structural permutation like as:

a. Matrix Structure.

b. Functional Structure.

c. Subsidiary Model.

d. Product Division.

e. Area Division.

f. Transnational network.

g. Operation Division.

h. Innovation Division.

36. __________ is developed on the basis of its product portfolio.

a. Product Division

b. Functional Structure.

c. Area Division.

d. Matrix Structure.

e. Subsidiary Model.

f. Transnational network.

37. The disadvantages of Functional Structure include:

a) the lack of inter department communication and networking that contributes to more rigidity within the organization;

b) developed on the basis of its product portfolio;

c) the decentralization of strategic decisions that makes it difficult for a unified approach to counter global competitive attacks;

d) based on the geographical area.

38. The major disadvantage of Subsidiary model is:

a) developed on the basis of its product portfolio;

b) the lack of inter department communication and networking that contributes to more rigidity within the organization;

c) the decentralization of strategic decisions that makes it difficult for a unified approach to counter global competitive attacks;

d) based on the geographical area.

39. Multinational companies are faced with one opposing force when designing the structure of their organization: the need for differentiation that allows them to be specialized and competitive in their local markets.

True

False

40. The International Marketing is the application of marketing principles to satisfy the varied needs and wants of different people residing across the national borders.

True

False

REFERENCES

1. Advances in Strategic Management: Finance and Strategy by Belen Villalonga (ed). Emer-ald Group Publishing, 2014. – 392 p.

2. Barney, J. B. Strategic management and competitive advantage. Pearson, 2012. – 395 p.

3. Collis, David J. International Strategy. Context, Concepts and Implications. Harvard Business School. John Wiley & Sons Ltd, 2014. – 375 p.

4. Cullen J. B International business: strategy and the multinational company. – New York : Routledge, 2010. – XXV, 500 p.

5. Cullen, J. B. Multinational management. South-Western Cengage Learning, 2014. – 736 p.

6. Faulkner, David O. and Campbell Andrew (ed).Oxford Handbook of Strategy, Volume I: A Strategy Overview and Competitive Strategy. Oxford University Press, 2003. – 517 p.

7. Grimm, Curtis M., Lee, Hun, and Smith., Ken G. Strategy as Action : Competitive Dynamics and Competitive Advantage. Oxford University Press, 2006. – 289 p.

8. Handbook of research on international strategic management. Cheltenham; Northampton Edward Elgar, 2012. – 495 p.

9. Hibbert, E. P. International business. Macmillan Business, 1997. – 366 p.

10. Hill, C. W. L. Strategic management. Cengage Learning, 2015. – 467 c.

11. Hodgetts, R. International management: culture, strategy, and behavior, McGraw-Hill/Irwin, 2006. – 609 p.

12. Lasserre, P. Global strategic management. New York Palgrave Macmillan, 2012. – 514 p.

13. Peng, M. W. Global strategic management. South-Western Cengage Learning, 2014. – 525 p.

14. Spulber, Daniel F. Global Competitive Strategy. Cambridge University Press, 2007. – 306 p.

15. Stacey, R. D. Strategic management and organizational dynamics. Pearson Education, 2011. – 536 p.

16. Thompson A., Strickland A. Strategic Management: Concepts and Cases. Pearson HE, 2014. International Marketing, Vern Terpstra and Ravi Sarathy New York Holt, Rinehart and Winston Inc. – 2005.

17. Verbeke A. International Business Strategy. Cambridge University Press. The Edinburgh Building, Cambridge, UK, 2009. – 481 p.

Навчальне видання

КАЛАШНІКОВА Христина Ігорівна

«МІЖНАРОДНІ БІЗНЕС-СТРАТЕГІЇ»

КОНСПЕКТ ЛЕКЦІЙ

(для студентів 4 курсу всіх форм навчання
спеціальності 073 – Менеджмент,
281 – Публічне управління та адміністрування)

(Англ. мовою)

Відповідальний за випуск *М. К. Гнатенко*

За авторською редакцією

Комп'ютерне верстання *Х. І. Калашнікова*

План 2019, поз. 134 Л

Підп. до друку 05.12.2019. Формат 60 × 84/16.
Друк на ризографі. Ум. друк. арк. 4,5.
Тираж 50 пр. Зам. №

Видавець і виготовлювач:
Харківський національний університет
міського господарства імені О. М. Бекетова,
вул. Маршала Бажанова, 17, Харків, 61002.
Електронна адреса: rectorat@kname.edu.ua
Свідоцтво суб'єкта видавничої справи:
ДК № 5328 від 11.04.2017.