Chapter 10

International Business Administration

Learning objectives

- Economic System and International Economic Integration.
- Challenges in International Business.
- Multinational Corporation.
- World Market Penetration and Global Product Development.
- Global Strategy.

1. Economic System and International Economic Integration

Economic System

- ***Market Economy***
  - ❖ Individuals decide on economic issues instead of governments.
  - ❖ The private economic sector is free to develop.
  - ❖ A market economy will depend on individuals and enterprises owning and controlling resources rather than the government.
  - ❖ A market economy is less dependent on government regulations. The more extensive the state intervenes, the less efficient the market becomes.

Economic System (Cont.)

- ***Concentrated Economy***
  - ❖ The state owns and controls all resources.
  - ❖ The state has the right to decide which goods and services are produced depending on the quantity, quality, and price.
- ***Mixed Economy***
  - ❖ An economy is mostly determined by the market and private ownership is more common.
  - ❖ However, there is still state intervention in personal decisions.

What is Economic Integration?

- An agreement among countries that involves coordinating their fiscal and monetary policies as well as lowering or eliminating trade barriers is known as economic integration.
- Economic integration aims to lower costs for both consumers and producers while increasing trade among the nations involved in the agreement.
- Economic Integration includes
  - ❖ A preferential trading area, a free trade area, a customs union, a common market, an economic union, an economic and monetary union, and complete economic integration.

Source: https://www.investopedia.com/

Benefits of Economic Integration

- The benefits of economic integration are divided into three categories: trade creation, employment opportunities, and consensus and cooperation.
- Economic integration typically reduces trade costs and increases the availability of products and services.
- Trade liberalization increases the expansion of markets, exchange of technology, and cross-border investment, which improves job opportunities.

Source: https://www.investopedia.com/

The Costs of Economic Integration

- ***Diversion of trade***
  - ❖ Trade can be shifted from non-members to members, even if it is economically disadvantageous to the member state.
- ***Erosion of national sovereignty***
  - ❖ Members of economic unions are typically required to follow trade, monetary, and fiscal policies set by an unelected external policymaking body.
- ***Employment shifts and reductions***
  - ❖ Economic integration may cause corporations to relocate their production operations to areas within the economic union with lower labor costs.
  - ❖ Employees may relocate to areas with higher wages and more job prospects.

Source: https://www.investopedia.com/

2. Challenges in International Business

Some Challenges of International Business

- ***Language Barriers***
  - ❖ When conducting international business, it is critical to consider the languages used in the nations in which you intend to grow.
  - ❖ Does your product's information translate effectively into a different language?
    - ➢ Consider hiring an interpreter and consulting a native speaker and resident from each country.
  - ❖ It is also important to consider the languages spoken by your company's employees who are working in overseas locations.
    - ➢ Investing in interpreters can help keep your business running smoothly.

Source: https://online.hbs.edu/

Some Challenges of International Business (Cont.)

- ***Cultural Barriers***
  - ❖ Learning about the cultures of the nations where you'll be conducting business is beneficial and important, such as holidays, arts, traditions, foods, and social norms.
  - ❖ When managing teams in foreign offices, selling products to an international retailer or potential client, or running an overseas production facility, show that you've taken the time to comprehend their cultures.
  - ❖ These things project the respect and emotional intelligence required for successful business operations.

Source: https://online.hbs.edu/

Some Challenges of International Business (Cont.)

- ***Managing Global Teams***
  - ❖ Language barriers, cultural differences, time zones, and varying technology access and reliance can make it difficult to work as a team.
    - ➢ To establish and maintain a solid working connection with your global team, schedule regular check-ins, preferably through a video conferencing platform that allows you to interact in real time.

Source: https://online.hbs.edu/

Some Challenges of International Business (Cont.)

- ***Currency Exchange and Inflation Rates***
  - ❖ Familiarize yourself with the exchange rates for currencies between your home country and the countries where you intend to conduct business.
  - ❖ The foreign exchange rate is the relative value of two countries' currencies.
  - ❖ It is also critical to monitor inflation rates, which are the annual percentage increases in overall inflation in an economy.
  - ❖ Inflation rates differ by country and can affect material and labor costs, as well as product price.

Source: https://online.hbs.edu/

Some Challenges of International Business (Cont.)

- ***Nuances of Foreign Politics, Policy, and Relations***
  - ❖ Politics, policies, laws, and cross-border relationships all have an impact on business.
  - ❖ The decisions made by political leaders can have a substantial effect on different things in a country, like taxes, labor laws, the price of raw materials, transportation infrastructure, and educational systems.

Source: https://online.hbs.edu/

How to Prepare for International Business Challenges

- A global business course can help you develop your international business skills and get ready for the complex and interconnected business world.
- You should also vary your news consumption and closely follow foreign politics, establish contacts in the countries where you hope to do business and invest in interpreters to resolve language barriers.

Source: https://online.hbs.edu/

3. Multinational Corporation

What is a Multinational Corporation?

- A multinational corporation (MNC) is a business that conducts business both domestically and internationally.
- It keeps a central office in one nation, where managers of all its other offices like factories or administrative branches are coordinated.
- The multinational company must conduct business operations in various nations and make foreign direct investments there.

How a Multinational Corporation Works

- A multinational corporation does business in at least two countries.
  - ❖ Some might consider any company with a foreign branch as being a multinational corporation.
  - ❖ Others may limit their definition to firms that generate at least one-quarter of their earnings outside of their native nation.
- It may establish operations in marketplaces where their capital can be most effectively deployed.
- It can also benefit from lower tax rates in countries in which direct foreign investment is encouraged.
- Etc.

Source: https://www.investopedia.com/

Characteristics of a Multinational Corporation

- Global business presence.
- Business conducted in various languages.
- A complicated business model and structure.
- Direct investments in foreign countries.
- Jobs created in foreign countries.
- Seeks improved efficiencies, lower production costs, larger market share.
- Pays taxes in countries in which it operates.
- Reports financial information according to International Financial Reporting Standards (IFRS).

Source: https://www.investopedia.com/

Models of a Multinational Corporation

- ***Centralized***
  - ❖ Enterprises establish their executive headquarters in their home country before constructing many manufacturing and production facilities abroad.
  - ❖ Overseeing the offices and facilities in foreign nations directly is the executive headquarters.
- ***Regional***
  - An organization maintains its head office in one nation while managing many offices across multiple countries.
  - A subsidiary or affiliate of the regionalized model reports to the regional headquarters, which in turn reports to the central headquarters.

Source: https://corporatefinanceinstitute.com

Models of a Multinational Corporation (Cont.)

- ***Multinational***
  - ❖ Under the multinational business model, a parent company maintains operations in its home nation while establishing subsidiaries abroad.
  - ❖ The distinction between the preceding two models lies in the increased operational autonomy granted to subsidiaries and affiliates.

Advantages of Being a Multinational Corporation

- ***Efficiency***
  - ❖ Because they manufacture in the nations where their target markets are located, multinational corporations can more easily reach those markets. They also have easier access to less expensive labor and raw materials.
- ***Development***
  - ❖ Multinational firms are more appealing to the local labor force because they typically pay more than domestic businesses.
  - ❖ Due to their large local tax payments, which contribute to the growth of the host country, they are typically given preferential treatment by the local government.

Source: https://corporatefinanceinstitute.com

Advantages of Being a Multinational Corporation (Cont.)

- ***Employment***
  - ❖ Local employees, who are familiar with the area's customs and culture are employed by multinational corporations and can provide valuable information about local preferences.
- ***Innovation***
  - ❖ Multinational firms can produce more innovative and creative products by employing both domestic and foreign labor.

Source: https://corporatefinanceinstitute.com

Disadvantages of Being a Multinational Corporation

- ***Increased legal burden***
  - Because multinational corporations operate in multiple jurisdictions, their legal complexity increases.
  - Laws concerning corporate structure, contracts, the environment, employment, and other topics depend on each country.
- ***Increased tax compliance***
  - Because it operates in numerous nations, a multinational corporation will apply various tax regimes, such as value-added tax, tax deductions (i.e., depreciation).

Source: https://corporatefinanceinstitute.com

Disadvantages of Being a Multinational Corporation (Cont.)

- ***Public relations***
  - ❖ One way to accuse a multinational corporation of causing political problems and bad public relations in its home country is by sending or creating jobs overseas.
  - ❖ In contrast, it is possible to accuse a multinational corporation of taking advantage of local labor, resources, and laws in the foreign nation.
- ***Political instability***
  - ❖ Political instability may affect a multinational corporation based on the locations of its offices and resources.

Source: https://corporatefinanceinstitute.com

Examples of Multinational Corporations

- A short list of well-known multinational companies is as follows:
  - ❖ Apple.
  - ❖ Microsoft.
  - ❖ Proctor & Gamble.
  - ❖ Tesla.
  - ❖ Etc.

Source: https://corporatefinanceinstitute.com

4. World Market Penetration and Global Product Development

World Market Penetration

- **International Business Barriers**
  - ***International Trade Barriers***
    - Tariff barriers: They consist of tax methods, such as exported and imported goods, which can be in the form of a percentage tax, specific tax, mixed tax, etc.
    - Non-tariff barriers: They can be any policies or measures that hinder trade activities.

World Market Penetration (Cont.)

- **International Business Barriers**
  - ***International Investment Barriers***
    - Investment barriers can be understood as administrative procedures, legal regulations, and political and cultural factors that hinder international investment activities.
    - In international business, investment is an activity that can bring capital and assets from one country to another to do business and earn profits (foreign investment).
    - Investment can be direct investment (investment in establishing or acquiring enterprises) and indirect investment (mainly through the stock market).

World Market Penetration (Cont.)

- **International Business Barriers**
  - ***International Investment Barriers***
    - Many host countries set regulations requiring foreign-invested enterprises with conditions related to production and business, and input regulations, such as raw materials, fuel, etc.
    - An instance of requirements is as follows:
      - Domestic equity contribution ratio;
      - Localization ratio;
      - Restrictions on imports and foreign exchange transactions;
      - Hire workers in the host country; etc.

World Market Penetration (Cont.)

- **International Business Barriers**
  - ***International Investment Barriers***
    - Measures limit production, domestic consumption, or exportation, such as quantity limitation, and product types by foreign-invested enterprises.
      - Export requirements;
      - Trade balance requirements;
      - Required licenses;
      - Production restrictions;
      - Regulations on transferring profits abroad.
      - Etc.

World Market Penetration (Cont.)

- **Market Penetration through International Trade**
  - ***Export***
    - ***Advantages***
      - Increase sales, develop market share, and create higher profit margins than doing business in the domestic market.
      - Increase economic scale, thereby reducing production costs per unit of product.
      - Diversify customers and reduce dependence on the domestic market.
      - In a case of necessity, an enterprise can quickly withdraw from an export market.
      - Market entry costs are low because enterprises do not need to carry out investment projects or maintain a branch in the target market.

World Market Penetration (Cont.)

- **Market Penetration through International Trade**
  - ***Export***
    - ***Disadvantages***
      - Businessmen have few opportunities to consult customers, learn from competitors, and recognize unique features of the market.
      - Without direct contact with customers, it is difficult for enterprises to identify opportunities and risks.
      - Export companies must have employees who are good at international transactions and fluent in foreign languages.
      - Have a great sensitivity to tariffs and other trade barriers, as well as fluctuations in exchange rates.
      - Etc.

World Market Penetration (Cont.)

- **Market Penetration through International Trade**
  - ***Countertrade***
    - Export will be the premise for importing or vice versa or import and export go together.
    - The role of currency in this method is limited in function because the critical purpose of exchange in countertrade is not to earn foreign currency. The key function of money here is only to record and calculate.
    - The seller's main purpose is to receive another product of equal value.

World Market Penetration (Cont.)

- **Market Penetration through International Trade**
  - ❖ **Outsourcing**
    - ➢ ***Onshore outsourcing***
      - ❑ The outsourcing party and the service provider are in the same country.
    - ➢ ***Offshore outsourcing***
      - ❑ The outsourcing party and service provider in different countries.
    - ➢ ***Example of outsourcing***
      - ❑ Enterprises outsource part or all of the production process.
      - ❑ Services outsourcing; etc.

World Market Penetration (Cont.)

- **Market Penetration through Investment Activities**
  - ***Foreign Direct Investment***
    - New investment with 100% equity.
    - M&A with an existing company in a foreign country.
  - ***Foreign Indirect Investment***
    - This type of investment seeks financial profits (i.e. loans) and does not directly operate overseas activities.

World Market Penetration (Cont.)

- **Market Penetration through Contract**

❖ ***Contract of License Sales***

➢ A method is when a domestic company grants a license to a foreign company, such as a license, right to manufacture products, manufacturing process, usage of trade name, etc.

❖ ***Contract of Commercial Franchise***

➢ A franchise is like a license, but a franchise contract has a longer term than a license sales contract.

➢ Franchise not only sells intangible assets (i.e., trademark) to the franchisee but also affirms that the franchisee complies with strict rules in enterprise operation.

➢ The franchisor receives payment of a percentage of sales.

❖ ***Others (turnkey contract; etc.)***

Global Product Development

- **Global Market Analysis**
  - ❖ A comprehensive analysis of the target markets can gain insights into markets, such as cultural, economic, and regulatory differences across various regions, etc.
- **Localization and Adaptation**
  - ❖ Adapt products to suit the specific requirements of different markets, such as language, cultural norms, local regulations, etc.
- **Supply chain management**
  - ❖ Startups need to establish efficient logistics networks to ensure timely delivery of products to customers worldwide, such as cooperation with local distributors, regional warehouses, etc.

Global Product Development (Cont.)

- **Cross-cultural collaboration**
  - ❖ Successful global product development often involves collaborating with teams from different cultural backgrounds, such as effective communication and understanding of cultural nuances.
- **Regulatory Compliance**
  - ❖ Global product development necessitates compliance with diverse regulatory frameworks, such as legal requirements, certifications, and standards markets.
- **Customer Feedback and Iteration**
  - ❖ To ensure the success of global product development, startups should actively seek customer feedback from different markets (i.e., to provide valuable insights for product improvement and iteration).

5. Global Strategy

The Concept of Business Strategy

“Actions taken by managers to achieve the company's goals.

➔ Maximize the company value for its owners, shareholders.”

The Concept of Business Strategy

- ***Characteristics of strategic business units (SBUs).***
  - ❖ Independent business.
  - ❖ Have a clear mission.
  - ❖ There are competitors in business.
  - ❖ Operate and manage certain resources.
  - ❖ Have a management apparatus with enough power and responsibility.
  - ❖ Goals can be achieved through strategic plans.
  - ❖ Can develop an independent plan with other business units.

Strategic Direction

- ***Centripetal orientation (ethnocentric)***
  - ❖ Based on the value of the parent company's benefits in strategic planning and implementation.
  - ❖ The top priority is profit.
  - ❖ Conduct business abroad just like at home.
- ***Centrifugal orientation (polycentric)***
  - ❖ Develop strategies to meet local cultural needs.
  - ❖ Adjust the general plan to suit local needs.
  - ❖ <u>Mission:</u> it is accepted by local culture and penetrates the country.

Strategic Direction (Cont.)

- ***Regionally orientation (multi-regiocentric)***
  - ❖ Aim to achieve both goals, such as profit and local acceptance.
  - ❖ Combine the two approaches that are Centripetal and Centrifugal orientation.
  - ❖ A strategy is often used for both local and regional demand. The focus is on the whole region.
- ***Global orientation (geocentric)***
  - ❖ Consider actions on a global basis (Large companies often choose this orientation).
  - ❖ Global products with local diversity.
  - ❖ With the best working staff regardless of origination.

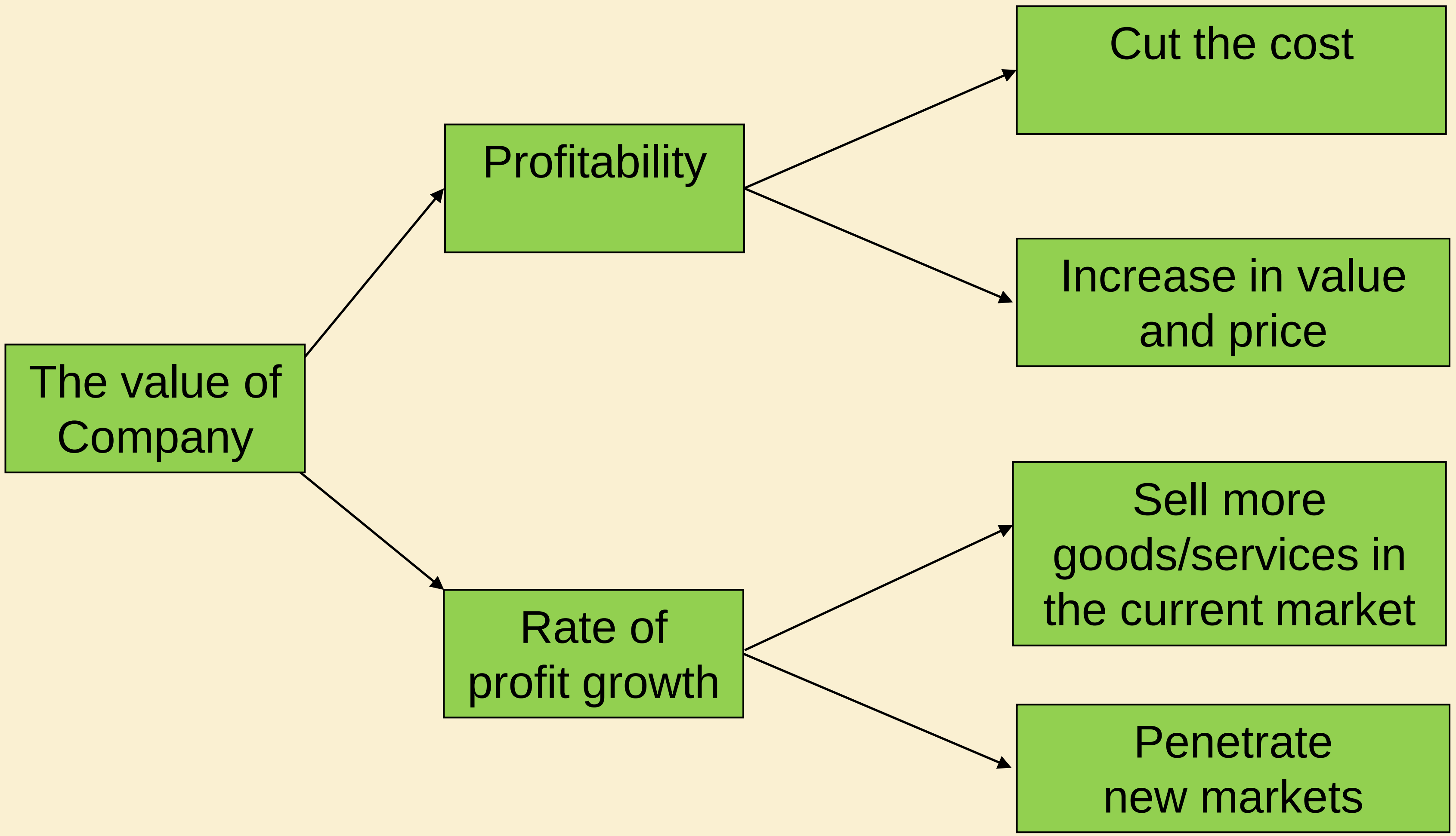
Strategic Formation

- It is the process of evaluating the firm's internal and external environment.
  - ***External environment***
    - Must answer two questions as follows:
      - What is occurring in the environment?
      - How do those changes affect the company?
    - Information collection
      - Use industry experts, historical trends for forecasting, computer simulation of the industry environment; etc.
    - Information valuation
      - Porter's Five Forces (Buyer; Supplier; New Competitor; Substitute Goods and Services; Industry Competitors).

Strategic Formation (Cont.)

- **Internal environment**
  - ❖ Company resources
    - ➢ Tangible resources (finance, labor, asset, etc.).
    - ➢ Intangible resources (reputation, brand, etc.).
  - ❖ Value chain analysis
    - ➢ R&D.
    - ➢ Human resources.
    - ➢ Inbound and outbound logistic.
    - ➢ Sales and Marketing.
    - ➢ Customer service.
    - ➢ Etc.

Global Strategic Planning



Source: Own processing.

Global Strategic Planning (Cont.)

- Companies are highly profitable when they create more value for consumers while they operate at low cost.
  - ❖ Low-cost strategy.
  - ❖ Differentiation strategy.

Pressure reduces costs	***High***	**Global Standardization Strategy**	**Transnational Strategy**
	Low	**International Strategy**	**Localization Strategy**
		Low	***High***
	Pressure meets local requirements		

Source: Own processing.

Global Strategic Planning (Cont.)

- Goal determination.
  - ❖ SMART (Specific, Measurable; Achievable; Relevant; and Time-bound).
- Two basic methods evaluate the goal determination of international business activities.
  - ❖ Business results.
  - ❖ Geographical area.
- Profit.
- Marketing.
- Manufacture.
- Finance; Human resources; etc.

Implementation of International Business Strategy

- Tasks need to be done
  - ❖ Convert strategic goals into short-term goals (SMART goals).
  - ❖ Identify specific strategies and tactics to achieve goals.
  - ❖ Determine the timeline of activities and scope of necessary limits.
  - ❖ Adjust and reorganize the management apparatus.
  - ❖ The functions operate following the exact business strategy determined.
  - ❖ Adjust the planned strategy that becomes the actual strategy.

Implementation of International Business Strategy (Cont.)

- Areas need to be focused on when implementing international business strategies.
  - ***Location***
    - Cost reduction; local tastes; incentive policy in the host country; tariff barriers; etc.
  - ***Possession***
    - Foreign dependence?
    - Contribute to the overall economic development of the host country?
    - Two approaches: International joint venture and Strategic alliance.
  - ***Function***
    - Marketing strategy (4Ps or 7Ps); product strategy; finance strategy; etc.

Evaluation of the Implementation of International Business Strategies

- *ROI (return on investment)*
  - ❖ Allows comparison of results between business units within a country or among countries.
- *Rate of increase in sales or market share.*
  - ❖ Next year's tasks are higher than last year's.
  - ❖ Market downturn tries to maintain market share.
- *Expense*
  - Target sales and market share at the lowest cost.
  - Strictly control costs; etc.

Evaluation of the Implementation of International Business Strategies (Cont.)

- *New product development*
  - ❖ Sell products in the high-tech field (electronics, computers, etc.)
- *Relations with the host country*
  - ❖ Penetrate the community; local agencies; workers;
  - ❖ Product modification (cultural tastes);
  - ❖ Reinvest profits; etc.

❖ *Results of management activities*

- ❖ Quantity; Quantity targets;
- ❖ Quality: relationships with landlords, headquarters, and manager's leadership quality.

In conclusion

- Economic System and International Economic Integration.
- Challenges in International Business.
- Multinational Corporation.
- World Market Penetration and Global Product Development.
- Global Strategy.

THANK YOU
FOR YOUR ATTENTION

Q&A