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College of Business, Arts and Social Sciences

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Student Number:	2157780
Module Code:	MB5528
Module Title:	International Business
Module Tutor:	Dr Di Guo
Assessment Number/Name: e.g. Coursework 1, Coursework 2, Presentation, Final Assessment	Individual Coursework

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YES

David Diolle

Table of Contents

Discuss how the Russian-Ukraine war affects international business in general.

Introduction to International trade

Globalisation has profoundly transformed international business (IB) during the two decades post-1990s (Lagarde, 2021). Cross-border transactions to satisfy the needs of individuals and organisations were seen as desirable for two main reasons: Firstly, to take advantage of the classical argument of David Ricardo about the mutual gains from trade (Foreign market pull factor) and to exploit the demand from various markets as a means of risk diversification, referred to as the Home market push factor (Collinson et al. 2009). Collinson et al. (2017) also argue that the ability to rotate demand from domestic to international trade was driven by technological progress and the relaxation of public policy. Free trade and low barriers to Foreign Direct Investment (FDI) saw a rising number of Firms investing, operating and marketing their activities in several countries. These firms are known as multinational corporations (MNCs) or multinational enterprises (MNEs) (Deresky, 2016).

Globalisation has increased growth across all economies. Millions of people were lifted out of poverty in emerging markets while many jobs were created, supported by export surges. However, on the flip side, greater trade openness means greater exposure to global shocks such as the 2008 financial crisis and, more recently, the Russian-Ukraine War (RUW), leading to a slowdown effect on the world economy (Lagarde, 2021; Deresky, 2016; The Economist, 2022). According to Foroohar (2014), unfettered globalisation is gradually being replaced by regionalisation and localisation, while Bremmer (2014) argued that the world had entered a different phase, called 'guarded globalisation.'. This backlash against globalisation and a rekindling of nationalism originates from political tensions, increasing protectionism, and the surge in trade barriers resulting from the downfall in international trade post-crisis (Foroohar, 2014; Bremmer, 2014. cited in Deresky, 2016).

Impact of the Russian-Ukraine War on International Business

In addition to causing a profound human tragedy, the war has led to deep uncertainty about supplies and is creating inflationary pressures on a global level (Markus, 2022). The shocks caused by RUW make the market extremely volatile, creating both corporate winners and losers (The Economist, 2022). RUW is causing worldwide trade and investment disruptions, affecting European automakers and hoteliers from Montenegro to the Maldives and impacting global food and fuel consumers (Worldbank.org, 2022). The war in Ukraine and the sanctions imposed on and by Russia and Belarus have significantly affected international trade. RUW affected the direct trade of these countries, and the ripple effect is affecting business further down the supply chain. The results range from shortages of food products and raw materials to annulled trade routes and changes in price exacerbated by cost-push inflation (Markus, 2022).

From a business perspective, MNEs and MNCs are becoming increasingly dependent on the linkage network prompted by global trade. Firms that source and coordinate resources across national borders are impacted by conditions beyond their home market. It is, therefore, crucial for the executives of those multinationals to look beyond their domestic environment by promoting a global vision for their firms, considering the cross-national factors affecting their operations (Deresky, 2016). This complex role demands a contingency approach to dynamic environments based on the operating country's requirements. Figure 1 illustrates the factors affecting managers of MNEs in three spheres: the Operating environment, the Host-country environment and the mega environment.

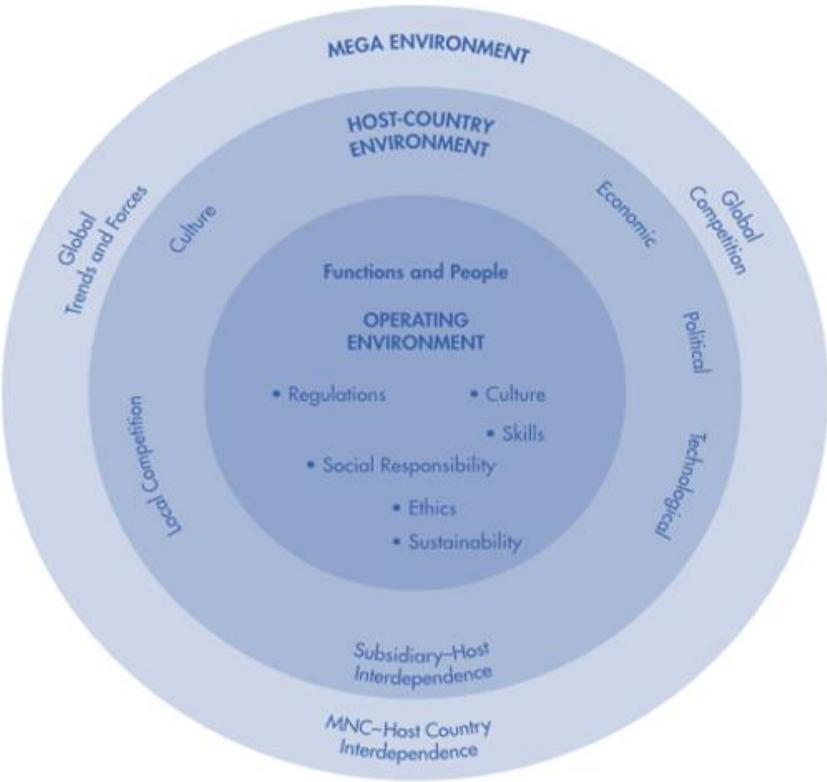

Figure 1. Deresky's open-system model

Mega environment

While most MNEs have survived the downsized of the market, caused by the sanctions imposed on Russia. The Russian government banned of essential commodities in return of those economic sanctions is causing severe damages on multinationals due to the MNC-Host country interdependence. The economic shock waves are moving through five channels: commodity markets, logistics networks, supply chains, FDI, and other sectors such as tourism (Worldbank.org, 2022).

Disruptions to global supply chains have caused input shortages and price hikes. Ukraine is a key supplier of inputs, such as ignition cables for autos, neon gas for semiconductors, and iron ore for steel mills. Companies making transport equipment, machinery, electronics, and food products rely heavily on Russian metals and other commodities (The Economist, 2022; Worldbank.org, 2022). The Sanctions imposed on Russia back in February 2022 forced many MNCs to cease production (The Financial Times, 2022). Many MNCs (such as Tesla and BMW) could no longer meet their demand, causing a shortage of new cars and a surge in the price of second-hand vehicles in the UK (due to increasing demand for alternatives).

Host Country environment

The Economist (2022), argues that RUW will affect the global economy, causing a potential economic slowdown, business interruptions and surges in commodity prices. Changes in the Mega-environment can, directly and indirectly, impact the host country's environment. Increasing fuel costs (for example) are causing inflationary pressure, resulting in higher freight rates and causing instability in transportation costs and import spending. On the other hand, Countries like China and India are facing lower inflationary rates due to the composition of their local environment and their trade agreement with Russia and Western economies (The Economist, 2022). Businesses in those countries are less likely to face disruption in their cash flow due to their Political, Economic, and Technological arrangements.

Many MNCs (such as McDonald and Apple) were forced to sell their assets to Russian corporations (below-depreciated book value) following the sanctions imposed on the Russian economy (Financial times, 2022). While other Russian MNCs faced technological system failure due to blockages imposed on the supply of essential electronic components. Other factors that affected Russian MNCs following RUW were the Western governments' expropriation of corporate assets and Interest rate intervention by local government to moderate inflation. (The Economist, 2022; Deresky, 2016).

Operating environment

From a cultural perspective, the growing awareness of socioeconomic interdependence leads MNCs to recognise the need to reach a consensus on what constitutes moral and ethical behaviour (Deresky, 2016). Many brands have cut business ties with Russia since RUW. Strong public pressure through social media and anti-Putin demonstrations across European cities have forced governments, SMEs, and MNCs to join the global campaign of sanctions against Putin's regime (The Economist, 2022). Chinese MNCs (e.g.) can adjust their Corporate Social Responsibility (CSR) using a Polycentric approach that meets the needs of the local culture of the country in which they operate.

Other factors that can affect the operating environment are Micro-political factors, Local government interference with managerial decisions, demographical distribution of skills, and the exodus of talented Russian nationals abroad. Sanctions and embargos resulting from RUW caused several cancellations or forced renegotiation of contract rights, impacting MNCs' sustainability.

Analyse how the Russian-Ukraine war affects the international business strategy, using a specific multinational enterprise as an example, and provide strategic recommendations for the enterprise**.**

Company overview.

Odevo was founded in 2019 with the ambition to become a global force in property management and residential services by combining people and technology to leverage productivity and eliminate inefficiencies. The Company was launched to challenge the traditional property and housing management industry. Several leading Real estate (RE) companies with a long history of high-quality service have since joined forces to transform the Group into an MNC. The Group is now a leading international player, managing more than 594,500 homes in four countries that differ in political, legal and fiscal degrees and plans to enter additional markets (Odevo, 2022). The Company differentiate itself from its competitor by providing custom-made software solutions to simplify property management services.

Since the Group's foundation, revenue has grown tenfold, and the Company aims to develop its market both; organically and by attracting other companies to join the Group via joint ventures (JVs). It has recently established itself within the U.S. with KW Property, a leading Florida-based property manager. This marked Odevo's first transatlantic expansion outside of Europe and its entry into the U.S., the world's largest property management market (The Business Journals, 2022). Odevo uses a Polycentric predisposition, with each local Company formulating their business strategies with the vision and mission in mind (Collinson et al. 2017). The Group uses local nationals in key management positions and tailors its strategic decision to fit the local culture where the Company operates (Shong, 2008; Odevo, 2022).

Assessing the impact of RUW on market competitiveness using Porter's diamond model.

According to Porter (2011), competitive advantage in a given industry combines the ability to innovate, improve processes, and to compete. Odevo is heavily investing in JVs outside Sweden to sustain growth. Using Porter's Diamond Model (also known as the Theory of National Competitive Advantage of Industries) as a strategic tool to support its decisions, the MNC can determine an industry competitive advantage prior to FDI.

Porter developed his conceptual framework to determine national competitive advantage in diverse industries and argued that managers have significant latitude to influence industry structure and the company's position (Porter, 2012). The framework consists of four interconnected determinants: Firm Strategy, Structure and Rivalry; Factor Conditions; Demand Conditions and Related and Supporting Industries that interact with each other in an integrated way. The framework can also be used as an analytical tool to assess the impact of RUW on a given industry competitiveness and help the business to define priorities in foreign markets. Applying the Diamond model to Mauritius's RE industry can provide Odevo with the analytical depth required to assess long-term investment risk.

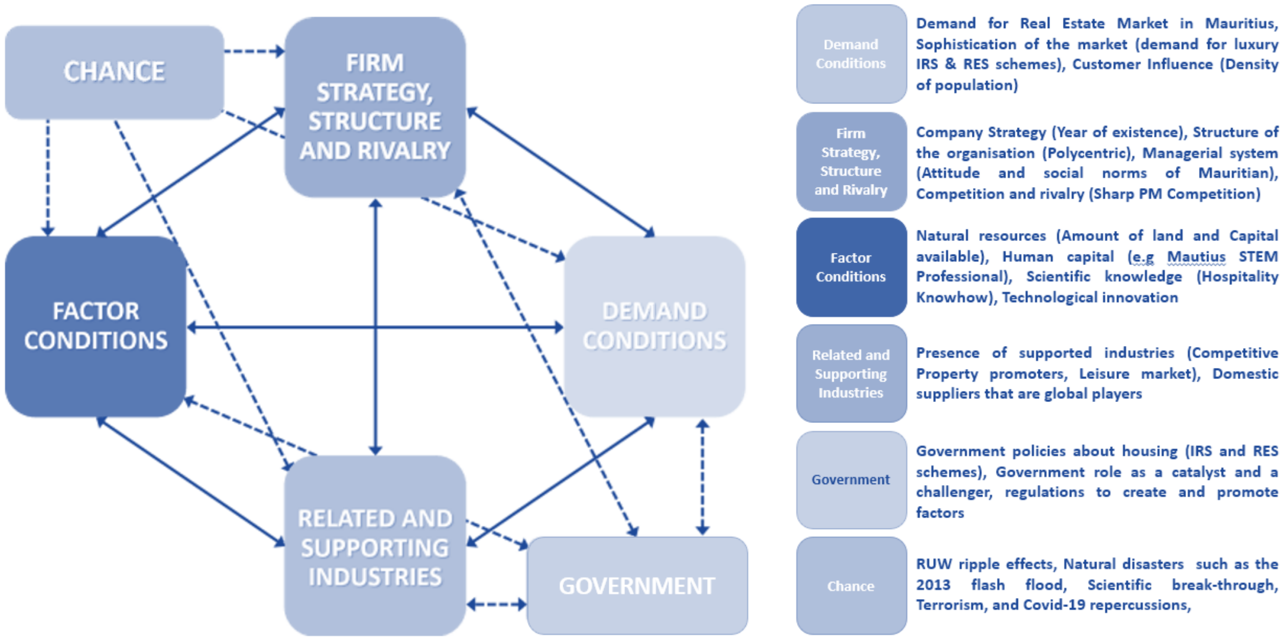

Figure 2: Porter's Diamond Model of National Competitive Advantage adapted to Mauritius real estate (Porter, 1990)

As seen in Figure 2, Factor conditions represent Mauritius factor endowment and can be separated into basic and advanced factors. Mauritius's modern structures, such as high-speed Internet connection, highly educated property professionals and related educational infrastructure, represent the advanced factors (Edurank, 2022; Techfinancials, 2021). Porter (2011) argues that the stronger the advanced elements in an industry, the more competitive the firms are in this industry. As mentioned earlier, each determinant is influenced by the other factors in the model. Sophisticated demand for housing caused by the exodus of wealthy Russian will, for example, increase the investment in Factor conditions needed to develop luxury housing.

The Demand conditions describe the nature of domestic demand for Property management services in Mauritius. According to Porter (2012), three broad attributes are significant for this condition: the demand composition, the size and growth pattern, and the domestic market's internationalisation. (See Figure 2). Figures from the Bank of Mauritius (BOM) support robust foreign demand for Integrated Resort schemes and Real Estate schemes (RES and IRS) through FDI (Bank of Mauritius, 2022; Brooks et al., 2017). This is partly due to a competitive Tourism industry (Supporting industry), which positively influences the demand for RE as the country benefits from a positive brand image internationally.

Related and supporting industries are conducive to firms sharing activities intersectionally in the value chain (See figure 2). The demand for high-class leisure and commercial facilities such as golf courses, shopping malls, restaurants and "wellness" centres are influenced by higher demand for IRS and RES Schemes. Mauritius is also ranked first in Africa and thirteenth in the world on the ease of doing business (Firm strategy, structure and rivalry) which influences FDI in supporting industries (PWC, 2021). While fluctuation in Demand in RE caused by RUW will impact on all other determinants of the model.

The Firm strategy, structure and rivalry denote the industry's strategic focus and its managerial and organisational structure (Refer to Figure 2). Intense domestic rivalry in the RE industry can enhance the demand conditions for Property management services. Rivalry can also support the development of education clusters (Factor condition), which will attract students that are looking for alternative to Ukrainian/Russian tertiary education.

Porter's model also considers two exogenous factors: Chance and government, as potential impactors on the industry's competitiveness (Porter, 2012). Chance includes events that firms cannot influence and that impact the supply and demand for RE, such as RUW, but also other factors from the mega environment, including COVID-19, inflation, and actions by major oil and gas-producing countries (IMF, 2022; The Economist, 2022). Chance can create discontinuities and allow shifts in market competitiveness between countries. Finally, the government of Mauritius can affect each of the four determinants positively or negatively through new legislation and monetary policies to influence the country's economy (Porter, 2012; Imam and Matthieu, 2008). Other regulations, such as the price cap on Russian Oil does, also indirectly affect the competitiveness of Mauritius' RE sector (The Economist, 2022).

According to Porter (2012), the strengths and weaknesses in each part of the diamond interact in systemic ways on the industry competitiveness; For example, the impact of RUW on energy prices will be less disruptive for countries that have strong energy factor conditions combined with a competitive energy industry and locals' human capital that possesses superior engineering skills (for e.g. France's nuclear power would alleviate housing energy bills). Modelling Mauritius's RE market using Porter's Diamond outlined some competitive predispositions and the international risk associated with Mauritius' RE industry competitiveness. Odevo can use Porter's model to assess the industry responsiveness before considering FDI, but as outlined by Rugman and D'cruz (1993), studies showed that the diamond model demonstrated some limitations when associated with MNCs and emerging markets.

Using FSA-CSA Matrix to support strategic recommendations.

MNCs such as Odevo, operating on foreign markets, can balance the liability of economic, institutional and cultural differences between the home and host country (Hillemann and Gestrin, 2016). Rugman applied a managerially oriented approach by creating the FSA/CSA matrix, an internalisation theory focusing on the firm-specific advantages (FSAs) and country-specific advantages (CSAs) as determinants to support MNCs decision-making when engaging in FDI (Narula & Verbeke, 2015).

Rugman and Verbeke (1992) define FSAs as Firms' unique resource combinations ranging from competencies in innovation to MNCs' transactional advantages (firms' competitive ability to save on transaction costs). In contrast, CSAs were considered to refer to country-level strengths or benefits that result from the competitive environment, its labour force, its natural resources, and its industrial clusters (e.g., Russia's Natural Gas reserve or German's engineering capability) that ultimately influence IB (Collinson & Rugman, 2011). FSA/CSA matrix (See Figure 3) can be used to explain, predict, or define the optimal organisational form for the global operations of Odevo.

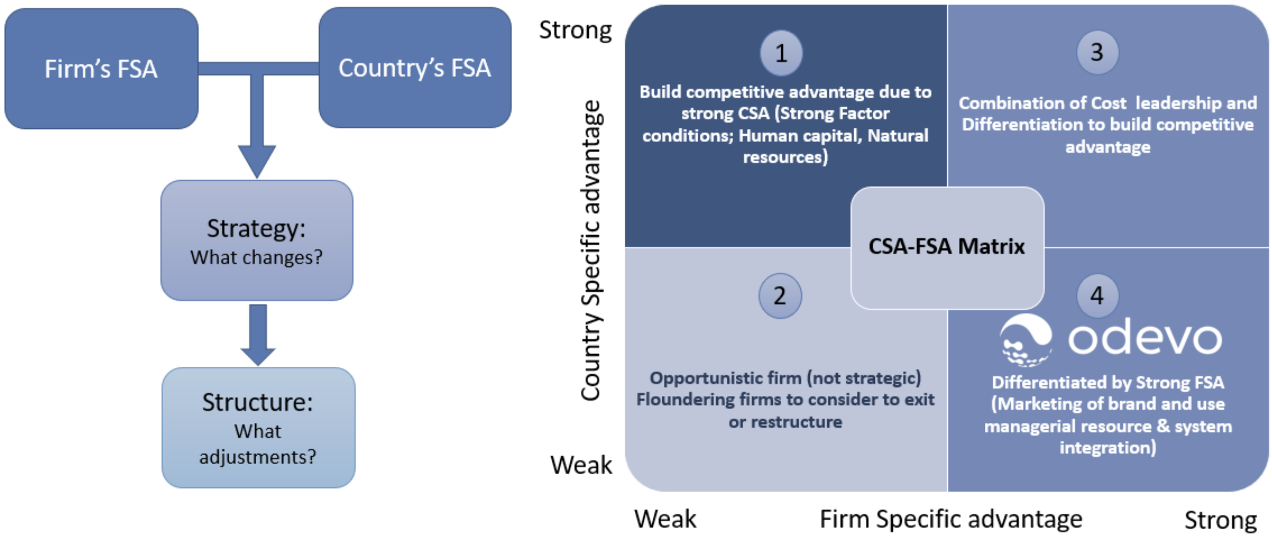

Figure 3. Implementing FSA/CSA matrix to optimise Odevo structure (Rugman, 1981)

Reviewing Odevo strategy suggest that the MNC has strong FSAs, firstly because the company pursued a push system that allows local managers to adapt to the host country's needs and to formulate their own business strategies that are responsive to the host market (Odevo, 2022). The company also entered JV with local firms to overcome regulatory barriers and RE decisions (The Business Journals, 2022; Odevo, 2022).

Furthermore, the MNC was initially launched in Sweden but has since developed in the United Kingdom and the United States. Odevo also maintains a strong relationship with supply contractors in the host country and a tight connection with the software development team in Sweden (Odevo, 2022). These contribute to lower costs and help maintain competitive fees as the company can negotiate prices with local contractors while benefiting from the economies of scale gained from the know-how of the home country's labour force (Rugman, 2009). Odevo's JVs can also handle regulatory issues and adapt their strategies to a potential change in legislation in the host country caused by RUW.

The company uses superior technology to support its operation and has solid industry expertise (Odevo, 2022). Odevo, can reduce the impact of potential cyber security threats by relocating its data warehouse across various countries to reduce the risk of a Russian cyber-attack on its Swedish branch. On the other hand, the company's host country-specific advantage can be considered weak as it cannot leverage its CSA to influence local government and does not affect its internationalisation strategy and profitability. Based on the above observations, the company can be placed in quarter 4 of the FSA/CSA Matrix (refer to Figure 3).

By optimising its IB strategy, Odevo's leadership team can implement a structure that emphasises its strengths to take advantage of the host country's opportunities while minimising its weakness to avoid threats in its host environment (Rugman, 2009). Using independent foreign JVs as channels to international markets allowed Odevo leadership to concentrate on building brand equity which will ultimately give the company a competitive edge. This will also help the company to increase its revenue while avoiding the risk of greater involvement in the host country environment, such as fluctuations in the foreign exchange rate of host countries caused by RUW.

Using Rugman's matrix to structure operations allows MNCs to balance Resource-based and location strategies to develop the business according to the characteristics of each region. For example, If Odevo wants to take advantage of global economies of scale, the company can move its product development teams to Mauritius to take advantage of competitive labour costs. However, Odevo must also consider assessing the cost of such strategies as it can damage the brand image in the home country (Tax evasion and employment creation abroad can have CSR repercussions).

While it is currently impossible to estimate the duration and extent of the impact of the consequences of RUW on the Group's financial position and operations, using Porter and Rugman's frameworks can help Odevo to assess the environment of the countries in which they operate despite foreignness and support their plans for future investment (Dersky, 2016). A contingency approach can help Odevo in sustaining a strategic plan that accommodates different scenarios and help the business executive to maintain their growth target.

Conclusion

As discussed previously, Executives of MNCs are being challenged to operate in an increasingly complex, interdependent, and changing global environment caused by the direct and indirect effects of RUW. The Company can use the Porter Diamond model to assess its investment exposure to RUW uncertainties in each country where the firms operate.

Odevo leadership team should also balance their liability by considering its FSA and CSA to recalibrate its home and host country advantages. Adopting a market-seeking approach through joint ventures with local firms and involving local people minimises the risk of IB-related adverse outcomes. The Company can use matrix frameworks to identify, evaluate and assess the magnitude of the impact of risks associated with RUW on each of its markets. They can decide to suspend their firm’s dealings with a particular country at a given point should the RUW effects be too high.

Using IB frameworks and scenario planning can help Odevo create a strategy supporting a flexible and agile international network to sustain global growth, regardless of unexpected exogenous events that can occur across the MNC’s operational, host-country, and Mega environment.

List of Acronyms:

BOM: Bank of Mauritius
FDI: Foreign Direct Investment
IB: International Business
IRS: Integrated Resort Scheme
JV: Joint Venture
MNCs: Multinational Corporations
MNEs: Multinational Enterprises
RE: Real Estate
RES: Real Estate Scheme
RUW: Russian and Ukraine War

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