

# Business 200 D100: Business Fundamentals



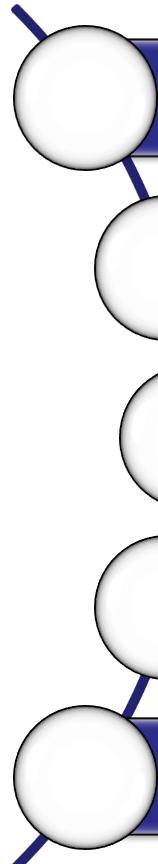
Week 5

Beedie School of Business



Dr. Wayne Rawcliffe

# Agenda



Individual Assignment

Re-cap Week 4

Lecture

Test Your Learning

Midterm info

## Recap Week 4



Dr. Wayne Rawcliffe



SIMON FRASER UNIVERSITY  
ENGAGING THE WORLD

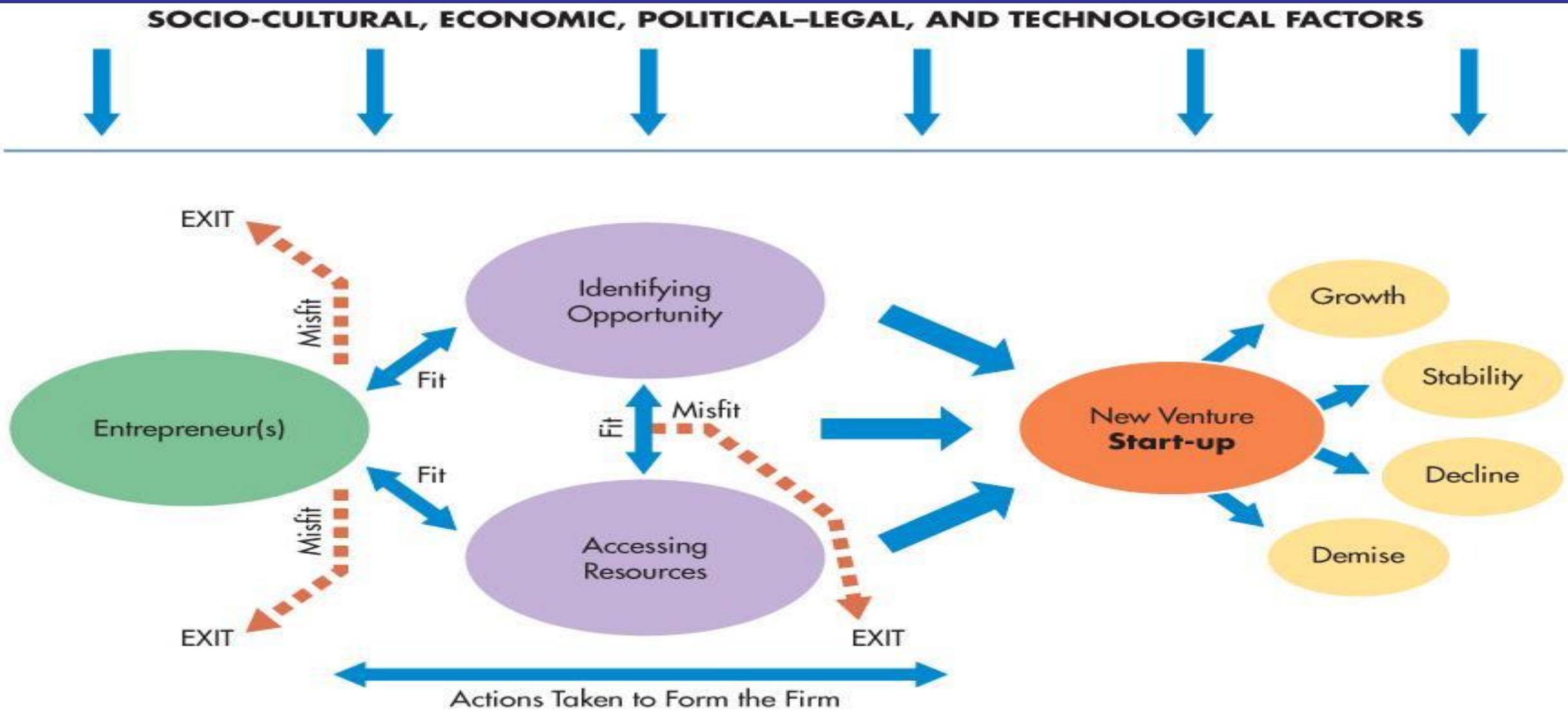
## Entrepreneurship

Process of identifying and capitalizing on  
a marketplace opportunity

Entrepreneur

Person who recognizes and seizes  
opportunities

## The Entrepreneurial Process (LO 4-3)



## Assessing Resources

### Financial Resources



## Success and Failure in Small Business (LO 4-5)

- Managerial Incompetence
- Neglect
- Weak Control Systems
- Insufficient Capital



- Hard work, drive, and dedication
- Market demand for product or service
- Managerial competence
- Luck

# Forms of Business Ownership

# Chapter 5

## Global Context of Business



- Describe the growing complexity in the global business environment and identify the major world marketplaces.
- Identify the evolving role of emerging markets and highlight the important role of the BRICS nations.
- Explain how different forms of competitive advantage, import-export balances, exchange rates, and foreign competition determine the ways in which countries and businesses respond to the international environment.
- Discuss the factors involved in deciding to do business internationally and in selecting the appropriate levels of international involvement and international organizational structure.
- Describe some of the ways in which social, cultural, economic, legal, and political differences act as barriers to international trade.
- Explain how free trade agreements assist world trade.

# The Contemporary Global Economy

Total volume of world trade

≈ \$19 trillion/year



▲ Starbucks has made a name for itself in China and the company is integrating into the Chinese landscape.

Guo qichang/Imaginechina/AP Images

# The Contemporary Global Economy

- Foreign direct investment in Canada in 2015: \$768.5 billion  
(Statistics Canada)
- Canada invested \$1,005.2 billion in foreign countries in 2015  
(Statistics Canada)

## Globalization

- the integration of markets globally
- the world is becoming a single interdependent system

# The Contemporary Global Economy

## Exports

- products made in Canada that are purchased by consumers in other countries

## Imports

- products purchased in Canada that are manufactured in other countries

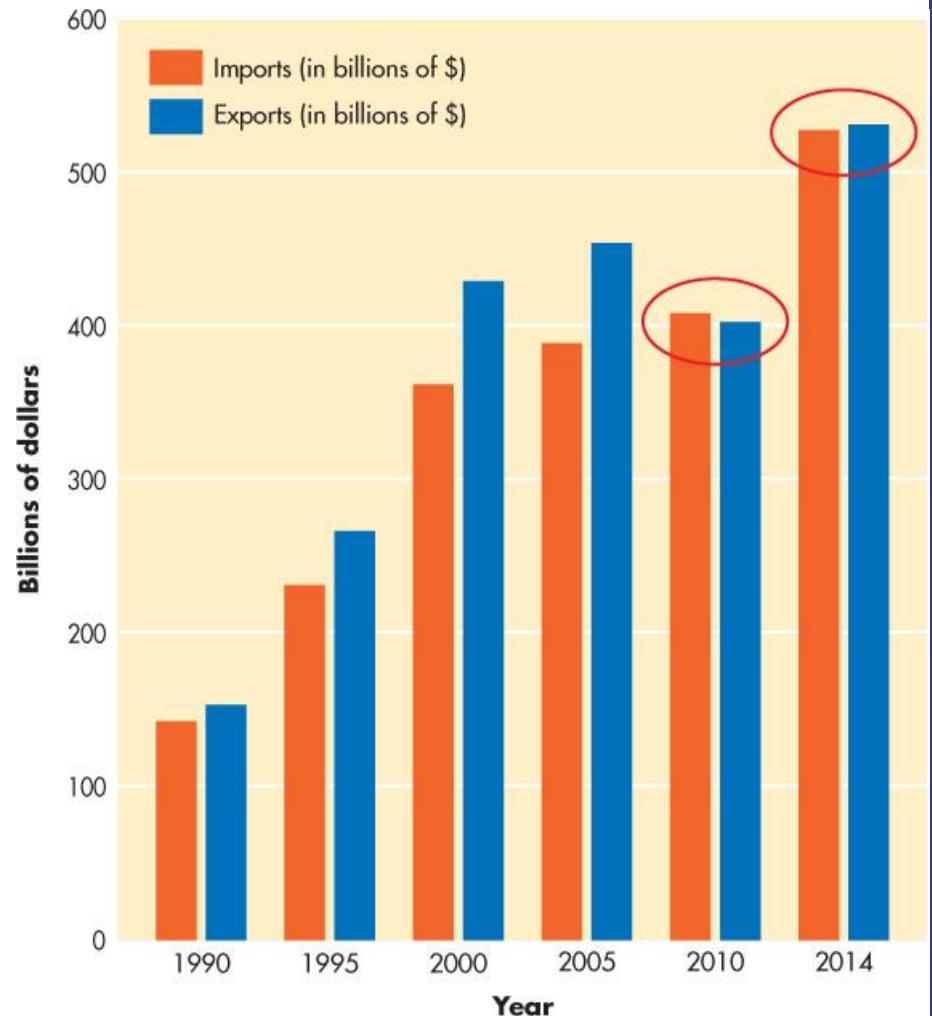


FIGURE 5.2 Canadian imports and exports of merchandise

## Major World Marketplaces

Four Distinctions based on **Wealth**

### 1. High income countries

2. Upper middle income countries
3. Lower middle income countries
4. Low income countries

Annual per capita income is greater than \$12,746.  
Includes Canada, US, most of Europe, Japan, Australia, South Korea, Israel, Kuwait, United Arab Emirates, Oman

## Major World Marketplaces

Four Distinctions based on **Wealth**

1. High income countries
- 2. Upper middle income countries**
3. Lower middle income countries
4. Low income countries

Annual per capita income is more than \$4,126, but less than \$12,746.  
China, Columbian, Lebanon, Turkey, Argentina, South Africa

## Major World Marketplaces

Four Distinctions based on **Wealth**

1. High income countries
2. Upper middle income countries
- 3. Lower middle income countries**
4. Low income countries

Annual per capita income between \$1,146 and \$4,126.  
Ukraine, Philippines, Armenia, Vietnam, Guatemala.

## Major World Marketplaces

Four Distinctions based on **Wealth**

1. High income countries
2. Upper middle income countries
3. Lower middle income countries
- 4. Low income countries**

Often called developing countries:  
Haiti, Bangladesh, Afghanistan, many  
others.

Less attractive for international  
business

## Major World Marketplaces

Three Distinctions based on **Geographical Regions**

### North America

- Canada's largest trading partner is the United States
- trade with Mexico is increasing

### Europe

- traditional view (West vs. East)
- emerging view (North vs. South)

### Asia/Pacific

- Japan, China, Taiwan, Philippines and India

## Globalization is not without criticism

Supporters say it can provide...

Critics say it can create issues ...



## Globalization is not without criticism

### Supporters say it can provide...

- Higher Standard of living
- Higher Profitability for Businesses
- Technological Advancements
- Competition

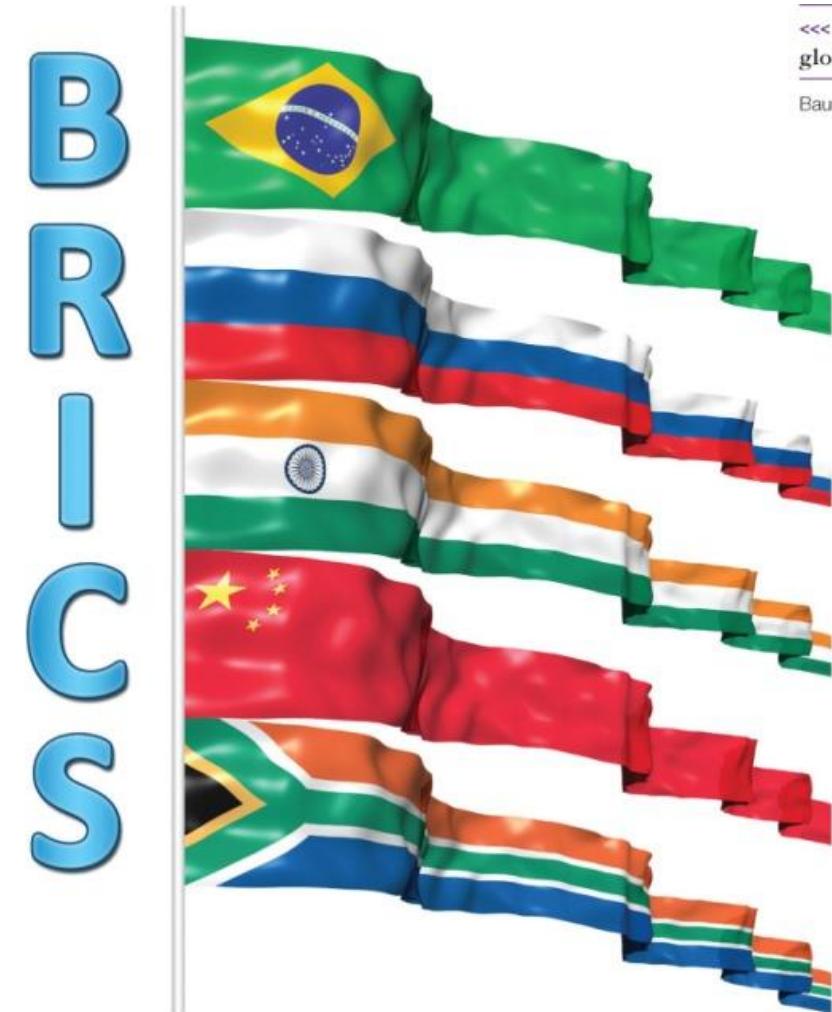
### Critics say it can create issues ...

- Moving jobs out of the country
- Ethical issues, e.g. working conditions
- Loss of cultural heritage

# Emerging Markets

**Emerging market** is a country that has some characteristics of a developed market, but does not meet standards to be a developed market

- B**razil
- R**ussia
- I**ndia
- C**hina
- S**outh Africa



<<< The  
global e  
Baur/Shutl

# Emerging Markets

**Emerging market** is a country that has some characteristics of a developed market, but does not meet standards to be a developed market

## Other Important Emerging Markets:

- South Korea
  - Thailand
  - Indonesia
  - Ukraine



# Forms of Competitive Advantage

## Absolute Advantage

a country can produce something more efficiently than any other country.

## Comparative Advantage

a country can produce certain items more efficiently (cheaper) than it can other items.



Chinese textile workers are learning what North American textile workers learned years ago. Manufacturers are increasingly moving textile manufacturing to lower-cost locations like Cambodia, where workers (like the ones seen in this photo) earn on average \$76 for a 60-hour week as opposed to \$280–\$460 in China.

Khem SOVANNARA/Newscom



**ABSOLUTE  
ADVANTAGE**  
in wheat production



**ABSOLUTE  
ADVANTAGE**  
in DVD production

# Forms of Competitive Advantage

## Theory of National Competitive Advantage

Four  
Key  
Conditions

Factor Conditions

Demand Conditions

Related and Supporting Industries

Strategies, Structure, and Rivalries



# Forms of Competitive Advantage

## Theory of National Competitive Advantage

Four  
Key  
Conditions

Factor Conditions

Demand Conditions

Related and Supporting Industries

Strategies, Structure, and Rivalries

For example, Japan has developed a competitive global economic presence beyond the country's inherent resources, in part by producing a very high number of engineers that have helped drive technological innovation by Japanese industries.



# Forms of Competitive Advantage

## Balance of Trade

- the difference in value between total exports and total import

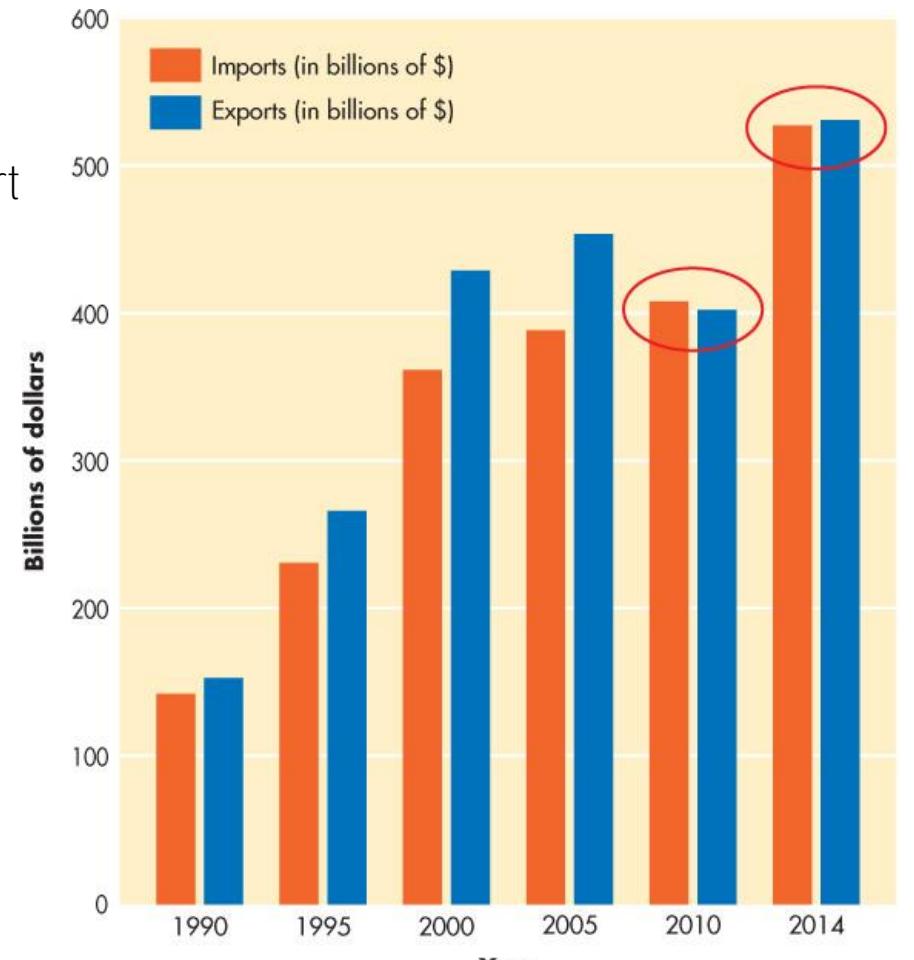


FIGURE 5.2 Canadian imports and exports of merchandise

## Balance of Trade

▼▼ TABLE 5.1 Canadian Balance of Trade (Total + Selected Country Breakdown), 2014<sup>20</sup>

Country	Exports to (\$billions)	Imports from (\$billions)	Balance of Trade (Surplus or Deficit)
United States	\$400	\$350.7	+\$49.3
European Union	\$40.5	\$49.3	-\$8.8
China	\$20.6	\$35.6	-\$15
Mexico	\$6.8	\$17.2	-\$10.4
Japan	\$11.1	\$9.2	-\$1.9
All others	\$49.8	\$62.2	-\$12.4
<b>Total</b>	<b>\$528.8</b>	<b>\$524.2</b>	<b>+\$4.6</b>

# Forms of Competitive Advantage

## Balance of Payments

The flow of money into or out of a country

### **cash flow in**

- exports
- foreign tourist spending in Canada
- foreign investments in Canada
- earnings from investments outside of Canada

### **cash flow out**

- imports
- Canadian tourist spending overseas
- foreign aid grants
- military spending abroad
- Canadian investment abroad
- earnings from foreign investment in Canada

# Foreign Exchange Rate

Foreign Exchange Rate  
Ratio of one currency to another

## Weaker currency

When the value of the Canadian (\$) depreciates

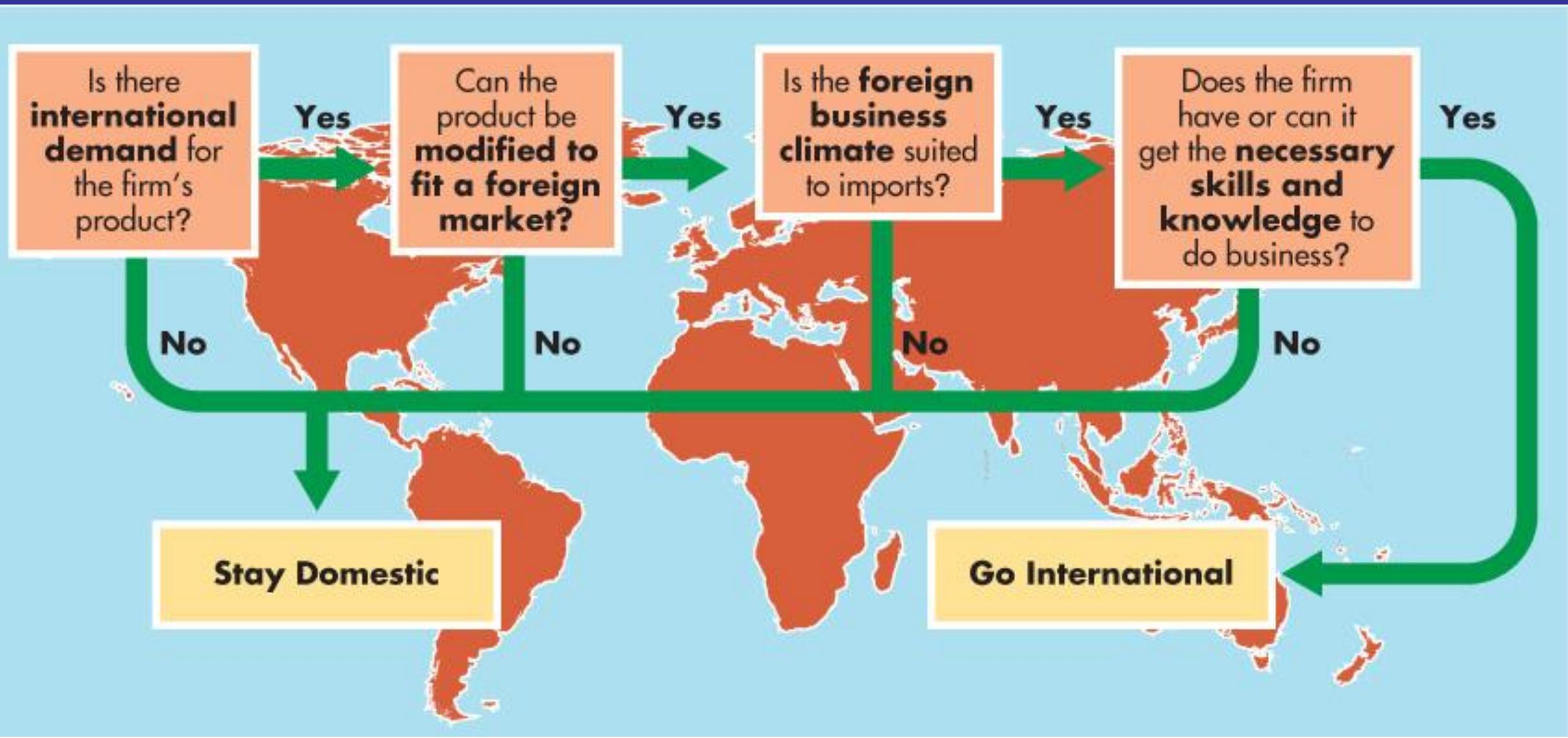
- exports become ‘cheaper’ and increase
- imports cost more, may decrease

## Stronger currency

When the value of the Canadian (\$) appreciates

- exports decrease as Canadian products are more expensive
- imports cost less and increase

# International Business Management



## Levels of Involvement in international business

### 1. Exporter or Importer

- Exporter: makes products in one country and sells to others
- Importer: buys products in foreign markets for resale at home

## Levels of Involvement in international business

### 2. International Firm

- conducts much of its business abroad
- basically, a domestic firm with international operations

## Levels of Involvement in international business

### 3. Multinational Firm

- controls assets, factories, mines, sales offices, and affiliates in **2 or more** foreign countries
- planning and decision making are geared to international markets

## International Organizational Structures

Importing or Exporting via Independent Agent

Licensing Arrangement

Establishing a Branch Office

Choosing a Strategic Alliance

Foreign Direct Investment

## Why have an Independent Agent?

Local individual or organization who represents exporter's interests

Often sells products, collects payments, and ensures customer satisfaction

Understands the language, culture, and market

## Why create a licensing arrangement?

Exporter gives a foreign company the exclusive right to manufacture or sell its product for a royalty or fee

Franchising is a special form of a licensing arrangement

## Why build a Branch Office?

Established in foreign country

Increased sales due to local presence

More direct control

May be a foreign legal requirement

## Why form a Strategic Alliance?

May be mandated in some nations

Get knowledge and expertise of the foreign partner

Greater control

## Why choose Foreign Direct Investment?

- Companies buy or establish tangible assets in a foreign country (**location benefits**)
- Brings foreign investment to local economy
- Provides local employment



AP Photo/McDonald's Corp.

# 15 minute break



# Barriers to International Trade

1. Social and cultural differences
2. Economic differences
3. Legal and political differences



▲ New, tougher tariffs imposed on goods imported from 72 countries translate directly into an estimated additional cost of \$1.2 million for Danier Leather.

Dick Loek/Getty Images

*\*Danier Leather must deal with foreign tariff rules. They also stand to benefit if rules are loosened or eliminated through the new TPP agreement.*

# Barriers to International Trade

## Social and Cultural Differences

Language

Population  
demographics

Social beliefs

Religious  
differences

Shopping  
habits

# Barriers to International Trade

Differences in the role of government in  
the economy

planned vs. market economies  
capitalist  
socialist  
communist

# Barriers to International Trade

## Legal and Political Differences

### Quotas

limitations on importation of a product class

embargo-forbidding export/import from a nation

United States vs. Cuba

### Tariffs

a tax on imported goods

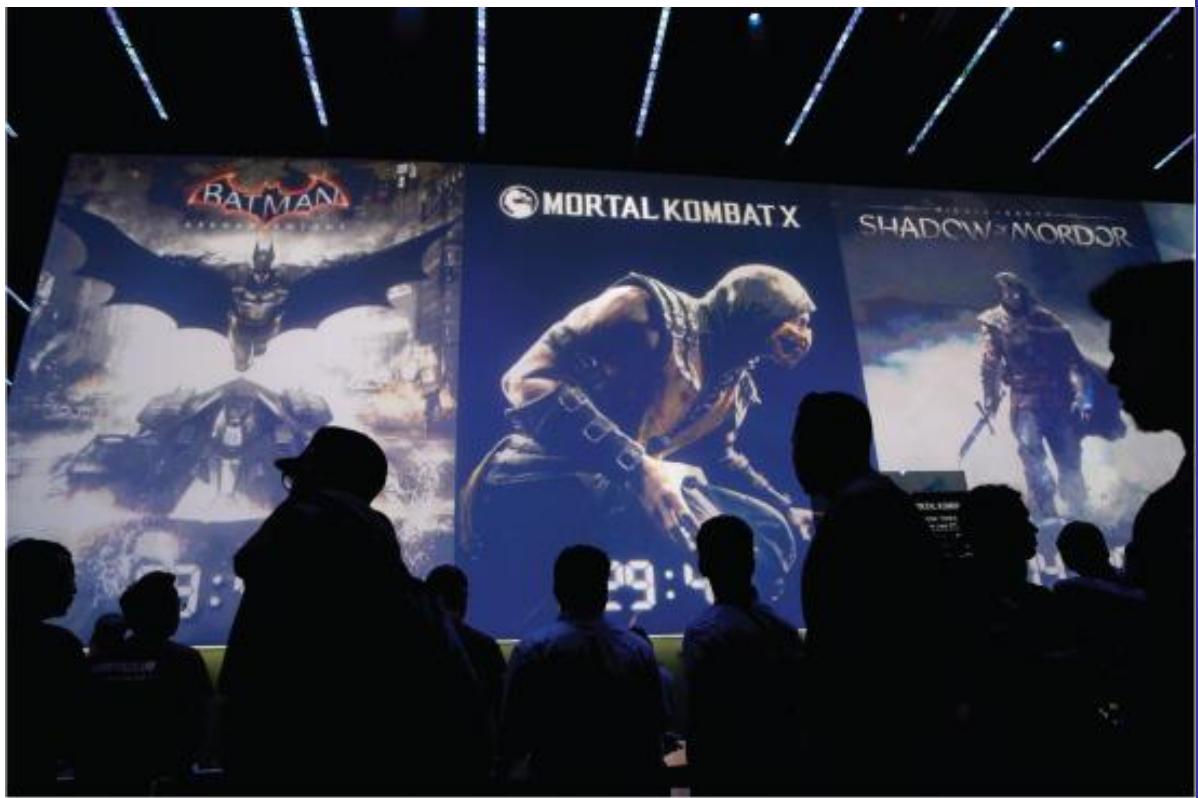
raises government revenues as well

# Barriers to International Trade

## Legal and Political Differences

Protectionism  
protects local business at the  
expense of free market competition

Subsidy  
government financial assistance for  
domestic firms



▲ Subsidies are designed to support domestic companies; however, in this free-trade era, governments are increasingly generous with foreign firms that can help develop local industries and provide local jobs. A few years ago Warner Bros. opened up a new studio to develop high-end video games in Montreal. Local talent, reputation, and knowledge were key factors, but government funding helped close the deal. The Quebec government provided \$7.5 million to get the studio off the ground.

Jae C. Hong/AP Images

## Local-Content Laws

- requires that at least part of the product be made in the foreign country (possible joint venture)

## Business Practices

- **Bribes:** seen as “gratuities” to officials in some nations
- Dumping: selling goods abroad for less than a firm charges at home; illegal in most nations
- Cartels: associations of producers created to control supply and demand (e.g., OPEC)

# Overcoming Barriers to Trade

**General Agreement on Tariffs and Trade (GATT)**

**World Trade Organization (WTO)**

**European Union (EU)**

**The North American Free Trade Agreement (NAFTA)**

**Other Free Trade Agreements  
(e.g., TPP, CETA, ASEAN, Mercosur)**

# Overcoming Barriers to Trade

## GATT:

- Signed after world war II
- Purpose is to reduce trade barriers

## World Trade Organization (WTO)

- 153 member nations
- negotiate trade agreements and resolve trade disputes
  - successor of GATT, but more power
  - agricultural subsidies controversial

Many people protest against trade liberalization



Some globalization protestors fear multinational companies will wipe out small domestic businesses and prioritize profits over fair wages and human rights.

Peter Marshall/Alamy

# Overcoming Barriers to Trade

## European Union (EU)

largest free marketplace in the world

28 countries, plus more waiting to join

eliminated most quotas and set uniform tariffs within the union



FIGURE 5.4 The nations of the European Union

# Overcoming Barriers to Trade

## North American Free Trade Agreement

Came into effect in 1994

Goal to remove tariffs and other trade barriers between Canada, the United States, and Mexico

# Overcoming Barriers to Trade

## Opponents of Free Trade

Job losses

Market flooded with goods made in Mexico

Loss of control over:  
environmental standards

natural resources

Canadian cultural sovereignty

## Supporters of Free Trade

access to US market

more exports = jobs

No threat to:

Environment

Natural resources

Cultural sovereignty

# Overcoming Barriers to Trade

(LO 5-6)

## Major New Agreements in the Works (TPP and CETA)

### **The Trans-Pacific Partnership** (implemented in 2016)

- 12 members states: Canada, U.S., Australia, Brunei Darussalam, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.
- Designed to increase Canada's trade with Asia Pacific
- TPP has many domestic opponents

### **Canada–European Union Comprehensive Economic and Trade Agreement (CETA)**

- The 28 member states account for 500 million people and annual economic activity of almost \$18 trillion
- Designed to strengthen trade between EU and Canada

Questions??



## Test Your Understanding



## QUICK-CHECK QUESTIONS

- 1) If total exports from Canada in a given year amount to \$540 billion and the total imports amount to \$538 billion. Canada is said to be in a \_\_\_\_\_ position.
- A) trade deficit
  - B) balance of payments
  - C) trade surplus
  - D) balance of trade

**C) trade surplus**

## QUICK-CHECK QUESTIONS

- 2) The Theory of \_\_\_\_\_ was identified by Michael Porter to help explain why some countries are so strong in certain industries. He describes the importance of factor conditions (i.e. land and labour), the level of demand in the home market, the strength of supporting industries in the nation, and the level of rivalry among firms in a market.
- A) Absolute Advantage
  - B) National Competitive Advantage
  - C) Competitive Advantage
  - D) National Subsidy

**B) National Competitive Advantage**

## QUICK-CHECK QUESTIONS

- 3) Among the options of international organizational structure, \_\_\_\_\_ is the most risky, but also yields the greatest profit potential.
- A) strategic alliances
  - B) exporting/importing
  - C) licensing arrangements
  - D) foreign direct investment

**D) foreign direct investment**

## QUICK-CHECK QUESTIONS

- 4) The mandate of the \_\_\_\_\_ is to encourage trade by helping members to resolve disagreements, promote free trade agreements, and encourage fair trade practices.
- A) North American Free Trade Agreement
  - B) International Monetary Fund
  - C) United Nations
  - D) World Trade Organization

**D) World Trade Organization**

## QUICK-CHECK QUESTIONS

- 5) The BRICS nations are major players in global trade and they are gaining more power and stature every year. Brazil, Russia, India and China have all grown in importance in recent years for different reasons. Which country was recently admitted to join this group of nations?
- A) Singapore
  - B) South Africa
  - C) South Korea
  - D) Slovakia

**B) South Africa**

# Exam



## Typical S/A Midterm Questions

1. The equity for most new businesses typically comes from personal savings, love money, private investors and venture capitalists. Describe the characteristics and role of each. Provide examples.

## Typical S/A Midterm Questions

1. Define and provide an example of each of the four forms of business ownership

# How to answer short answer questions

Right answer

Best answer

Examples

Rationale

Clear concise answers: bullet points

## Typical MC Question

Hari an SFU graduate, has started work at Google India. His boss gives him a copy of the Organizational Chart. This is useful because:

- a) It shows that Google has structure and process
- b) It shows that his boss has a combination of line and staff authority
- c) it shows how positions are expected to relate to each other
- d) Hari is most comfortable in a matrix style organization and the dotted lines show how the Googolplex really works
- e) a and b

# How to answer multiple choice questions

Right answer

Best answer

Knowledge questions  
Comprehension questions  
Analytical questions  
Application questions

# Exam: Chapter 1-5

## Notes from class

## Reading for Exam:

Goleman, D. (2004). What makes a leader? *Harvard Business Review*, 82(1), 82-91.