master TEW / HI

International Business

handboek en notities

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<u>International Business:</u>

<u>Exam:</u>
* 60% exam (2 big and a few sub questions) + reading cases (1 on the exam)
  -> oral exam + written preparation (open questions)
* 40% export plan and tasks

Chapter 1: What is International Business? (introduction):

Facebook: A global Phenomenon
* Facebook exemplifies the globalization of business and converging lifestyles worldwide.
* One of every eight people, roughly one billion users, has a Facebook account.
* Some 70 percent of Facebook users live outside the United States and speak over 75 languages.
* Facebook uses foreign direct investment to establish offices around the world.
* Facebook illustrates how converging lifestyles, modern communications technologies, and entrepreneurship are facilitating the emergence of global enterprises.

* is good for the marketing (+ advertisement)
* free movement of capital

Van der Velde: textile -> Marie Jaune (make + sell lingerie)
→ in different countries (worldwide) = profitable

Brazilian economy: produce oil; minerals
→ have problems because the Chinese economies don't buy something/a lot anymore

The Nature of International Business:
* All value-adding activities (including sourcing, manufacturing, and marketing) can be performed in international locations.
* International trade can involve products, services, capital, technology, know-how, and labor.
* Firms internationalize through various entry strategies, such as exporting and foreign direct investment.

Dimensions of International Business (= goed ke + ku uitleggen)

Key Concepts in International Business:

* **international business**: performance of trade and investment activities by firms across national borders/bounderies (= also called 'cross-border business')
* **globalization of markets**: ongoing economic integration and growing interdependency of countries worldwide
* **international trade:** exchange of products and services across national borders; typically through exporting and importing.

* **exporting:** sale of products or services to customers located abroad from a base in the home country or a third country.
  -> f.e. Boeing and Airbus export billions in commercial aircraft every year

* **importing or Global Sourcing:**
  procurement of products or services from suppliers located abroad for consumption in the home country or a third country.
  -> f.e. Toyota imports many parts from China when it manufactures cars in Japan.

* **international investment:** transfer of assets to another country or the acquisition of assets in that country. Also known as 'foreign direct investment' (FDI), we will focus on this type of investment.

* **international portfolio investment:** passive owner- ship of foreign securities such as stocks and bonds in order to generate financial returns

International investment (FDI) <-> **International Portfolio investment**

* > 10% of capital
* want to control the firm

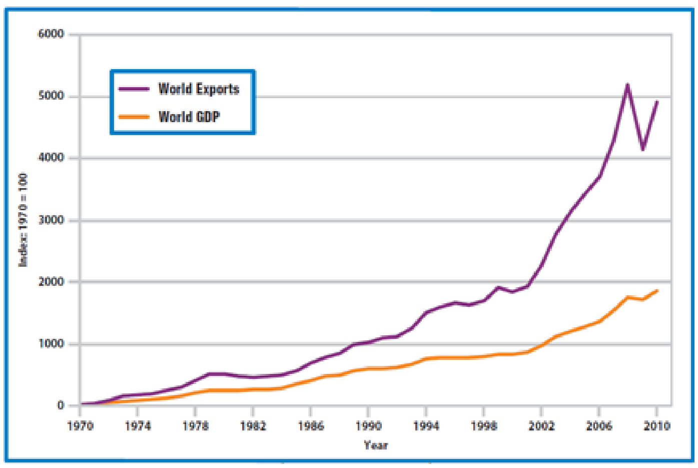
* < 10% of capital
* you don't want to control the firm but you invested in the return

→ verschil goed ke!!

You have to invest in globalization for your own safety
-> don't dump things in other countries
-> good behavior = will be rewarded/ pays off (= wordt beloond)

*small companies = rible (= verdwijnen)
* big companies = buy smaller ones and grow
f.e.: Earnst & Young, PWC,…

World trade is growing faster than GDP:

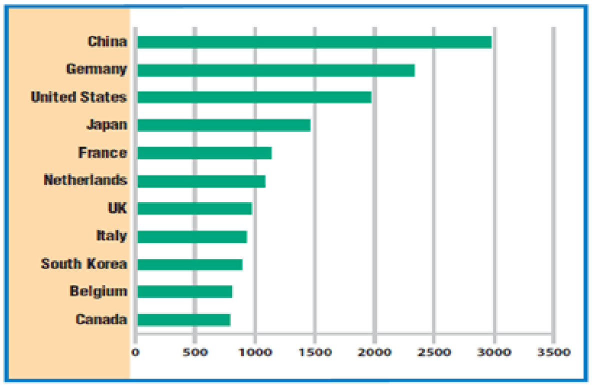


World Trade is growing faster than GDP
* now days: world trade isn't doing well
* China is decreasing and the "euro" is a cheap currency at the moment
→ competitiveness is growing

Why does the export grows faster than the GDP in the world in 1990?

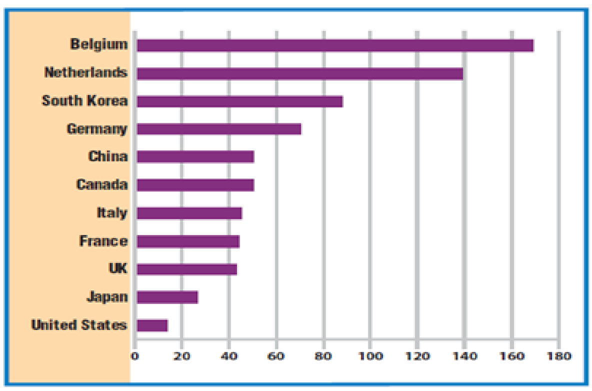
* Sovjet-Union was broken into pieces (in 1989)
  - trade started to expanding
  - exported for their currency and import was very low (before 1990)
  - restrictions on trade disappeared thanks to WTO
  (= a lot of countries become member of the WTO)

Leading countries in international merchandise trade by total annual value:



→ China is a big trader

Leading countries in international merchandise trade, total value as a % of GDP:



(b) Total annual value of products trade (exports + imports) as a percentage of nation's GDP

Belgium is a leading country

BUT: you need to speak a lot of languages if you are from a small country

+ small countries have open economies

f.e.: Belgium and Singapore

* Belgium imports a lot of the Netherlands, because they import oil through the pipelines from the Netherlands.

Service industries that are rapidly internationalizing:

Industry	Representative Activities	Representative Companies
Architectural, construction, and engineering	Construction, power utilities, design, engineering services, for airports, hospitals, dams	ABB, Bechtel Group, Halliburton, Kajima, Philip Holzman, Skanska AB
Banking, finance, and insurance	Banks, insurance, risk evaluation, management	Bank of America, CIGNA, Barclays, HSBC, Ernst & Young
Education, training, and publishing	Management training, technical training, language training	Berlitz, Kumon Math & Reading Centers, NOVA, Pearson, Elsevier
Entertainment	Movies, recorded music, Internet-based entertainment	Time Warner, Sony, Virgin, MGM
Information services	E-commerce, e-mail, funds transfer, data interchange, data processing, computer services	Infosys, EDI, Hitachi, Qualcomm, Cisco
Professional business services	Accounting, advertising, legal, management consulting	Leo Burnett, EYLaw, McKinsey, A.T. Kearney, Booz Allen Hamilton
Transportation	Aviation, ocean shipping, railroads, trucking, airports	Maersk, Santa Fe, Port Authority of New Jersey, SNCF (French railroads)
Travel and tourism	Transportation, lodging, food and beverage, aircraft travel, ocean carriers, railways	Carlson Wagonlit, Marriott, British Airways

* service industries (they are rapidly internationalizing)
  = hat it difficult in the past
  f.e.: lawers, banks, education, transportation,…
* China: - strong: in manufacturing (producing and technologies)
  - weak: in services

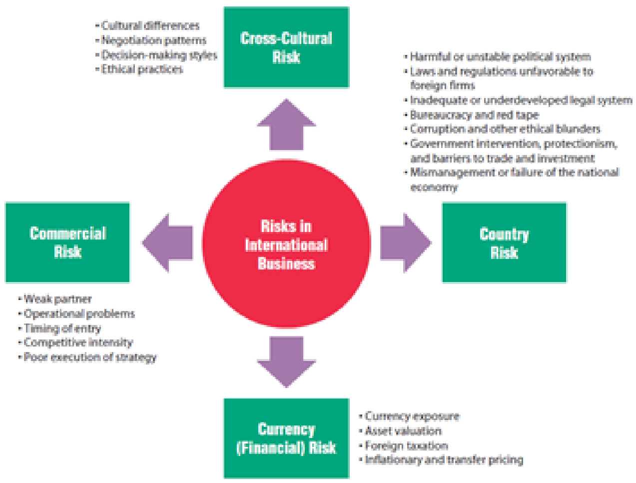
International and Domestic Business: How They Differ

1. International business….
   - is conducted across national borders,
   - uses distinctive business methods,
   - is in contact with countries that differ in terms of culture, language, political system, legal system, economic situation, infrastructure, and other factors

2. Stated differently, when they venture abroad, firms encounter four major types of risk

The four risks of international Business (goed ke!!)

* cross-cultural risks
* country risks: don't do everything in 1 country, but conclude a contract with another country and if something goes wrong, let the other country pay for it
* currency risks
* commercial risks



Cross-Cultural Risk:

* **cultural differences:** Risk arising from differences in language, lifestyle, attitudes, customs, and religion, where a cultural miscommunication jeopardizes a culturally-valued mindset or behavior.

* **negotiation patterns**: negotiations are required in many types of business transactions E.g., where Mexicans are friendly and emphasize social relations, Americans are assertive and get down to business quickly.

* **decision-making styles**: Managers make decisions continually on the operations and future direction of the firm. For example, Japanese take considerable time to make important decisions. Canadians tend to be decisive and 'shoot from the hip'.

* **ethical practices**: standards of right and wrong vary considerably around the world. For example: bribery is relatively accepted in some countries in Africa but is generally unacceptable in Sweden.

Ethical connections:

* In the fashion industry, hundreds of factory workers die annually from dangerous working conditions.

* In the production of faded denim jeans, thousands of garment workers develop deadly lung diseases from constant exposure to crystalline silica used to sandblast jeans to give them the worn, vintage look.

* Illegal in Europe and the United States, such production methods are still widely used in low-income countries, from where the jeans are then distributed to affluent consumers worldwide.

Country Risk (Political Risk):

* government intervention, protectionism, and barriers to trade and investment
* bureaucracy, red tape, administrative delays, corruption
* lack of legal safeguards for intellectual property rights
* legislation unfavorable to foreign firms
* economic failures and mismanagement
* social and political unrest and instability

Examples:

* The U.S. imposes high tariffs on imports of sugar and other agricultural products.

Currency Risk (Financial Risk):

* **currency exposure:** general risk of unfavorable exchange rate fluctuations
* **asset valuation:** risk that exchange rate fluctuations will adversely affect the value of the firm's assets and liabilities
* **foreign taxation:** income, sales, and other taxes vary widely worldwide with implications for company performance and profitability
* **inflation:** high inflation, common to many countries, complicates business planning, and the pricing of inputs and finished goods.

Examples:

- The U.S. has relatively high corporate income taxes.
- Brazil and Russia have experienced very high inflation.

Commercial Risk:

* weak partner
* operational problems
* timing of entry
* competitive intensity
* poor execution of strategy

→ General commercial risks such as these lead to sub-optimal formulation and implementation of the firm's international value-chain activities.

Conclusion of the four risks:

* always present but manageable
* managers need to understand, anticipate, and take proactive action to reduce their effects
* some risks are extremely challenging

Multinationals in Belgium:

f.e. Solvet, Bakeart, AB Inbev, KBC, [UCB]

-> it were 5 multinationals, but on the moment maybe 4 (not […])

If China stops growing = the rest of the world will feel it !

Who participates in the International Business?

* **multinational enterprise (MNE)**:
  = a large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries.
  f.e. Caterpillar, Samsung, Unilever, Vodafone, Disney

* **Small and Medium-Sized Enterprise (SME):**
  = typically, companies with 500 or fewer employees, comprising over 90% of all firms in most countries. SMEs increasingly engage in international business.

* **born global firm:**
  = a young, entrepreneurial SME that undertakes substantial international business at or near its founding.

* **non-governmental organizations:**
  = any of these non-profit organizations conduct cross-border activities. They pursue special causes and serve as advocates for social issues, education, politics, and research.
  f.e. CARE is an international non-profit organization dedicated to reducing poverty

Why participate in the International Business?

* grow opportunities through market diversification. f.e IKEA

* earn higher margins and profits: often, foreign markets are more profitable

* gain new ideas about products, services, and business methods
  f.e. Numerous foreign suppliers learned about just-in-time from Toyota and then applied the method to manufacturing in their own countries.

* better serve key customers that have relocated abroad
  f.e. when Toyota launched its operations in Britain, many of its suppliers followed suit

* be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products
  f.e. Apple sources parts and components from the best suppliers worldwide

* gain access to lower-cost or better-value factors of production
  -> internationalization enables the firm to access capital, technology, managerial talent, and labor at lower costs, higher quality, or better value
  f.e. Sony does much manufacturing in China.

* develop economies of scale in sourcing, production, marketing, and R&D
  f.e. Airbus lowers its overall costs by sourcing, manufacturing, and selling aircraft worldwide

* confront international competitors more effectively or thwart (=dwarsbomen) the growth of competition in the home market
  f.e. Chinese appliance maker Haier established operations in the United States partly to gain competitive knowledge about Whirlpool, its chief US rival.

* invest in a potentially rewarding relationship with a foreign partner
  f.e. French computer firm Groupe Bull partnered with Toshiba in Japan to gain insights for developing information technology.

Issue in the International Business?

There are always winners and losers -> the education of the players is important !
-> those days: a lot of companies produce in Romania and not anymore in China,
because it is equally expensive in both countries to produce
-> Germany has a strong economy and exports a lot

Case 1: Internationalization of Harley-Davidson

* Harley- Davidson is a motorcycle manufacturer
* earns ¾ of its total sales in the US, where it also manufactures almost all its bikes to ensure quality control
* make 4 models: 'standard, performance, custom and touring'
* first sold only custom and touring -> numerous competitors outside US (Japan, Europe)
  -> new competitors from China
* average age of a Harley buyer in the US = 50
* **threat of foreign competitors** -> Harley paid little attention (= almost bankrupt)
  (competitors sold inexpensive, lightweight models <-> Harley sold heavyweights)
* **revival:** - it adopted Japanese-style management techniques
  - updating manufacturing methods
  - improving quality
  - expanding model offerings
* **international expansion:**
  - the firm had established a distribution network and local subsidiary in Japan
  - in 2012: Harley generated 1/3 of its total sales from international markets
  - started to sell in Europe (= their preferences are diverse)
  - in addition to Europe and Japan, Harley management wants to target emerging markets -> Brazil = biggest potential market in Latin America
    -> established an assembly plant there to avoid import barriers and reduces costs thanks to the availability of low-cost workers
  + China, but the perception in China that motorcycles are only for commuting (= woon-werkverkeer), management want to develop the market for leisure riding too

+ considering India, but the market entry has been delayed due to high trade barriers and local emissions regulations

+ fastest-growing market outside the US is Canada, but low sales there (4% of sales)

* **environmental sustainability challenges:**
  - Management is moving to reduce pollution, as well as energy and water usage, as part of an integrated sustainability strategy.
  - The firm is addressing climate change by preparing for the transition to a lower-carbon economy.
    -> In Japan, the firm launched a motorcycle recycling program.

* **the future:**
  Management believes the keys to sustainable growth will be:
  1) a heightened focus on foreign markets
  2) an appeal to lighter-weight, performance- based markets
  3) improved and larger deals networks
  4) strategic control of distribution
  → Harley needs to balance production and sales for domestic and international markets (best would be: 60% US and 40% internationally = difficult to achieve)

→ see questions handbook p56 (= interesting !!)

Chapter 2: Globalization of Markets and the Internalization of the Firm

Dates you have to know:

* 476: fall of the western Roman empire -> self-sufficient target and inmobile
* 800: easy business within Europe
* 1453: fall of the eastern Roman empire (split between east Europe, Balkan and Asia)
  -> trade became very slow

→ between 800 and 1453: Marco Pollo travelled a lot (Milliane)
  -> big rulers are diplomates = bring things to other economies

* 1500 (1492): west-europe -> Charles the 5th was born in Gent
  → business grew in America
  purchase of independence of the north
  (1517: Wittenberg and Luther)
* 1789-1815: French Revolution -> Napoleon Bonaparte ruled
  → Colonialism + empires: business in its own country
  -> the bigger an empire = the bigger the area = better for int.business
* 1945: decolonisation
* 1958: Treaty of Rome = led to the foundation of the European Economic Community
  (=economic cooperation in several sectors)
* 1989: fall of the Berlin wall
  -> Europe was split of after the war; no democracy
  → created a lot of opportunities for business
  (companies could produce in other countries with low wages f.e. Polen)

→ = reason why globalization is not new (= it was already growing a lot of years ago)

Internationale business environment have altered (= gewijzigd) thanks to two megatrends:

1) Globalization of markets

= refers to the gradual integration and growing interdependence of national economies. Globalization allows firms to view the world as an integrated marketplace that includes buyers, producers, suppliers, and governments in different countries. Market globalization is manifested by the production and marketing of branded products and services worldwide. Declining trade barriers and the ease with which international business transactions take place due to the Internet and other technologies are contributing to a gradual integration of most national economies into a unified global marketplace.

2) technological advances:

= developments in information, manufacturing, and transportation technologies, as well as the emergence of the internet

→ Globalization allows firms to view the world as one large marketplace for goods, services, capital, labor, and knowledge.

Phases of Globalization: (= why globalization is not new)

Phase of Globalization	Approximate Period	Triggers	Key Characteristics
First phase	1830 to late 1800s, peaking in 1880	Introduction of railroads and ocean transport	Rise of manufacturing: cross-border trade of commodities, largely by trading companies
Second phase	1900 to 1930	Rise of electricity and steel production	Emergence and dominance of early MNEs (mainly from Europe and North America) in manufacturing, extractive, and agricultural industries
Third phase	1948 to 1970s	Formation of General Agreement on Tariff and Trade (GATT); conclusion of World War II; Marshall Plan to reconstruct Europe	Focus by industrializing Western countries to reduce trade barriers; rise of MNEs from Japan; development of global capital markets; rise of global trade names
Fourth phase	1980s to present	Privatization of state enterprises in transition economies; revolution in information, communication, and transportation technologies; remarkable growth of emerging markets	Rapid growth in cross-border trade of products, services, and capital; rise of internationally active SMEs and services firms; rising prosperity of emerging markets

In This Time Period…	Fastest Transportation Was Via…	At a Speed of…
1500 to 1840s	• Human-powered ships and horse-drawn carriages	10 miles per hour
1850 to 1900	• Steamships • Steam locomotive trains	36 miles per hour 65 miles per hour
Early 1900s to today	• Motor vehicles • Propeller airplanes • Jet aircraft	75 miles per hour 300–400 miles per hour 500–700 miles per hour

* hindrances: the laws, the different labor rules, currencies,…
  national state <-> globalization (national states have a big impact on globalization)
* after 9/11: free movement of capital is less free
* first liability company in the world: VOC (is from the Netherlands)

* for good business you need good infrastructure (China has that)
  1900-1930: start of the big multinationals
  1980 – present: internet and smartphones

* GATT transformed into WTO (= World Trade Organisation)
  -> it aims to regulate and ensure fairness and efficiency in global trade and investment

Drivers and dimensions of Market Globalization: (= goed ke !!)

1. Drivers of Market Globalization

* worldwide reduction of barriers to trade and investment
* market liberalization and adoption of free markets
* industrialization, economic development, and modernization
* integration of world financial markets
* advances in technology

2. Dimensions of Market Globalization

* integration and interdependence of national economies
* rise of regional economic integration blocs
* growth of global investment and financial flows
* convergence of buyer lifestyles and preferences
* globalization of production activities
* globalization of services

3a. Societal Consequences of Market Globalization

* contagion: rapid spread of financial or monetary crises from one country to another
  (crisis 2008: home values crashed -> financial crisis and global recession)
* loss of national sovereignty (some argue that global competition in the context of
  global free trade makes MNEs less powerful)
* offshoring and the flight of jobs

* effect on the poor
  (MNEs may pay low wages, and many exploit workers or employ child labor.
  -> f.e. in India loss of jobs, because textiles industry are automated)
* effect on the natural environment
  (air and water pollution have become major hazards)
* effect on national culture
  (Globalization opens the door to foreign firms, global brands, unfamiliar products, and new values. People’s norms, values, and behaviors may tend to homogenize over time = called the “McDonaldization” or the “Coca-Colonization” of the world.)

3b. Firm-level Consequences of Market Globalization: Internationalization of the Firm's Value Chain

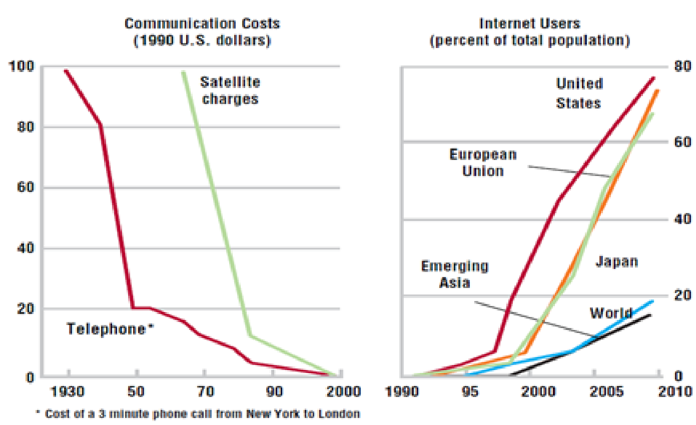
* countless new business opportunities for internationalizing firms
* new risks and intense rivalry from foreign competitors
* more demanding buyers who source from suppliers worldwide
* greater emphasis on proactive internationalization
* internationalization of the firm's value chain

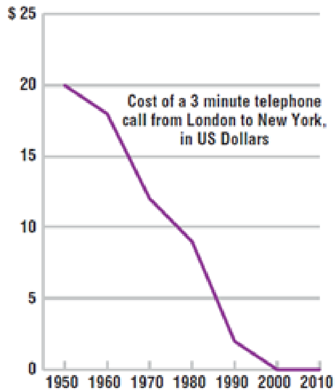
exam question: What are the drivers, dimensions and consequences?

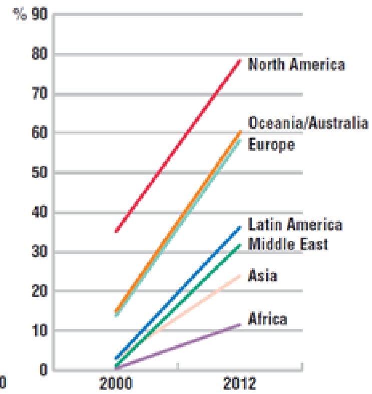
Information and Communications Technology (ICT):

* profound advances have occurred in computers, digital technologies, telephony, and the Internet
* MNEs leverage ICTs to optimize their performance, managing operations around the world
* ICTs opened the global marketplace to firms that historically lacked the resources to internationalize

Declining cost of Global Communication and Growing Number of Internet Users
(= interesting)







f.e. : when you skype those days, it costs nothing anymore

→ The costs decrease and the users increase !!

Example: Nike Foreign Factories:

* Nike has 100s of factories in Asia, Latin America, and elsewhere
* Nike has been criticized for paying low wages and operating sweatshop conditions.
* Labor exploitation and sweatshop conditions are genuine concerns in many developing economies.
* However, consideration must be given to the other choices available to people in those countries.
* Nike and numerous other MNEs are making efforts to improve working conditions in their foreign plants.

→ Nike has no single production company/facilities
They do the begin and end of the production, but not de middle part of the production.

→ the prof: the working conditions at Nike aren't bad (has another opinion)

Global Financial Crisis:

* **Contagion**: the rapid spread of a financial or monetary crisis from one country to another, as seen during the recent global financial crisis
* The financial crisis originated with 'pricing bubbles' in housing and commodities markets. (gasoline prices reached record levels in many countries)
* Thousands of mortgages had been 'securitized' -- sold as investments on stock markets worldwide. As they lost value, stock markets declined substantially.
* World economies experienced recession -- negative growth.

→ Beginning in late 2008: financial crisis and global recession; the worst in decades

Globalization, Economic Freedom, and National Prosperity:

* Economic freedom is the extent of government interference in business, strictness of the nation's regulatory environment, and the ease with which economic activity can be carried out.

* National prosperity is strongly associated with…
  - participation in international trade and investment;
  - the nation's level of economic freedom.

* Nations should emphasize economic freedom and participating in international trade and investment.

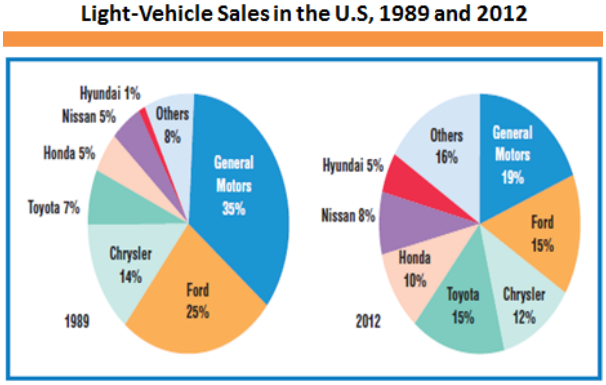
→ More freedom = more prosperity

How reduce poverty?:

* developing countries:
  - they can improve conditions for investment and saving
  - liberalize markets
  - promote trade and investment
  - build strong institutions that ensure good governance
  - invest in education and training to promote productivity and encourage upward mobility for workers

* advanced economies:
  - make their markets more accessible to low-income countries
  - providing debt relief to heavily indebted nations
  - facilitating the flow of technology, private capital, and direct investment into poor countries

Automaker Market Shares,
Light-Vehicle Sales in the U.S, 1989 and 2012



→ change in the automarket f.e Toyota get more market share

Company Internationalization and the Value Chain:

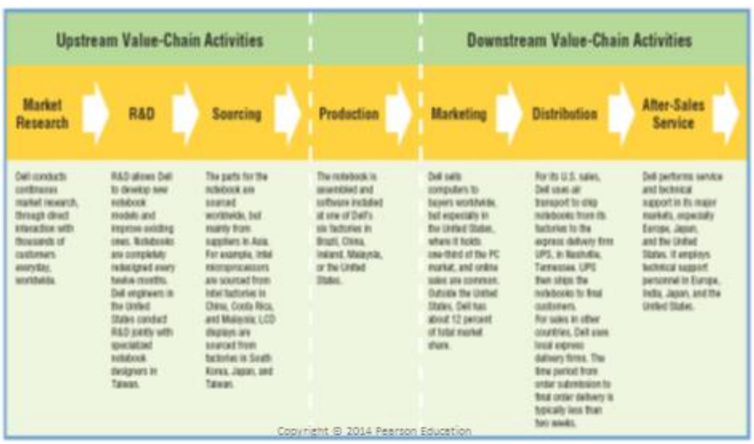
* The most significant implication of market globalization for companies is that a purely domestic focus is no longer viable in most cases.

* Market globalization compels firms to internationalize their value chain and access the benefits of international business.

* **Value chain:** The sequence of value-adding activities performed by the firm in the process of developing, producing, and marketing a product or a service.

* Globalization allows the firm to internationalize its value chain, leading to various advantages.

Internationalization of the Firm’s Value Chain:



* The truly international firm configures its sourcing, manufacturing, marketing, and other value-adding activities on a global scale.
* Rationale:
  - cost savings
  - increase efficiency, productivity, and flexibility of value chain activities
  - access customers, inputs, labor, or technology
  - benefit from foreign partner capabilities.

Ethical Connections:

* In six years, Nigeria increased its telecom infrastructure from just 500,000 phone lines to more than 30 million cellular subscribers.

* This led to a big rise in productivity and commerce, which has helped improve living standards.

* Access to cell phones saves wasted trips, provides access to education and healthcare, and facilitates communication between suppliers and customers.

* MNE telecom investment in Africa allows firms to fulfill social responsibilities and improve the lives of millions of poor people.

Case 2: Debating the Merits of Globalization

Activist:

* one problem with international business is that it often ignores (= negeren) human rights and basic labor standards
  -> low-wage factories abroad create substandard working conditions
  -> the activities of multinational companies result in job losses
  f.e.: autoworkers in Mexico live in horrible conditions and make only a few dollar a day
* international business means more environmentally damaging development
* International trade interferes with the sovereignty of national governments.
  (= internationale handel gaat samen met de machtsuitoefening vd nationale overheden)
  -> Global corporations claim they spread modern technologies around the world, but technology is only good if you have access to it (≠ Africa acces to internet).
  → Globalization is widening the gap between rich and poor
  (because poor countries don't earn enough to buy the new technology)
* Governments have not done enough to regulate the excesses of capitalism. We saw this clearly in the global financial + economic crises, from which the world is recovering.

Business Executive:

* companies who export provide:
  - better-paying jobs
  - have more profits
  - pay higher taxes
  - stimulate purchases from local suppliers (= aankopen stimuleren)

* foreign companies that invest here:
  - create new jobs
  - enhance local living standards
  - pressure our firms to stay competitive in a challenging global marketplace

→ companies need big markets to amortize (= afschrijven) the costs of big projects
  + because of the costs of research and development
  (f.e: Pharmaceutical firms can't do the necessary R&D unless they can amortize those costs over a huge, global marketplace.)

* If we trade, then living standards will increase everywhere.
  -> As the living standards rise, awareness of and care for the environment will also increase.
  -> We can a clean planet and a better economic quality of live !!

* Companies increasingly recognize the importance of being good global citizens.
  f.e. : Motorola has profited from its business in China, but it also contributes to developing educational systems in that country.

Trade Official:

* The current administration believes in the value of free trade.
  -> The government strongly supported NAFTA, and this has already a positive effect on the economoy through:
    - increasing exports in Mexico
    - creating jobs
    - leading to improved investment opportunities

* Part of the solution is to negotiate trade agreements that take environmental factors into account. -> International trade must take environmental concerns into account.

* Globalization is complex and it's hard to tease out what is bad and what is good.
  -> income disparities have increased dramatically over the last 50 years, but people are better off than they were 50 years ago
  -> There is a strong role for government in all this: countries benefit from trade, but governments are responsible for protecting citizens from the negative or unintended consequences that trade may bring.

-> see questions book p84

Chapter 3: Organizational Participants that make international business happen

(easy chapter)

Four major participants in international business: (= where the chapter goes about)

1) **focal firm:**
   = are primarily large multinational enterprises (MNEs) and small and medium-sized enterprises (SMEs). Some are manufacturing businesses, while others are in the service sector.

2) **distribution channel intermediary:**
   = a specialist firm that provides distribution, logistics, and marketing services in the international value chain ; intermediaries are usually located in foreign markets where they provide distribution and marketing services to focal firms on a contractual basis.

3) **facilitator:**
   = a firm that provides special expertise in banking, legal advice, customs clearance, or related support services that helps focal firms perform international businesses transactions.
   -> freight forwarder: a specialized logistics service provider that arranges international shipping on behalf of exporting firms

4) **governments:**
   = active in international business as suppliers, buyers, and regulators

Typical positions of intermediaries and facilitators in the International Value Chain:

= interesting slide