

International Business Environment

By
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Course Syllabus

- **Scope of International Business**
- **Dynamics of international business**
- **Global market regions and groups**

- **Cultural dynamics in assessing global markets**
- **The global economic environment**
- **The political & legal environment**

- **Managing international marketing information and research**
- **Segmentation, targeting and positioning**
- **Global market entry strategies**
- **Export management and logistics**

- **Products and brand decisions**
- **Pricing decision for international markets**
- **Global marketing channels**
- **Global communications decisions**
- **The digital Revolution**

Scope of International business



Globalization



Global Business Trends

1. The rapid growth of the World Trade Organization and regional free trade areas, e.g., NAFTA and the European Union

2. General acceptance of the free market system among developing countries in Latin America, Asia, and Eastern Europe

3. Impact of the Internet and other global media on the dissolution of national borders.

4. Managing global environmental resources



Global Business Trends

Increasing globalization of markets

Firms face competition on all fronts



Many U.S. companies are now foreign controlled:
Carnation (Swiss),
Daimler-Chrysler (German)

U.S. firms seeking foreign markets to increase profits

<https://www.carnation.co.uk/Default.aspx>

Globalization

The process of interconnecting the world's people with respect to the cultural, economic, political, technological, and environmental aspects of their lives

- The fueling force to globalization:
 1. Technology
 2. Liberalization of law restricting trades
 3. Developing nations expanding their economics

business and its links to global strategy

Domestic business seeks to obtain and
keep customers in the home
market.....

*The goal of global business is to create
and retain customers in global markets*

What is Global business?



What is Global business ?

Marketing concepts, processes, and principles are universally applicable all over the world

Global business is defined as the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation (all over the globe) for a profit

Forces Affecting Global Integration and Global business

- **Driving Forces**

- Regional economic agreements
- Market needs and wants
- Technology
- Transportation and communication improvements
- Product development costs
- Quality
- World economic trends

- **Restraining Forces**

- Management myopia
- Organizational culture
- National controls

- In the past, there were clear overarching trends towards internationalisation and globalisation.
- However, several markets and sectors continue to have extremely limited international connections.
- As a result, individual organisations' decisions on whether to become more international must be carefully considered.
- Many organisations will not be able to benefit from internationalisation.
- Yip's "drivers of globalisation" framework is one methodology for assessing the suitability of an internationalisation plan: **4 elements:**
 - Market drivers
 - Cost drivers
 - Government drivers
 - Competitive drivers

Internationalization drivers



- **1. Market drivers** : Is the global market standardised? So, are client demands and preferences the same in different countries? Is there a global client base (especially important for business-to-business transactions)? Is marketing transportable across borders?
- **2. Cost drivers**: Can operating abroad cut costs? As a result, economies of scale become important, as do country-specific cost variations (particularly, but not only, labour costs). Logistics is also a concern; can the semi-finished or final items be conveniently transported?
- **3. Government drivers**: Are there trade and capital mobility barriers? Lowering obstacles has been the trend, but will this continue? Agriculture and defence are highly volatile industries with significant constraints. Technical standards agreement is a key challenge for various sectors.

4. Competitive drivers.

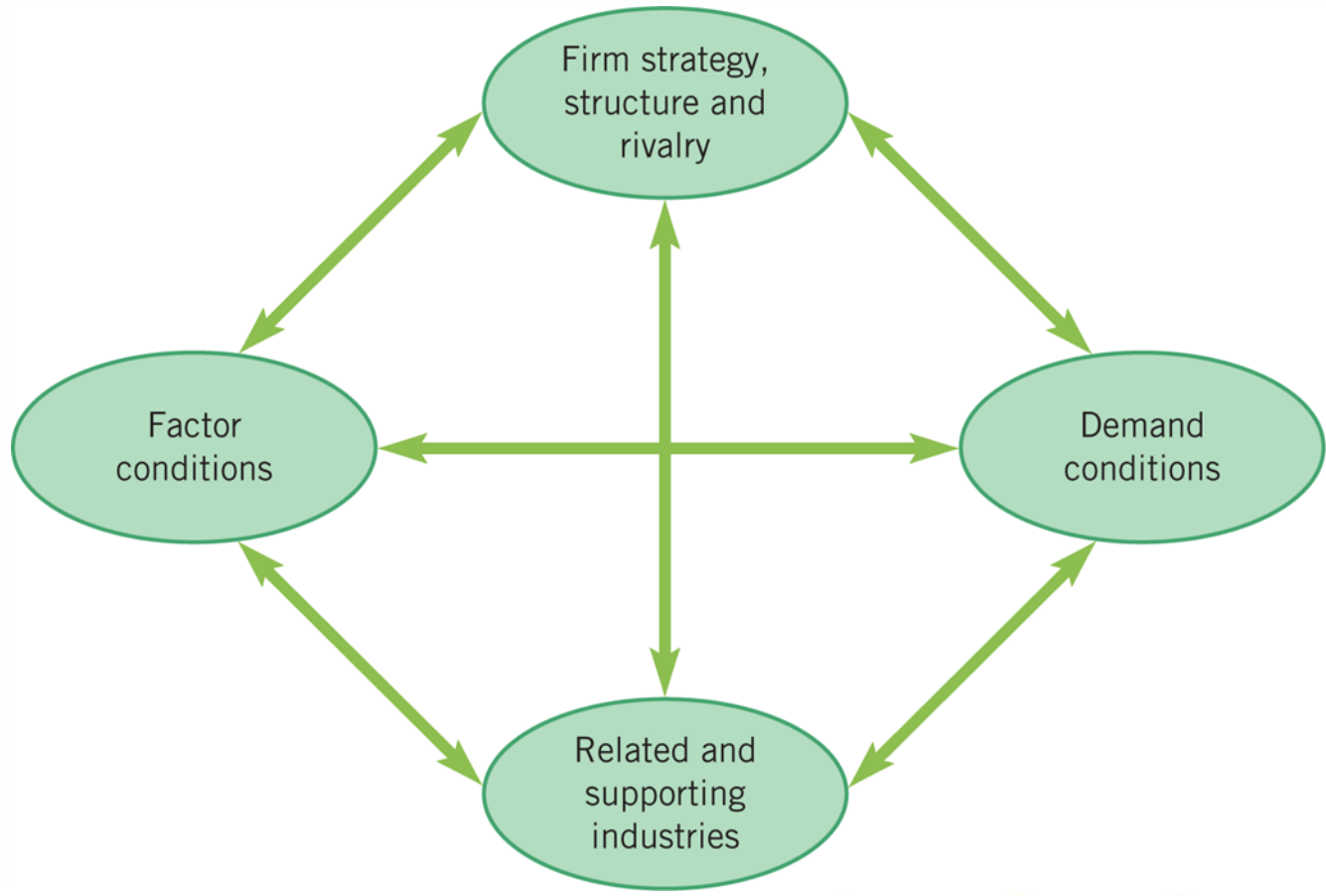
- Relate to a globalisation strategy (global integration) rather than mere international tactics. There are two aspects: The interdependence of country operations puts more strain on global operations. Global competition enhance the demand to respond globally in order to compete successfully.



- When a company enters a new market in another country, it is normally at a disadvantage.
- Local firms will benefit from improved expertise, brand awareness, partnerships with suppliers and consumers, distribution, and so on.
- As a result, in order to overcome the advantages of local rivals, a foreign newcomer must have some source of advantage.
- In a global environment, there are two key sources of spatial advantage:
 - **locational advantages and the**
 - **international value system.**

- Porter's Diamond begins with the observation that some regions tend to specialise in specific product or service categories.
- London is an example of financial services;
- Silicon Valley is an example of information technology; and Switzerland is an example of private banking services.
- Porter's Diamond attempts to explain why some regions create businesses with a persistent competitive edge in specific industries.
- Four locational advantages proposed:
 1. **Factor conditions**
 2. **Home demand conditions**
 3. **Related and support industries**
 4. **Firm strategy, industry structure and rivalry**

Porter's Diamond - diagram



1. Factor conditions. i.e. raw material, labour etc.


- At a country or regional level, there may be advantages that an industry will be able to exploit to give it a competitive advantage.

- **Examples:** Iceland's inexpensive electricity has aided its development as a data server hub, while Switzerland's multilingual populace has aided the private banking business.

2. Home demand conditions.

- Fundamental concept: demanding and intelligent domestic consumers encourage the sector to remain on the cutting edge, providing a competitive advantage when entering other nations.

- **Examples:** Germany's consumers requiring high-specification cars; Italy and France with fashion clothing.

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3. Related and supporting industries.

- Links up to 'cluster' idea – having mutually supporting industries provides a competitive advantage.
- **Examples:** The financial services industry in London comprises banking, insurance, fund management, and legal services that specialised in financial services.
- Silicon Valley include not just hardware and software, but also finance agencies (particularly venture capital firms).
- Formula 1 racing vehicle sector in the United Kingdom; a network of (usually) small, specialised engineering businesses with extremely quick reaction times. It is difficult for an F1 racing vehicle manufacturer to participate if they are not based in the United Kingdom.

4. Firm strategy, industry structure and rivalry.

- **Principle**; a competitive market drives efficiency, innovation and differentiation. Likely to generate dynamic industry including both cost-leaders and differentiators, which provides competitive advantage for foreign markets.
- Some competitive rivalry therefore beneficial for international competitiveness.
- May be supported by government policy in the country or region to support a number of competing firms.
- **Examples**: Japanese car industry; Swiss pharmaceutical industry

Porter's Diamond

- Each of the four elements may help to explain why a particular region or country is a specialist in a particular industry. Having strengths in 2 or more of the elements is likely to provide even stronger competitive advantage relative to other countries.
- Note the structure of the diagram – the four elements are all inter-linked.
- In other words, a strength in one area may help to generate a strength in another area.
- **Example:** German car industry has strength in demanding and sophisticated domestic market. That has led to requirement for skilled engineers, which has led to **a factor condition** of a strong supply of skilled engineers, institutions specialising in training engineers, etc.

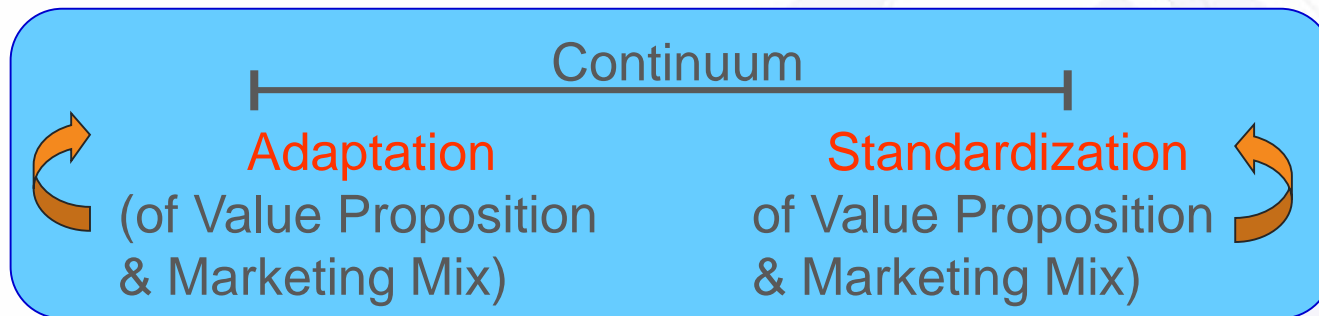
Porter's Diamond

- Porter's Diamond has strong implications for government policy towards supporting particular industries, creating clusters, etc. Need for assessment of whether support really will create an industry with international competitive advantage.
- At the level of individual organisations, key question is:
 - **Can they build on home-based advantages to create a competitive advantage relative to other countries?**

- Companies with a worldwide emphasis will also need to take use of their value system's international structure. Different countries' capabilities, resources, and expenses will need to be methodically leveraged.
- This entails finding each value chain piece in the country or area with the maximum efficiency or effectiveness.
- Locational advantages may be:
 1. **Cost advantages.** Particularly labour costs, but also taxation, transportation.
 2. **Local capabilities.** For example: capabilities in engineering, or in academic institutions, might lead to the location of particular production or research facilities in a country.
 3. **National market characteristics.** The location of production itself may create differentiation; e.g. “Made in Switzerland” for high-end products.

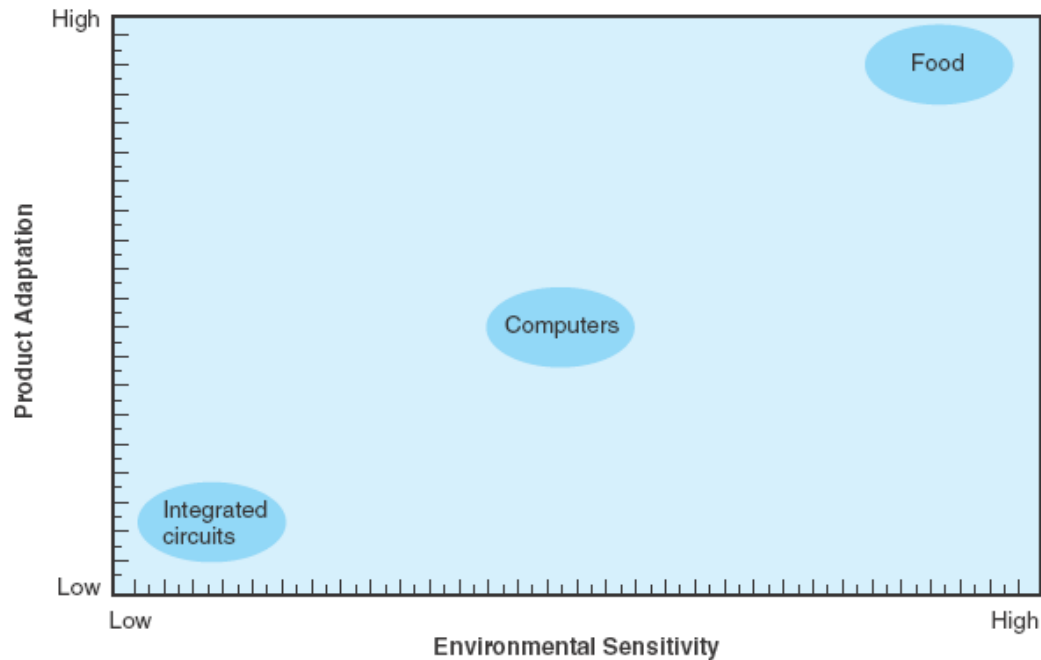
Environmental Adaptation Needed

- Firms must adapt to uncontrollable environment of international business by adjusting the value proposition to all stakeholders and also the marketing mix (product, price, promotion, and distribution)



Environmental Sensitivity

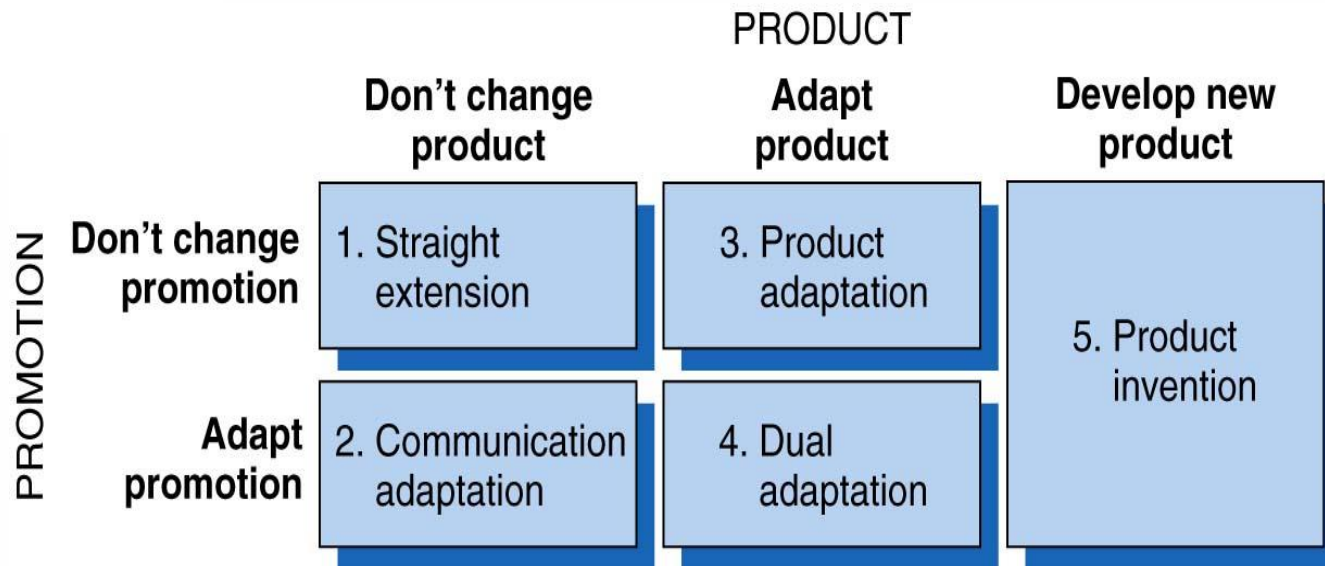
The extent to which products must be adapted to the culture-specific needs of different national markets.



Standardization versus Adaptation

- Globalization (Standardization)
 - Developing standardized products marketed worldwide with a standardized marketing mix
 - Essence of mass marketing
- Global localization (Adaptation)
 - Mixing standardization and customization in a way that minimizes costs while maximizing satisfaction
 - Essence of segmentation
 - Think globally, act locally

Five Global Product and Promotion Strategies



Advantages of product standardization

1-Economy of scale:


Production – R&D – Marketing

2-Consumer mobility

3-Technological complexity

e.g. it may be impossible to create a Chinese language version of an accounting software package without completely redesigning all the screen layouts

Advantages of product adaptation

- 1-Greater sales and greater profitability
 - 2-Different customer needs
 - 3-Political factors
 - 4-Differences in local conditions:
 - Climatic variations (corrosion in cars produced for drier climate)
- 

Dynamics of international business

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What is Happening?



Proliferation of trade and emergence of the global economy



Intensification of global competition



More emerging markets



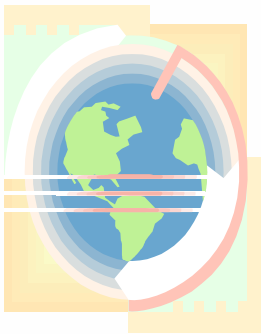
Developments in technology allow communications with global consumers and movement of goods

Protectionism

Countries use protectionist measures to shield a country's markets from intrusion by foreign competition and imports.

Arguments for Protectionism include:

1. maintain employment and reduce unemployment.
2. increase of business size
3. protection of the home market.
4. need to keep money at home.
5. encouragement of capital accumulation.
6. conservation of natural resources.
7. protection of an infant industry
8. national defense



In general, protectionism contributes to industrial inefficiency and makes a nation uncompetitive



Protectionism is implemented through the imposition of trade barriers, which include tariff barriers and non-tariff barriers

Tariff (Tax) Barriers

Tariff barriers is a tax imposed by a government on goods entering at its borders.

Tariff may be used a revenue generating tax or to discourage the importation of goods.

Tariff Barriers tend to Weaken:

1. Supply-and-demand patterns
2. International relations (they can start trade wars)

Tariff Barriers tend to Restrict:

1. Manufacturer' supply sources
2. Choices available to consumers
3. Competition

Non- Tariff Barriers

(1) Specific Limitations on Trade:

1. Quotas
2. Import Licensing requirements
3. Proportion restrictions of foreign to domestic goods (local content requirements)

(2) Customs and Administrative Entry Procedures:

1. Antidumping practices
2. Documentation requirements

(3) Standards:

1. Standard disparities
2. Packaging, labeling, and marking

Non-Tariff Barriers

(4) Boycotts and Embargoes:

Boycotts is a government absolute restriction against the purchase and importation of certain goods from other country

Embargo is refusal to sell to specific country

(5) Voluntary export restraints & Orderly marketing agreements

Agreement between importing and exporting countries for a restriction on the volume of exports. (Japan has a VER on automobile to the united states. Similar to quotas

General Agreement on Tariffs and Trade (GATT)

GATT created as an agreement to serve as watchdog over world trade and provide a process to reduce tariffs •

GATT also provided a mechanism to resolve trade disputes bilaterally •

GATT now replaced by the World Trade Organization

- Trade shall be conducted on a nondiscriminatory basis
- Protection shall be afforded domestic industries through customs tariffs, not through such commercial measures as import quotas
- Consultation shall be the primary method used to solve global trade problems.

World Trade Organization (WTO)

- An institution, not an agreement as was GATT
- Sets many rules governing trade between its 148 members
- Provides a panel experts to hear and rule on trade disputes between members.
- All member countries will have equal representation

*Diffusion and
Adoption Processes*



Diffusion Theory

Characteristics of Innovations

- Innovation is something new, five factors that affect the rate at which innovations are adopted include
 - Relative advantage
 - Compatibility
 - Complexity
 - Divisibility
 - Communicability



Diffusion Theory

Characteristics of Innovations

Relative advantage: How a new product compares with existing products or methods.

Compatibility: How consistent a product is with existing values and past experiences.

Complexity: How difficult the new product is to understand and use.

Divisibility: How easy it is to try a product on a limited basis without great expense.

Communicability: How well the benefits or value of a product are communicated.

Diffusion Theory

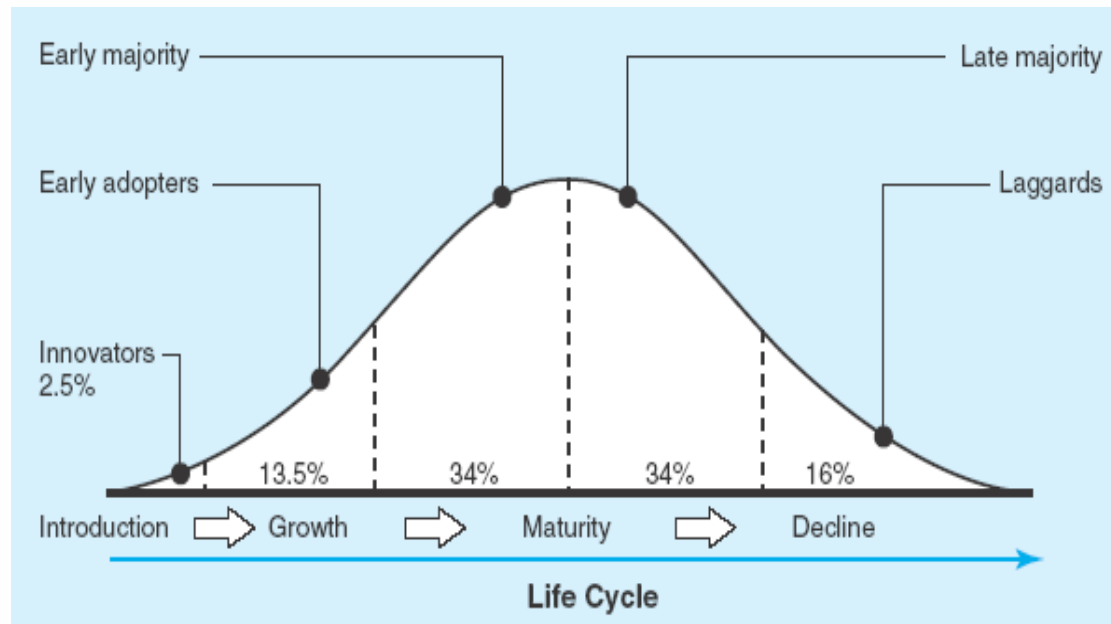
Categories of Adopters

- Classifications of individuals within a market on the basis of their innovativeness.
- Five categories
 - Innovators
 - Early Adopters
 - Early majority
 - Late majority
 - Laggards



Diffusion Theory


Categories of Adopters



Global Market Regions and Groups




Traits of Successful Economic Unions

1. Economic Compatibility (similar economic systems)
 2. Political Compatibility (similar political systems)
 3. Cultural Compatibility
 4. Geographic factors
- 


Free trade areas

An agreement between two or more countries to reduce or eliminate customs duties and non-tariff trade barriers among partner countries while members maintain individual tariff schedules for external countries

Economic Factors

- Nations with complementary economic bases are least likely to encounter frictions in the development and operation of a common market unit.
 - For an economic union to survive, it must have agreements and mechanisms in place to settle economic disputes.
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- The background features several large, overlapping, light blue arches that create a sense of depth and movement. At the bottom of the slide, there is a decorative border of vibrant green grass blades.

The importance of political unity to fully achieve all the •
benefits of economic integration has driven EC countries
to form the European Union.



Cultural factors

The more similar the culture, the more likely a market is to succeed because members understand the outlook and viewpoints of their colleagues.



- Geographic and temporal proximity
 - The most recent research demonstrates that more important than physical distance are differences across time zones.
 - Countries that are widely separated geographically have major barriers to overcome in attempting economic fusion.

Global Markets and Multinational Market Groups



Exhibit 10.1 European Market Regions

Association	Member	Population (millions)	GDP* (billions)	GDP* per Capita	Imports of Goods and Services (billions)	Exports of Goods and Services (billions)
European Union (EU)						
	Belgium	1.03	\$ 321.1	\$31,218	\$233.7	\$251.5
	Denmark	5.4	207.5	38,710	83.8	92.6
	Germany	82.3	2,701.6	32,813	850.9	941.6
	Greece	10.6	144.8	13,669	46.6	34.8
	Spain	41.1	723.5	17,595	237.0	221.9
	France	59.2	1,804.9	30,492	483.0	815.7
	Ireland	3.8	112.9	29,401	100.3	120.1
	Italy	57.0	1,225.3	21,144	347.3	370.7
	Luxembourg	0.4	24.9	56,382	30.9	35.2
	Netherlands	16.0	502.5	31,333	310.9	339.2
	Austria	8.1	269.8	33,172	310.9	339.2
	Portugal	10.0	131.4	13,109	59.9	46.7
	Finland	5.2	166.7	32,121	57.8	79.0
	Sweden	8.9	281.3	31,627	116.5	143.7
	United Kingdom	58.8	1,334.6	22,697	534.6	455.1
EU Candidate Countries						
	Bulgaria	7.9	13.1	1,630	10.8	8.5
	Czech Republic	10.3	57.1	5,583	51.1	46.1
	Estonia	1.4	6.4	4,707	7.5	6.6
	Cyprus	0.8	57.1	14,592	—	—
	Latvia	2.4	6.6	2,816	4.2	3.7
	Lithuania	3.5	8.0	2,308	7.3	5.6
	Hungary	10.2	56.4	5,540	38.0	36.6
	Malta	0.4	4.0	10,098	—	—
	Poland	38.6	143.6	3,716	56.5	54.1
	Romania	22.4	31.2	1,393	20.1	14.5
	Slovenia	2.0	23.9	11,984	15.5	14.6
	Slovak Republic	5.4	23.8	4,405	19.6	18.6
	Turkey	68.5	190.3	2,873	56.5	65.2
European Free Trade Area (EFTA)						
	Iceland	0.3	9.0	32,060	3.7	3.5
	Liechtenstein	0.03	—	—	—	—
	Norway	4.5	172.8	38,298	61.5	68.5
	Switzerland	7.2	340.3	47,064	135.6	147.8

*Constant 1995 dollars.

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Exhibit 10.2
The European Economic Area: EU, EFTA, and Associates

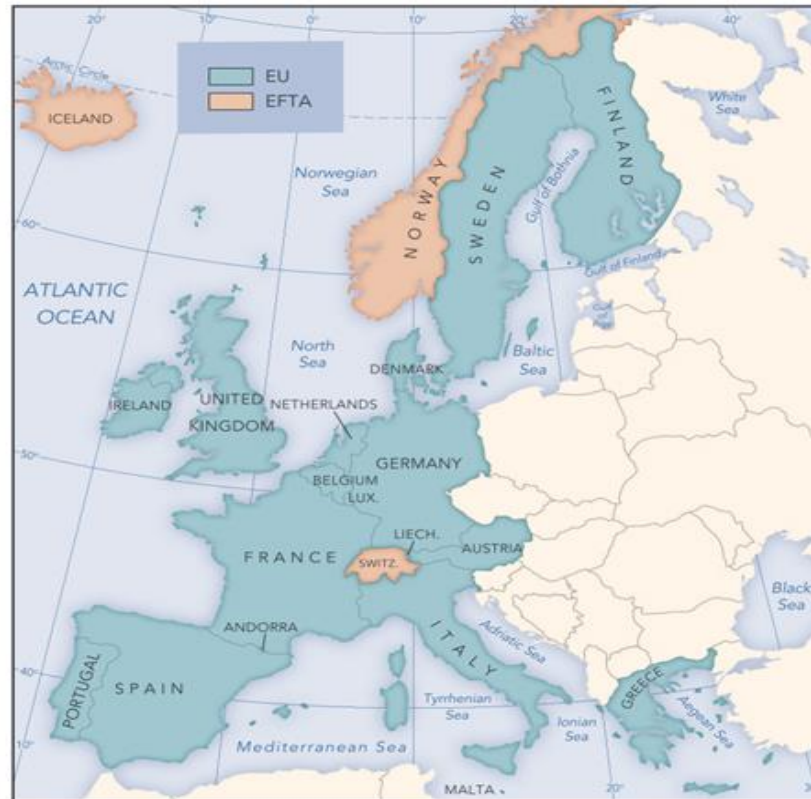


Exhibit 10.6 Commonwealth of Independent States (CIS)

Country	Population (millions)	GDP* (billions)	GDP* per Capita	Imports of Goods and Services (billions)	Exports of Goods and Services (billions)
Russia	144.8	\$377.6	\$2,609	\$87.4	\$109.1
Ukraine	49.1	48.4	986	29.2	31.6
Belarus	10.0	14.9	1,493	9.7	9.3
Armenia	3.1	4.1	1,068	2.1	1.1
Moldova	4.3	2.9	678	3.3	2.0
Azerbaijan	8.1	3.7	460	2.8	0.9
Uzbekistan	25.1	12.8	512	3.2	3.2
Turkmenistan	5.3	8.6	1,587	2.8	2.8
Tajikistan	6.2	2.6	420	—	—
Kazakhstan	14.9	25.5	1,712	10.2	9.3
Kyrgystan	5.0	2.1	417	0.5	0.5
Georgia	5.2	2.6	499	1.5	1.0

*Constant 1995 dollars.

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North American Free-Trade Area (NAFTA)



Canada

United States

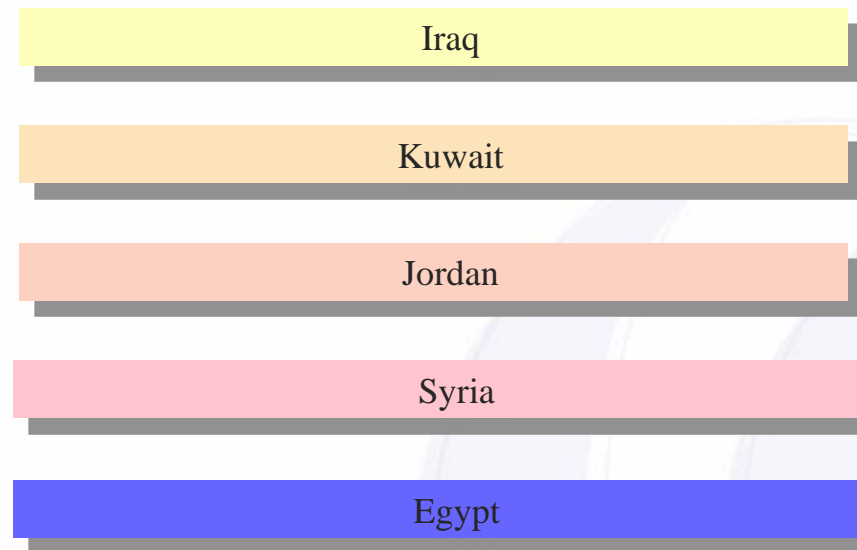
Mexico



North American Free Trade Agreement

- NAFTA was ratified and became effective in 1994, a single market of 360 million people with a \$6 trillion GNP emerged.
- NAFTA requires the three countries to remove all tariffs and barriers to trade over 15 years, but each country will have its own tariff arrangements with nonmember countries.
- The elimination of trade and investment barriers among Canada, Mexico, and the United States creates one of the largest and richest markets in the world.

Arab Common Market



Marketing Mix Implications

- In the past, companies often charged different prices in different European markets.
- In addition to initiating uniform pricing policies, companies are reducing the number of brands they produce to focus advertising and promotion efforts.

The global context

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Table 5.4 The Ten Largest Global Corporations

Rank	Company	Country	Industry	Revenues (in millions)
1	Wal-Mart Stores	U.S.	General merchandiser	\$246,525
2	General Motors	U.S.	Motor vehicles	\$186,763
3	Exxon Mobil	U.S.	Petroleum refining	\$182,466
4	Royal Dutch/Shell Group	Netherlands/Britain	Petroleum refining	\$179,431
5	BP	Britain	Petroleum refining	\$178,721
6	Ford Motor	U.S.	Motor vehicles	\$163,871
7	DaimlerChrysler	Germany	Motor vehicles	\$141,421
8	Toyota Motor	Japan	Motor vehicles	\$131,754
9	General Electric	U.S.	Diversified financials	\$131,698
10	Mitsubishi	Japan	Trading	\$109,386

Source: "Global 500: The World's Largest Corporations," *Fortune*, July 15, 2003, p. 106.

- The General Agreement on Tariffs and Trade (GATT) was developed by the United Nations after World War II and sought to moderate trade conflicts
- It has been replaced (1995) by the World Trade Organization (WTO)

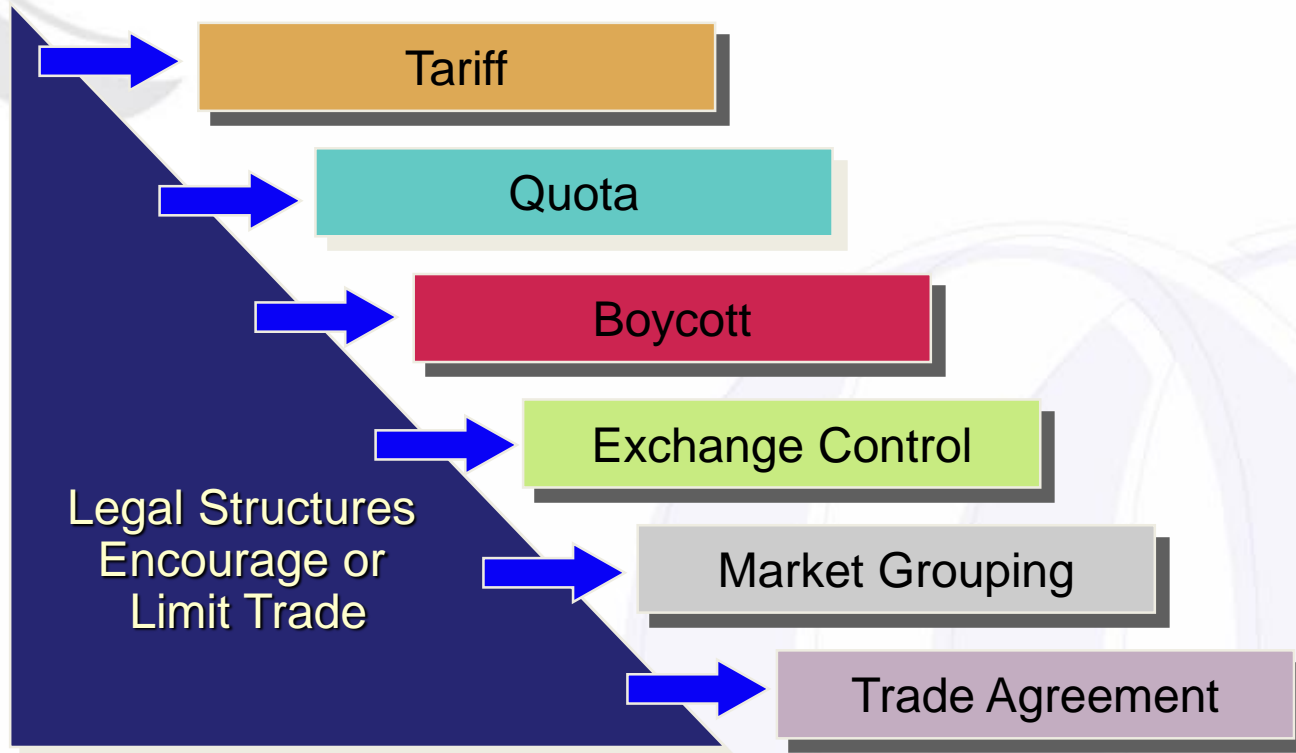
General Agreement on Tariffs and Trade (GATT)

- Signed by 23 nations in 1947
- A set of rules to ensure nondiscrimination, clear procedures, the negotiation of disputes
- Use tariff concessions as a tool to increase trade
- ***Most Favored Nation*** – fair treatment regarding imports and exports

Economic Communities

- Countries band together to form an alliance
- Such economic communities coordinate trade policies and ease restrictions on trade across the member borders
 - EU (European Union)
 - NAFTA (North American Free Trade Agreement)
 - ASEAN (Association of Southeast Asian Nations)

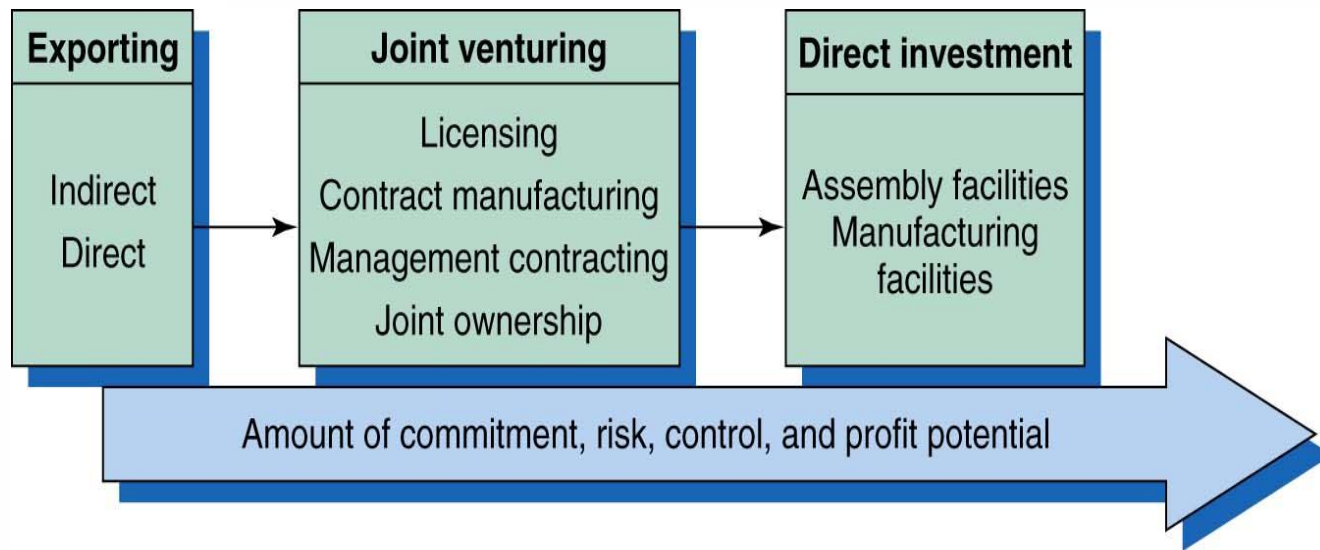
Political and Legal Considerations



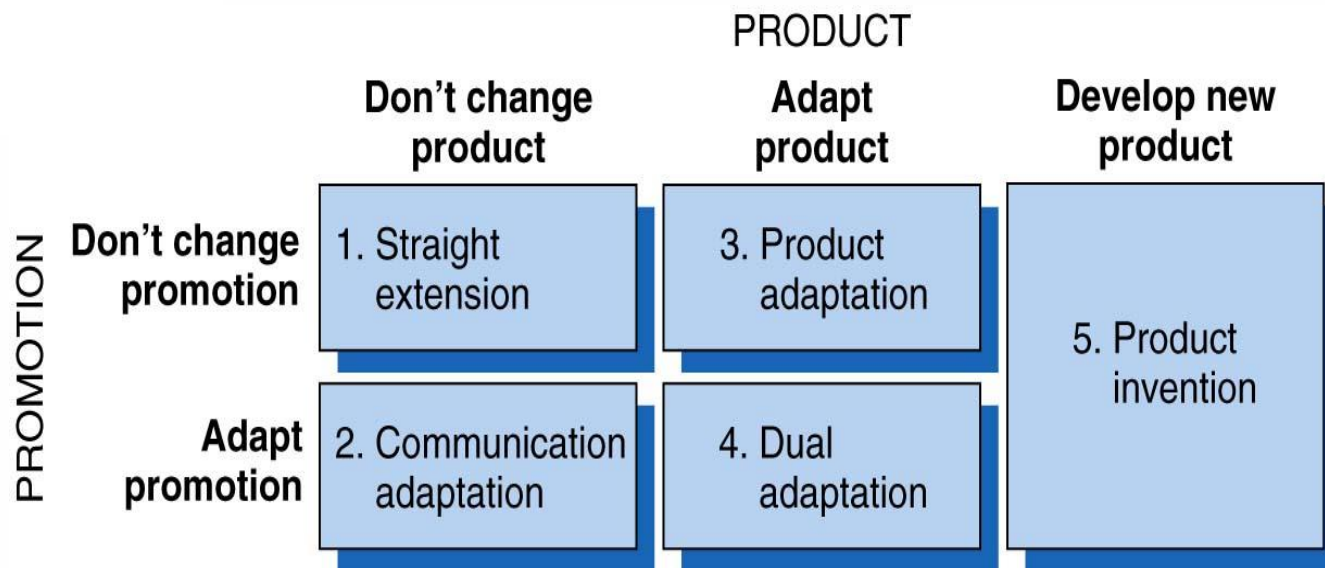
Reasons to expand global

- Global competitors attacking the domestic market,
- Foreign markets might offer higher profit opportunities,
- Domestic markets might be shrinking,
- Need an enlarged customer base to achieve economies of scale,
- Reduce dependency on any one market,
- Customers might be expanding abroad.

Deciding How to Enter the Market



Five Global Product and Promotion Strategies



Environmental Scanning and Industry Analysis

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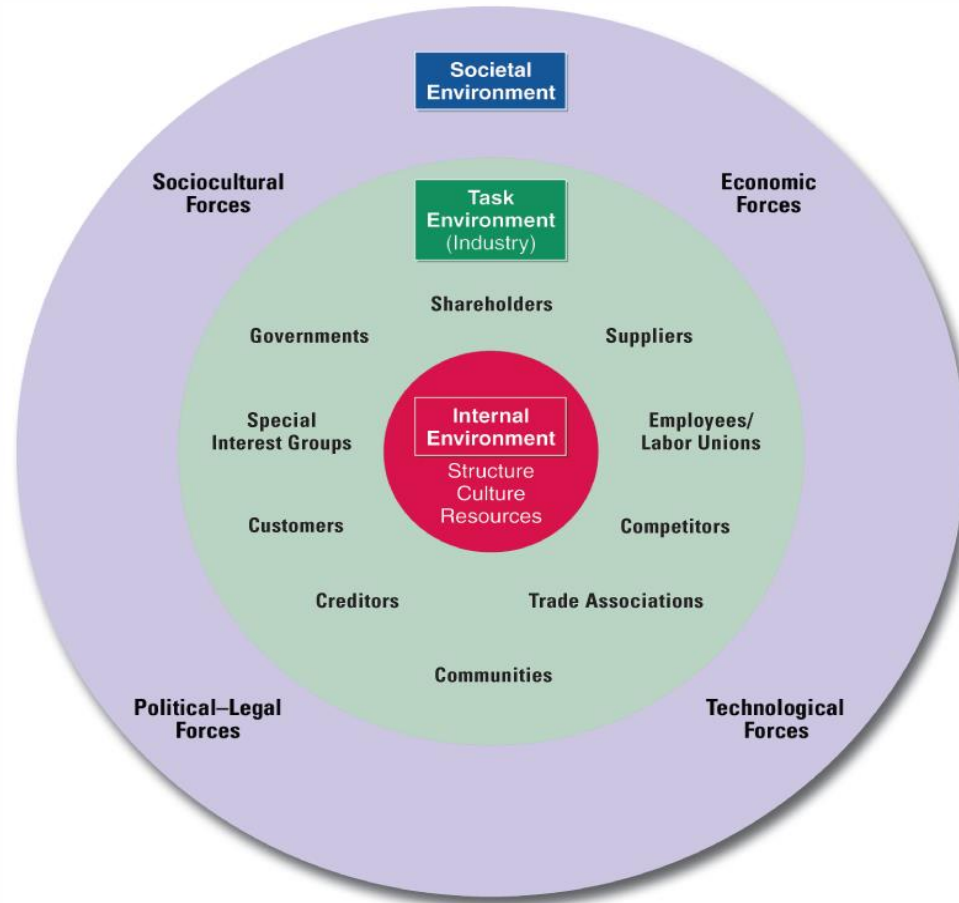
Environment

Micro-environment:

The factors that the organization will have an influence over

Macro-environment:

The factors that will have an impact on the organization but the organization can not control

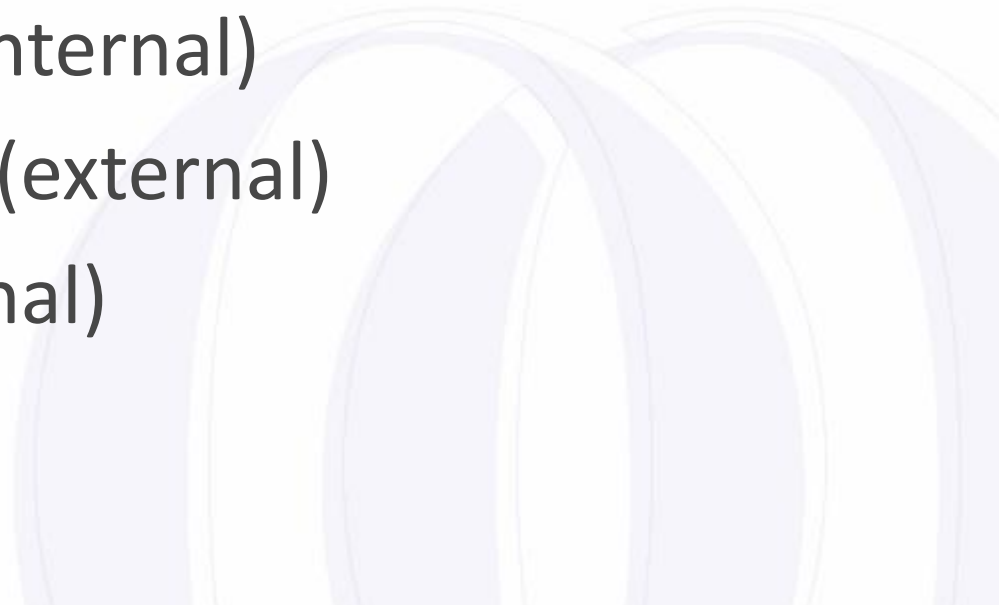


Thomas L. Wheelen & J. David Hunger "strategic management & business policy" 10th edition, Prentice Hall

Situational analysis

- SWOT analysis
- LoNG PESTEL analysis
- Five forces analysis



- Strengths (internal)
 - Weaknesses (internal)
 - Opportunities (external)
 - Threats (external)
- 
- The background features a large, faint, light blue graphic of three overlapping arches or domes, and a decorative border of green grass at the bottom of the slide.

Strengths	Weaknesses
Opportunities	Threats

SWOT Analysis

SWOT

Strength	A particular skill or distinctive competence which organization possesses & will aid in achieving its stated goals
Weakness	Any aspect of the company that may hinder the achievement of stated goals.
Opportunities	Any feature that creates advantageous conditions to the firm in relation to a particular objective or set of them
Threats	Any environmental development which present problems & may hinder the achievement of org. objectives

LoNGPESTLE introduces three new dimensions to your thinking:

- Local
- National
- Global



What are the advantages of LoNGPESTLE?

As you'd expect, it has all the benefits of the PESTLE framework which include...

- It's easy to use
- It produces a simple framework to share
- PESTLE can be done in a group or solo
- A lot of detail and thought can be captured in a single analysis
- It ensures people are thinking outside the business

In addition, it has the following:

- An easy way to categorise the data geographically
- Provides a structure to the way you complete PESTLE
- Steers thinking within the group on strategy

Macro-environment : PESTEL


- P Political
- E Economic
- S Socio-cultural
- T Technological
- E Ecological
- L Legal



- Taxation policy
- Government policy
- Pressure group




Economic Factors


- Inflation
 - Employment
 - Disposable income
 - Business cycles
 - GDP & GNP
 - Others?
- 
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- Demographics
- Distribution of income
- Social mobility
- Lifestyle changes
- Consumerism
- Levels of education
- Others?



Technological

- New discoveries and innovations
 - Speed of technology transfer
 - Internet
 - Information technology
 - Others?
- 
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- Environmental protection laws
 - Employment laws
 - Competition law
 - Consumer protection law
 - Contract law
 - Patency
- 

Environmental Scanning

Economic	Technological	Political–Legal	Sociocultural
GDP trends	Total government spend for R&D	Antitrust regulations	Lifestyle changes
Interest rates	Total industry spending for R&D	Environmental protection laws	Career expectations
Money supply	Focus of technological efforts	Tax laws	Consumer activism
Inflation rates	Patent protection	Special incentives	Rate of family formation
Unemployment levels	New products	Foreign trade regulations	Growth rate of population
Wage/price controls	New developments in technology transfer from lab to marketplace	Attitudes toward foreign companies	Age distribution of population
Devaluation/revaluation	Productivity improvements through automation	Laws on hiring and promotion	Regional shifts in population
Energy availability and cost	Internet availability	Stability of government	Life expectancies
Disposable and discretionary income	Telecommunication infrastructure	Outsourcing regulations	Birthrates
	Computer hacking activity		

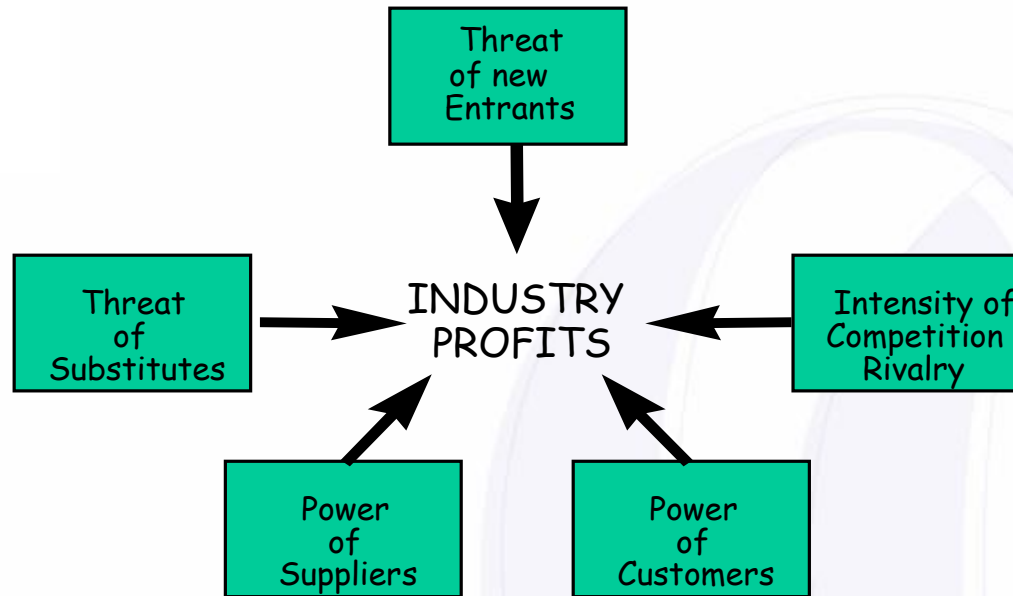
Thomas L. Wheelen & J. David Hunger "strategic management & business policy" 10th edition, Prentice Hall

Macro-environment frame

Area	Factors
Sociological	demography-lifestyle-education-social class-attitudes-reference groups
Legal	Competition law – employment law –customer protection law –environmental protection law – contract law
Economic	Business cycles –exchange rate –interest rate –inflation rate –GNP trends
Political	Taxation –pressure group –political orientation – trade union strength
Technological	Technological advances
Cultural	Language-dress- working hours

Porter's 5 Forces

RESPONSE TO THE COMPETITIVE FORCES ACTING ON AN INDUSTRY



- They will bring extra-capacity
- They have to make an investment to break the market


- The threat of the new entrant depends on 2 factors
 - :
 - =Strength of entry barriers
 - =Response of existing competitors

What are the barriers to entry in the industry?

- Economies of scale
- Product, brand & service differentiation
- Capital requirements
- Cost of switching
- Access to distribution channels
- Patents
- knowledge
- Brand loyalty
- Know how



The threat of substitute


- Indirect competition
 - Similar products used in other “industries
 - Advances in technology allows companies to develop substitute
 - Video versus CDs
- 

The bargaining power of customers

- Volume & importance of purchase
- Switching cost
- Existence of substitute
- Threat of backward integration
- Nature of products
- Customer knowledge
- Product quality




The bargaining power of suppliers

- Number of suppliers
 - Threat of new supplier
 - If the suppliers products are vital or not
 - If the suppliers products are well differentiated
 - Number of customers relative to suppliers
- 

Rivalry among current competitors

Strength of competition depends on the followings

- Large number of equally balanced competitors
 - The rate of industry growth
 - High fixed cost
 - Exit barriers
- 

Managing Different Culture



-It is the sum of beliefs , customs , norms , knowledge to which people are exposed in their social conditioning

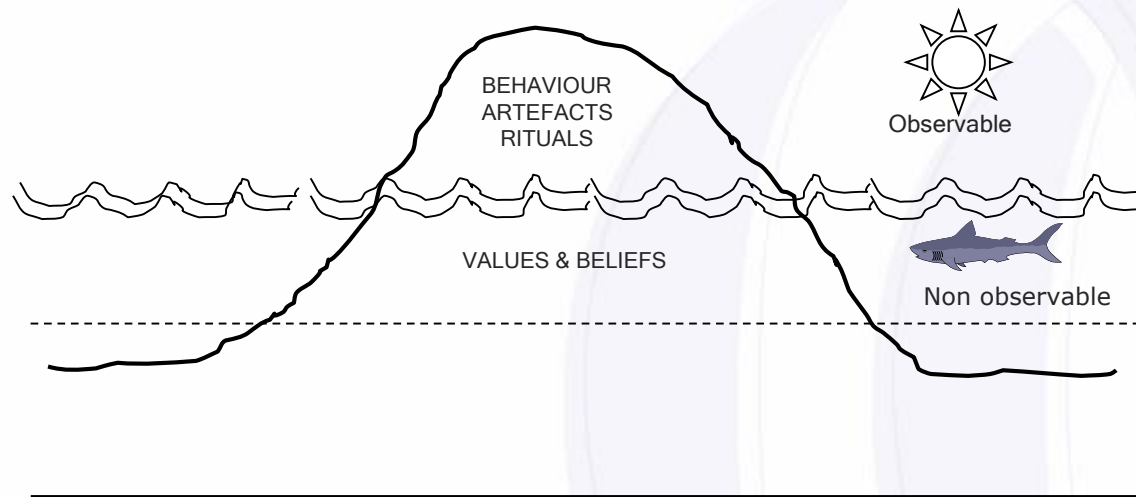


Table 5.1

A Sampling of Cross-Cultural Behavioral Differences


Country	Behaviors Viewed as Rude or Otherwise Unacceptable
Japan	Talking about price during negotiations
Finland	Standing with your arms folded across your chest
Belgium	Talking with your hands in your pockets
Egypt	Showing the sole of your shoe (as when legs are crossed)
Zambia	Pointing directly at someone or something
France	Chewing gum, yawning, or conversing loudly in public
Hong Kong	Blinking conspicuously during conversation
India	Expressing anger
New Zealand	Using toothpicks or chewing gum in public
England	Pushing your way in front of others standing in a line
Sri Lanka	Touching, leaning on, or sitting on an image of Buddha
Thailand	Stepping on a doorsill when entering a building

Source: "Gestures Around the World," Web of Culture, www.webofculture.com/worldsmart/gestures.html, July 5, 2001.


Hofstede's Cultural Classification Scheme



The degree of inequality among people that is viewed as being equitable

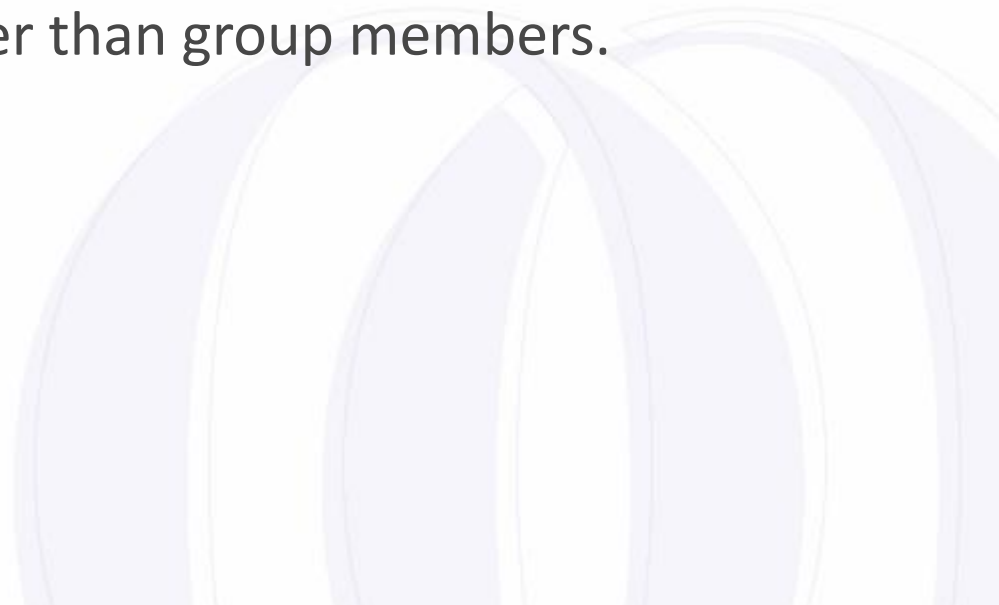
The background features a light blue gradient with several overlapping, semi-transparent white arches that resemble stylized domes or tunnels. At the bottom of the slide, there is a decorative border of vibrant green grass blades.

The extent to which people in a given culture prefer structured situations with clear rules over unstructured ones

The background features a series of overlapping, light blue, semi-circular arches that create a sense of depth and structure. At the bottom of the slide, there is a decorative border of vibrant green grass blades.

Individualism

The degree to which people prefer to act as individuals rather than group members.

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Individual/Collective

Asian cultures more
collective

U.S. culture more
individualistic



The importance of “male” values (assertiveness, success, competitive drive, achievement) versus “female” values (solidarity, quality of life).

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Future versus past and present orientations

The background features several overlapping, light blue, semi-circular arches that create a sense of depth and movement. At the bottom of the slide, there is a decorative border of vibrant green grass blades.

Country	Power Distance ^a	Uncertainty Avoidance ^b	Individualism ^c	Masculinity ^d
Australia	7	7	2	5
Costa Rica	8 (tie)	2 (tie)	10	9
France	3	2 (tie)	4	7
West Germany	8 (tie)	5	5	3
India	2	9	6	6
Japan	5	1	7	1
Mexico	1	4	8	2
Sweden	10	10	3	10
Thailand	4	6	9	8
United States	6	8	1	4

^a 1=highest power distance
 10=lowest power distance
^b 1=highest uncertainty avoidance
 10=lowest uncertainty avoidance
^c 1=highest individualism
 10=highest collectivism
^d 1=highest masculinity
 10=highest femininity

1-Risk taking culture

2-Profit centered culture

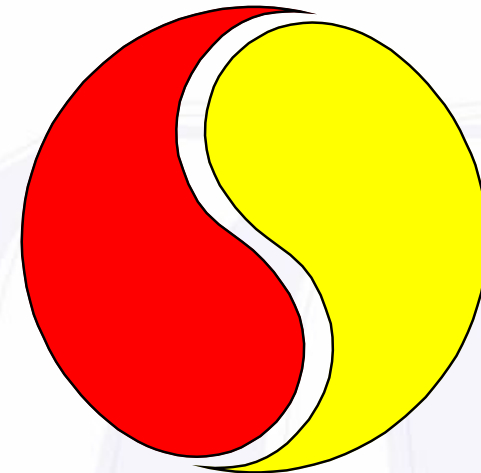
3-People centered culture

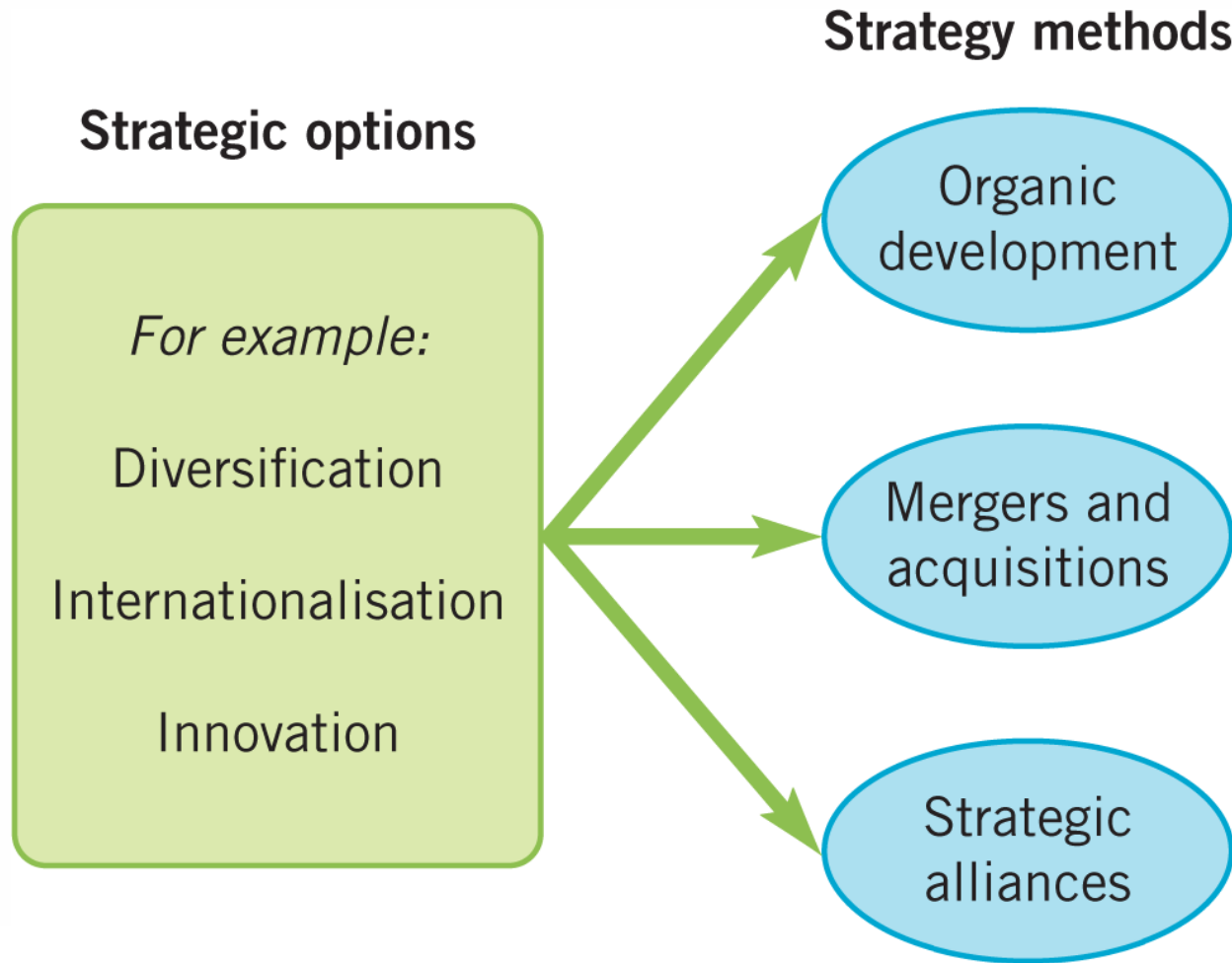
how to save your job?



Social responsibility

- It is the obligation of any organization to increase its positive effects and decrease its negative effects on the society





1. Organic Development

- Use current resources and capabilities as a foundation for creating the capabilities required to pursue the selected strategic choice..
- In practise, most firms pursue the majority of their strategic alternatives in this manner. For a long time, Apple did not engage in mergers and acquisitions or strategic alliances.
- Five major advantages to organic development:
 1. knowledge & learning. Organic development is likely to enhance organisational knowledge and learning, and better than (for example) strategic alliances.

- 2. Spreading investment over time.** The investment necessary to pursue a strategic option is spread out throughout the course of the project, whereas acquisition (for example) is done all at once. Organic development also permits the project to be stopped or changed mid-stream.
- 3. No availability constraints.** Organic development is not dependent on identifying suitable strategic alliances partners, or acquisition target.
- 4. Strategic independence.** No compromises necessary as with, probably, strategic alliances or M & A.
- 5. Culture management** Changes connected with pursuing strategic options may occur inside current culture, making them easier to manage and reducing the danger of culture conflict.

- Organic development can be **slow, expensive** and **risky**.
- **Slow**: strategic alliances, or mergers & acquisitions, will allow for rapid gains in capabilities, access to markets, etc.
- **Expensive**: developing own capabilities can be an expensive way of doing things.
- **Risky**: moving into areas where the organisation does not have expertise can be risky; in this respect, strategic alliances, or mergers & acquisitions, can be lower risk.

- **Acquisition:** purchase of a majority of shares in a target company, hence gains control.
- **Merger:** combination of two separate organisations to create a new company.
- For purposes of strategy, the difference is comparatively minor.
- Two areas to consider in relation to mergers and acquisitions:
 - **Motives**
 - **Process**

- **Motives** for Mergers and Acquisitions

1. Strategic motives

- Strategic motives for M&A involve enhancing the competitive advantage.

- 3 categories:

- **extension:** Use of mergers and acquisition to extend the reach of the organisation in terms of markets or products.

- **consolidation:** M&A is used to consolidate the industry by purchasing competitors. enhanced market share and hence power; enhanced efficiency through reduced overcapacity or resource sharing; or increased negotiating leverage over suppliers. Particularly suitable for mature industries.

- **capabilities:** M&A may enhance an organisation's capabilities. Enables organisation to gain capabilities in an area that would be difficult/slow to achieve otherwise.



•2. Financial motives.

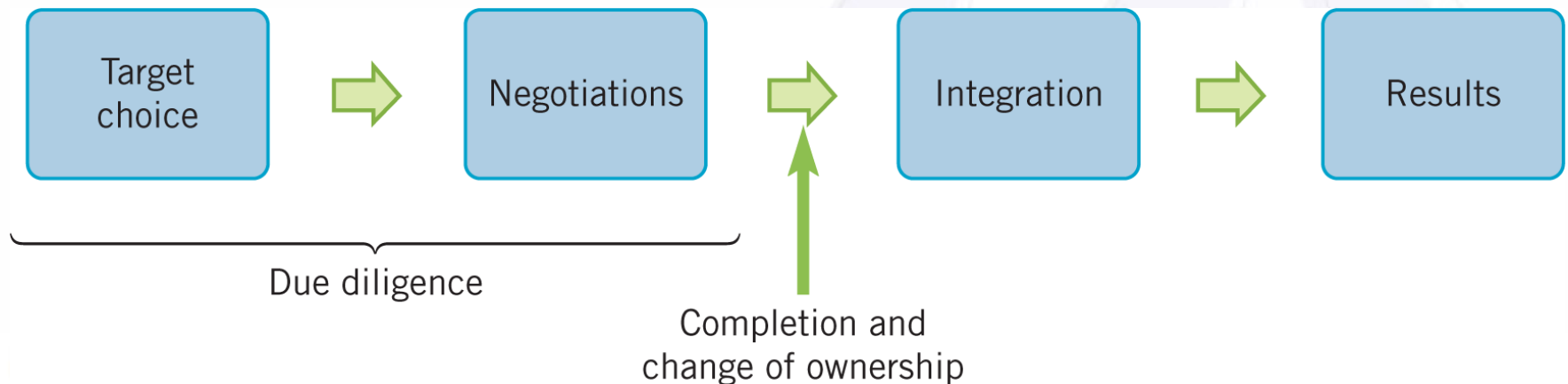
- Rather than strategic motives, the motive for M&A might be financial.
- Financial efficiency.** For example, a cash-rich company can buy a heavily-indebted company; net effect is to reduce interest payments.
- May also be able to buy the company cheaply, using its own (highly valued) equity.
- Asset-stripping or unbundling.** Sometimes, a company may be valued (on stock market) at less than the value of the underlying assets.
- Hence, profitable to buy the company and then sell off the underlying business separately.

3. Managerial Motives.

- Need to recognise that M&As are sometimes undertaken to meet the objectives of managers, rather than shareholders.
- **2 main areas:**
- **Personal ambition.** Managers may benefit financially (due to pay being linked to growth or share price targets), or from boost to personal reputation due to media attention.
- **Bandwagon effects.** M&A activity is quite cyclical; some years have very little activity, while others have a lot. If your company does not engage in M&A while everyone else does, you may face criticism. If you do not engage in M&A during times of significant M&A activity, you risk being a target.

Merger and Acquisition Process

- Mergers and Acquisitions **do** take time: they are not as quick as sometimes viewed.
- 3 main phases:
 - Choice of target
 - Negotiating with target
 - Integration of acquired company



- 2 main criteria with respect to choice of target:
 - **Strategic fit.** Does the target firm strengthen or complement the acquiring firm's strategy?
 - Links back to issues relating to synergy (Topic 7)
 - Easy to over-estimate the benefits of synergy – and therefore to pay too much for the target.
 - **Organisational fit.** Is there adequate alignment between the target firm and the acquiring firm in relation to culture, management practices, staff?
 - If alignment is poor, integration is likely to be expensive and long-winded.

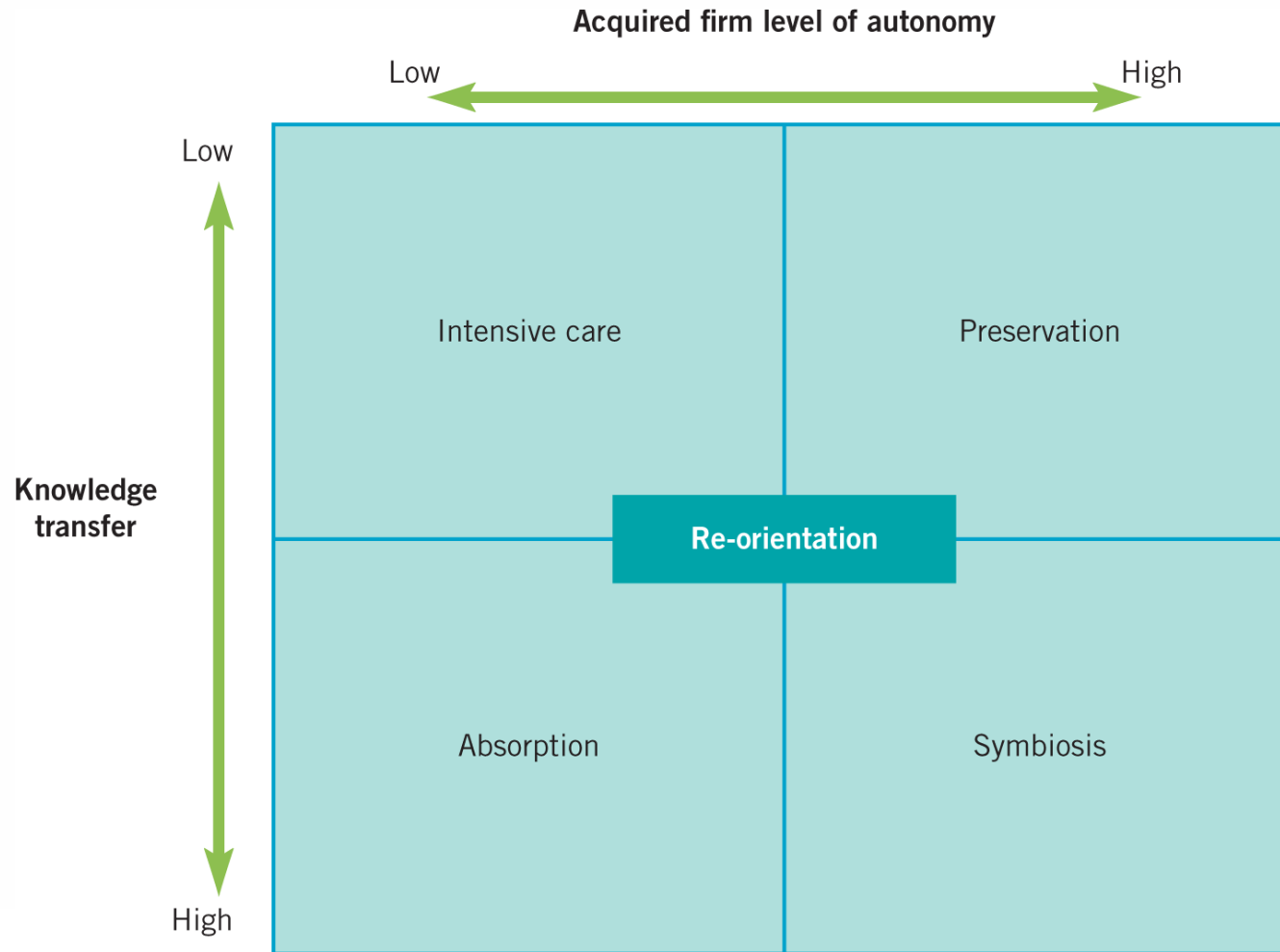
- **Negotiation.**

- **Price:** offer too little, bid fails, management time and effort, reputation, etc., wasted.
- Offer too much, acquisition ends up being unprofitable.
- So what is the “correct price” to offer?
- There is no simple answer, although several financial analyses may be useful. It is also necessary to realise the requirement (typically) to pay a premium above existing market capitalization in order to gain control.
- Plus potential benefits may be strategic: such benefits are not easy to value.
- However, research suggests that the majority of acquisitions are unproductive for the acquirer, either that the purchase price was too high or that the acquisition was not adequately integrated.

- It is not enough to just choose the right target and pay the right price; the purchase must also be integrated in order to generate synergies and other hoped-for benefits.
- Acquisitions may be unprofitable due to poor integration. However, speed is frequently crucial in order to offset the premium paid.
- The most suitable approach to integration depends on:
 - **1. The extent of strategic interdependence.** In other words, how much transfer or sharing of capabilities there needs to be to generate the value from the acquisition.
 - **2. The need for organisational autonomy.** Where the cultures, or management styles, are very different (or where there is significant geographic separation), integration may be difficult.
- In broad terms, the approach to integrating the acquisition, and the speed, will need to reflect these characteristics.

- The two criteria of the **extent of strategic interdependence**, and the **need for organisational autonomy**, result in five alternative approaches to integration, shown on the next slide.
- Absorption**: Appropriate for a high level of strategic interconnectedness but a minimal requirement for organisational autonomy. The acquisition must be integrated, which necessitates swift and significant modifications to the structure, culture, and other aspects of the acquired organisation.
- Preservation**: Appropriate for great organisational autonomy but little strategic interdependence. The acquired organisation is mostly left alone, with little adjustments. Conglomerate acquisitions are appropriate.

M&A Process: Integration



- **Symbiosis** is suited for organisations with a significant demand for organisational autonomy as well as a high level of strategic interconnectedness.
- Difficult because the acquired organisation requires autonomy, yet the advantages of the acquisition necessitate collaboration. It implies that the two organisations are learning from one another.
- **Intensive care** has a low level of autonomy and reliance. Because immediate corrective action is necessary, intense care is labelled, and short-term goals are defined. 'Turnaround' occurrences are common.
- **Reorientation**: In the diagram's centre.
- **Acquisition** is in excellent condition, but there are advantages to be obtained from integrating some sectors. The acquisition's different resources/capabilities result in little operational adjustments.

Integration – importance of organizational justice.

- There will be significant contact and discussion between the (original) organisations, particularly for the absorption, symbiosis, and reorientation methods.
- The acquisition's success will thus be determined by how efficiently the integration process is managed.
- Because of job loss, forced career changes, relocation, project cancellation, and other factors, "organisational justice" is regarded as critical for successful integration.
- Three elements to organisational justice:
 - Distributive justice
 - Procedural justice
 - Informational justice

- **Distributive justice:** the distribution of rewards and posts. Important issue will often be the proportion of senior management posts taken by the acquiring, rather than acquired, organisation.
- **Procedural justice:** the procedures by which decisions are made. Are decisions made with representation from both sides? If not, then justice will not be perceived.
- **Informational justice:** how information is used and communicated. When decisions are explained properly, then those decisions are more likely to be accepted.

- It is critical to understand that mergers and acquisitions are not often one-time transactions.
- Many businesses utilise mergers and acquisitions as a key component of their long-term strategy; it is the primary mechanism by which they acquire new capabilities or shift into new markets and activities.
- To do so successfully, the organisation must be skilled in selecting, acquiring, and integrating acquisitions.
- Examples of 'serial acquirers' in the IT sector include corporations that purchase hundreds of (often minor) businesses.
- Take note of the inverse relationship between purchases and the necessity to exit a firm. If there is no longer a competitive advantage in corporate parenting, the company should be sold.
- The cash acquired can be re-invested in other enterprises or acquisitions; it is not always a failure.

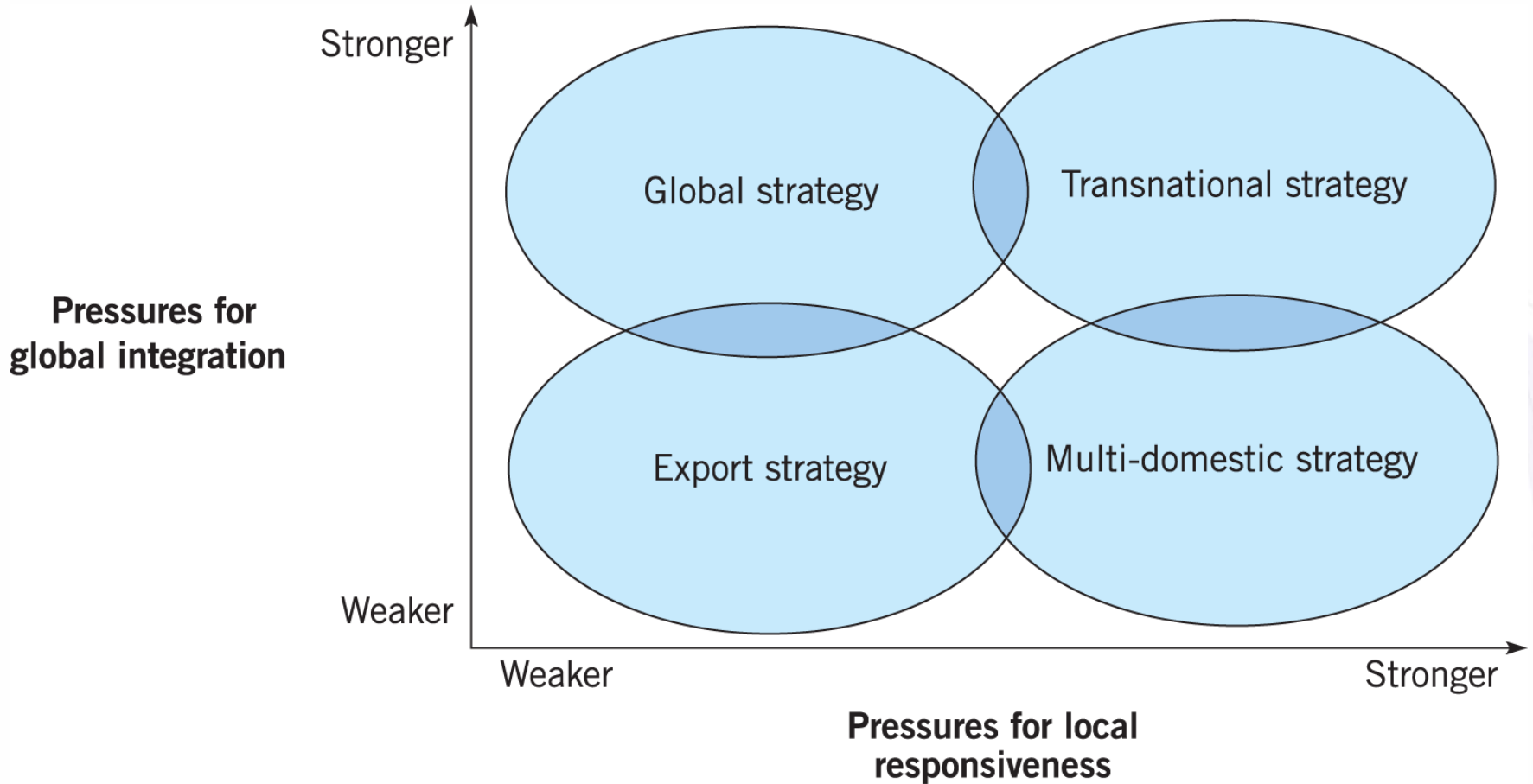
- **Definition:** “a strategic alliance is where two or more organisations share resources and activities to pursue a common strategy.”
- Many businesses have numerous strategic connections. In those conditions, it is necessary to reconsider what "strategy" entails; it is no longer about the success of a single firm, but about the collective success of a network of organisations.
- Collaboration and competition both lead to success. Collaborative advantage is achieved through better managing coalitions than rivals..

Acquisitions, Alliances and Organic Development – evaluation matrix

	Buy	Ally	DIY
High urgency	Fast	Fast	Slow
High uncertainty	Failures potentially saleable	Share losses and retain buy option	Failures likely unsaleable
Soft capabilities important	Culture and valuation problems	Culture and control problems	Cultural consistency
Highly modular capabilities	Avoid buying whole company	Ally just with relevant partner unit	Develop in new venture unit

- In the context of international strategies, there are two major pressures that need to be balanced:
 1. **The pressure for global integration**, in order to achieve high coordination and efficiency;
 2. **Pressure for local responsiveness**, in order to adapt to differences in local demands.
- Summarised as the “**global-local dilemma**”. Too much focus on global integration and efficiency risks not meeting the critical success factors of individual markets.
- Leads to four basic international strategies:
 - **Export strategy**
 - **Multi-domestic strategy**
 - **Global strategy**
 - **Transnational strategy**

Internationalization strategies



- **Export strategy:** suitable for low pressure on global integration and low demand on local response. Uses home country strengths to export standardised products and services.
- **Multi-domestic strategy;** suited for modest global integration pressure but significant local responsiveness pressure. Each nation has different product/market offers to fulfil local demands, with generally separate entities in each country.
- **Global strategy:** suitable for strong emphasis on global integration and minimal demand on local response. Must concentrate on efficiency and create a somewhat uniform product or service. This leads to sourcing and manufacturing wherever the cost is lowest, and then distributing to markets as needed.

- **Transnational**; appropriate for high global integration, high local responsiveness.
- **Complex**. Dispersed units across different countries, responding to local needs. Need for efficiency means that there has to be coordination between units – but the emphasis is on learning and knowledge exchange, with the intention of improving efficiency everywhere.

