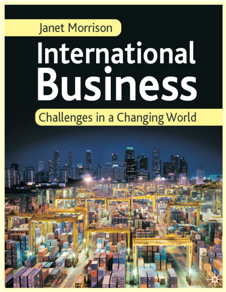

Key Concepts (Pause to Reflect) and Part B Review Questions

Chapter 1: The Business Enterprise in the International Environment

Pause to Reflect

Going international
(page 7)

What are the pitfalls for the national company hoping to expand internationally? How can they be minimized? Give an example of a company you are familiar with, which has succeeded in going international. Do you know of any that have struggled? How did they go wrong?

The pitfalls for the national company wishing to internationalize

- Lack of knowledge about foreign markets
- Foreign exchange risk
- For exporters, the need for more complex transport arrangements.
- Organizational implications, with possible need for an office in a foreign market,
- or perhaps the acquisition of a foreign company in the target market

Minimizing risk

The risks can be minimized by thorough research on possible target locations. Also recommended is an incremental approach, by which the company enters foreign markets slowly, and gradually builds up a presence as its experience increases.

Company Example:

Companies which have succeeded: many MNEs could be mentioned, including car manufacturers, consumer goods companies, pharmaceutical companies and retailers. Some of these have struggled in particular markets. Wal-Mart (e.g., Case Study 3.2) can be highlighted as an example of a company that has struggled, partly because of failure to appreciate the differences in markets.

Comparing local, national and international businesses
(page 8)

Think of a business enterprise in each of these three categories with which you are familiar. Compare them in terms of organization, customers and products.

It is up to the individual student to put forward examples.

For each, organization, consumers and products should be discussed. For example, you could select a local restaurant, a national bank and an international mobile phone manufacturer.

Students at this stage may not know much about the firm's organization, and need some help. However, there is a discussion of some basics of organizations in this chapter, which should provide a foundation.

The global entrepreneur
(page 12)

It is arguable that entrepreneurship is more crucial for success in international business than for success at national level. Why?

Begin by identifying the elements of entrepreneurship. They include identifying new opportunities, providing innovative products and services, finding sufficient resources/backers, and being willing to undertake moderate risk. The statement suggests that these characteristics are more crucial for international businesses. One reason is that competition is fiercer at the international level. In many sectors, such as computing and electronics, innovative new products are crucial to success. Young 'born-global' firms have an international and entrepreneurial approach from the outset. For established firms to remain successful internationally, they must sustain an entrepreneurial approach, constantly looking for new opportunities.

Who controls the company?
(page 16)

How are the following types of company likely to differ in terms culture and strategy? In your view, which are most likely to develop successful international strategies? ● the private company ● the state-owned company ● the public company in which a single family exerts control ● the public company with diverse shareholders, none owning more than 10% of the equity

– *The private company* – Usually family or insider dominated, the private company's culture and strategy are dictated by the dominant owners. This type of company is likely to be inward-looking and conservative. Many, however, have become outward-looking and expansive, often by bringing in managers from outside with new ideas and broader horizons. Many Scandinavian companies remain private, and are highly competitive globally.

– *The state-owned company* – The state-owned company tends to be bureaucratic and bound by procedure. These companies often have monopolies in their national environments, for example, in resources, energy and telecoms. With no competition, they have little incentive to be innovative, look to efficiencies or seek to improve consumer services. Although they are perceived as focused on national priorities, state-owned companies have increasingly become major players in international business and finance. Their huge assets and recourse to public funding have made them formidable forces, active in many industries.

– *The public company in which a single family exerts control* – This company is similar to a private company in that the family maintains a strong grip on culture and strategy. Minority shareholders have little influence. However, the public company does have some traded shares, and it must meet disclosure requirements for financial and other information. Public companies are also required to abide by corporate governance rules laid down by national authorities. These usually include the inclusion of independent (non-executive) directors on their boards, although their selection is controlled by senior management.

– *The public company with diverse shareholders* – In this company, the shareholders with the largest holdings are likely to have seats on the board. The CEO and senior managers are kept on their toes by the need to maintain and improve financial performance, especially because some active investors are likely to be among the diverse shareholders. This company seeks international expansion to remain competitive. Its shareholders, many of whom could well be foreign, expect international success, and tend to punish managers when foreign investments go wrong.

– *Which is likely to develop successful international strategies?* Successful international businesses fall in all these categories, but the last one, the public company with diverse shareholders, is possibly under the greatest pressure to compete globally, and certainly has greater mechanisms for accountability of managers.

How effective are centralized functions?

(Page 21)

Looking at HRM, marketing and R&D, what are the advantages of decentralization for the MNE with operations in a number of different countries? What are the pitfalls?

– *HRM (Human Resource Management)*: Centralization brings benefits of consistent policies and strategy across different locations. It also promotes a strong focus on overall corporate goals. When staff are appointed directly a central HR department, they will bring more of an overall perspective of corporate goals than staff appointed by local subsidiaries, for whom local issues loom large. This highlights a pitfall, however, in that centralization tends to underestimate local differences in workplace norms and culture, as well as understanding of local environments. Too centralized HRM could lead to disenchantment on the part of workers in countries where the culture is radically different from that of the parent company's home country. These workers might feel their needs are not being sufficiently taken into account, which could undermine performance.

– *Marketing*: A global marketing strategy is a key feature of centralized marketing, which is disseminated to the different country markets. This is beneficial for companies with strong global brands, and allows the company to use the same advertising campaign in all locations, bringing cost benefits. A pitfall is that it takes little account of country differences. Country markets differ in their consumer environments, preferences for products, distribution systems and marketing communications.

– *R&D*: Traditionally, companies concentrate R&D at the centre. This has been true of the large western MNEs which have been at the forefront of cutting edge research. High costs in developed economies have been a factor in encouraging these companies to look to other locations for R&D. Emerging economies, such as India and China, now have large numbers of skilled researchers, and have attracted significant R&D activity. This decentralization benefits from lower costs and proximity to these growing markets.

Governance models

(page 22)

What are the advantages and disadvantages of the shareholder and stakeholder models of corporate governance? In your opinion, which is preferable and why?

- *Shareholder model:* The notion of 'advantages' depends largely on your point of view. For shareholders, this model is advantageous in theory, as it emphasizes maximizing value for them as owners, whose interests are the focus of the single-tier board. Although the board tends to be dominated by senior managers, the presence of non-executive directors aims (in theory) to oversee shareholder interests as a whole. This model could be seen as disadvantageous in terms of other stakeholders, and also other goals, such as environmental concerns.
- *Stakeholder model:* This model, while it aims to take into account other interests than owners, in practice focuses on employee interests. The supervisory board contains a proportion of employee representatives, usually representing the major trade unions. It is arguable that under this model, there is a risk that labor union interests can take precedence over the interests of the enterprise as a whole.
- Students are invited to express a view on which of these is preferable. There will probably be supporters on both sides, which could lead to a mini-debate. This type of discussion of pros and cons will not come down conclusively on one side or the other, but it serves the purpose in making people look at the arguments on both sides

Co-operate or go it alone?

(page 27)

For the company seeking international links short of the radical step of acquiring a foreign company, what possibilities should be explored in terms of alliances, networks and joint ventures?

Alliances, networks and joint ventures all offer the possibility of tapping into knowledge and expertise which can benefit the company in achieving its corporate goals.

- *Alliances* with one or more other organizations can be in a number of areas, such as R&D, distribution and product design.
- *Networks* are often more fluid and informal, offering means by which participants from different organizations can share ideas and experience. These are beneficial to companies aiming to internationalize, but whose managers and other staff have little international experience.
- The *joint venture* is a more formal arrangement, but still benefits from the sharing of risk with one or more other partners, whose inputs (such as expertise and local knowledge) will improve the chances of success in new markets.

Government for better or worse

(page 31)

Consider the government of the country in which you live. Look at each of the following areas, and assess whether or not governmental policies and laws are serving businesses and consumers well. What changes would you recommend?
● Taxation ● Health and safety at work ● Environmental protection ● Corporate governance

Responses will depend on the student's home country. Governments in developed countries will diverge from those in developing or emerging economies. In addition, authoritarian governments (often characteristic of developing countries) diverge from democratic governments. The topics – taxation, health & safety at work, environmental protection and corporate governance – are all ones which will feature in the rest of this book. Some students (for example, master's degree students) may have foundation knowledge in these areas. However, most will not, and will respond in terms of personal perceptions and experience. At this stage, this type of reflection is nonetheless helpful, as it raises the issues which governments everywhere must deal with. Here are some prompt questions to get your discussion going:

- Are the government's taxation policies perceived as fair by citizens?
- Does the government try to improve standards of health & safety and environmental protection?
- Is the country a good place to live for employees and consumers?
- Are companies governed for the benefit of 'insider' owners or the state? Or are they accountable to a range of stakeholders?

MNE responses to external influences

(page 34)

To what extent, in your view, do MNEs risk losing sight of their primary role of achieving enterprise goals, when seeking positive relationships with both business partners and other key players in the international environment, highlighted in this chapter?

First identify the main business, society and government relationships referred to in this question. Most would agree that MNEs risk losing sight of enterprise goals as they strive to manage external relationships, co-operate with governments and respond to pressures for CSR (Corporate Social Responsibility) and environmental strategies. A distinction can be drawn between corporate goals and the means of achieving them. International managers may have clear ideas of what their broad long-term goals are, but have difficulty in finding the best means, best alliances and best locations to achieve them. An increasingly important issue is that goals, once thought to be simply about profit maximization, are now becoming more blurred, as societal and environmental impacts are shifting from being aspects of the means to being aspects of the goals themselves. Some participants might argue that the notion of enterprise goals should now be revised to include non-economic goals. The introduction of these issues at this early stage provides a framework for later discussions, culminating in Part 5.

Part B Review Questions

1. **Entrepreneurs are generally acknowledged to be innovators and wealth creators. However, as Figure 1.3 shows, there are significant differences between countries in the proportion of people involved in start-ups. What are the causes of these differences, and what can government authorities do to encourage more entrepreneurs?**

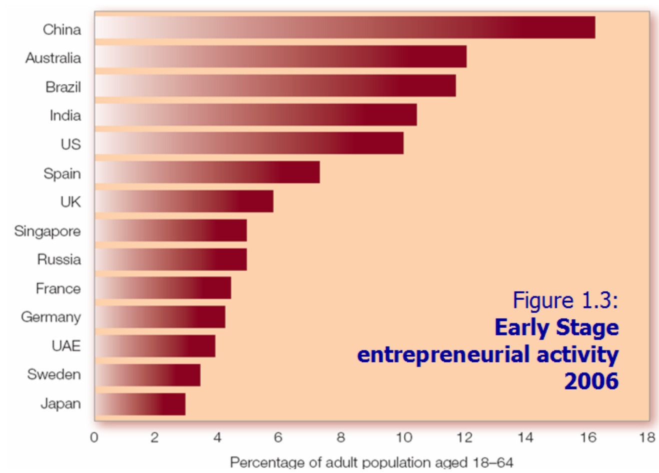

Figure 1.3: **Early Stage entrepreneurial activity 2006**

Figure 1.3 shows large differences in early-stage entrepreneurial activity in different countries. Among those with the highest levels are China and Australia.

On the face of it, these countries seem to have little in common. Hence, there are no simple ways of predicting where entrepreneurs will flourish and how to encourage them. China, India and Brazil are emerging economies, where opportunities are abun-dant and growth rates are high. Increasingly affluent consumers form an attractive potential market for entrepreneurs.

Entrepreneurs therefore see good growth potential in these markets. However, these countries all suffer to a degree from bureaucracy and regulatory burdens, posing challenges for entrepreneurs. By contrast, Australia, also near the top of the chart, enjoys a business-friendly environment in which starting a business is relatively easy. In countries near the bottom of the chart, with low start-up activity, there are both cultural and regulatory causes. In some, such as Japan, working for a large organization is considered more secure and preferable to taking individual risks. For governments, making it easier and cheaper for people to start businesses will help to encourage would-be entrepreneurs. Also needed, however, are educational and training opportunities designed to foster entrepreneurship.

2. **In what ways do ownership profile and control influence a company's culture and strategy? Give some examples from the case studies and strategic crossroads boxes.**

Concentrated ownership, for example, in a founder, family or the state, exerts a huge influence on the company's culture and strategy. An example is Ericsson, dominated by the Wallenberg family. The introduction of an outside CEO was key to strategic changes. PepsiCo has a diverse array of shareholders, but is US dominated. It has expanded internationally more slowly than its rival, Coca-Cola. Volkswagen (in the case study which follows) has suffered from conflicting views of the company pursued by dominant shareholders. It is also helpful to recall the contrast between McDonald's (SX1.1) and White Castle, one of its US rivals, which is a private company (see page 14), now in the third generation of family owners.

3. **Give some examples of stakeholders in international businesses. In what ways do companies take account of their interests, or fail to?**

   First, define 'stakeholder', and identify the main interests included in the term. Stakeholders in international business include employees in different locations where the MNE has operations, local suppliers and customers, and local communities in which the MNE is located. Trade unions are active in many countries, and companies must maintain dialogue with them as employee representatives. In addition, bodies such as governmental authorities are influential. As the country focus on Venezuela highlights, relations with government can be crucial. Economic, social, legal and ethical considerations arise for companies in managing these relations. Moreover, environmental concerns are increasingly seen as stakeholder issues. Residents near a factory may have little organized voice, but increasingly, non-governmental organizations (NGOs) are working with MNEs on environmental issues. Students should glean from this brief list that complex (and sometimes conflicting) interests are involved in stakeholder management for international business. This theme recurs throughout the book, and is developed in greater detail in Part 5.

4. **National governments often seek to shape business behaviour and intervene in the business environment to achieve national economic goals. What such activities by governments are mentioned in this chapter, and are they justified?**

   Some examples from the chapter:

   - Japan's guidance of its companies during the period of rapid economic growth.
   - Venezuela, through state-owned companies in the oil industry; also through legal changes which foreign companies are compelled to comply with, such as the formation of joint ventures with PDVSA.
   - Laws governing the formation/registration of companies; also laws and policies on corporate governance.
   - France's ownership of key utilities
   - The block of VW shares owned by the government of Lower Saxony; also the takeover laws in Germany which are perceived as safeguarding VW against takeover.
   - The banning of Pepsi and Coke in several states in India, due to allegedly excessive amounts of pesticides (CS1.1)
   - Reports that French political leaders resisted any attempts by PepsiCo to take over Danone.

   Views will differ on whether governments have been justified in these and other interventions mentioned in this chapter. Company law and law on financial disclosure help to give the public confidence that companies are run in a legal and transparent manner, especially important if private investors are invited to buy shares. Some government policies have arguably strengthened national industries, such as Japan's industrial policy and France's state ownership of key utilities. Venezuela's aggressive stance towards foreign investors has possibly been harmful; the national oil company has not increased productivity, and foreign investors who could benefit the country are deterred. India's targeting of foreign multinationals seems to reflect, at least in part, anti-American sentiment.