

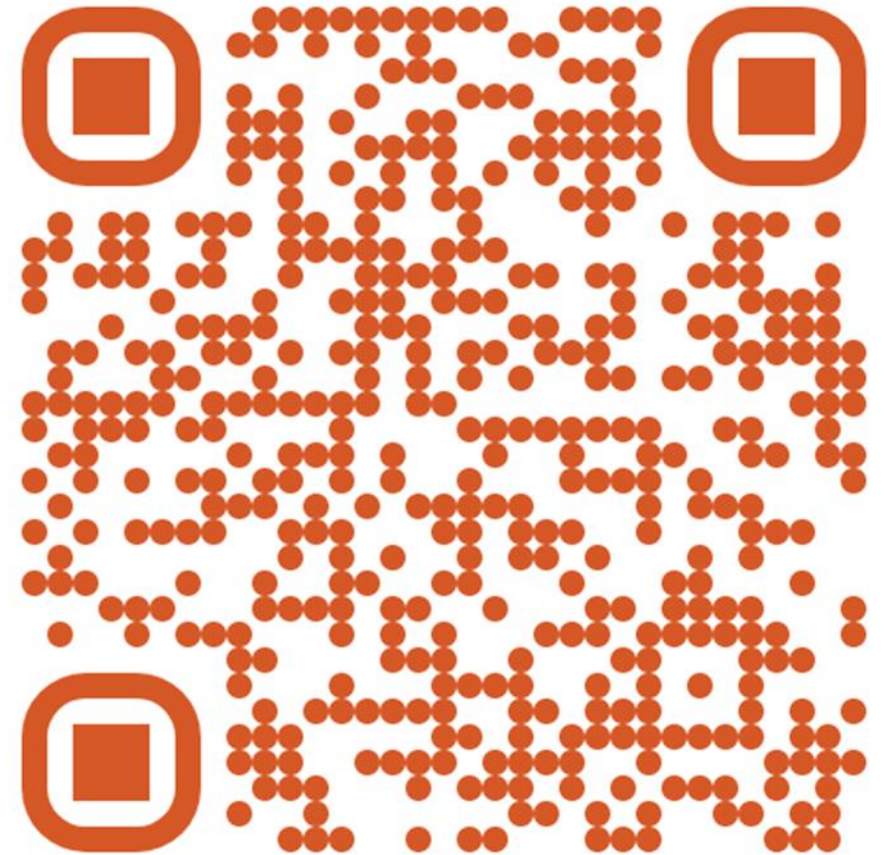
Global Business Environment and International Strategy MOD007191

Lecture 2

Business and Strategy around the Globe

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Recap

Global Business

- It means moving from **local/domestic** to **international**
- Involves the **trade of goods and services**, capital, knowledge and technology **across borders** on a global scale
- The **production or distribution of goods or services in many countries**



Economic Trading Blocs



Apple goes Global

- **Apple opened its first international location in Tokyo, Japan, in 2003**
- 2004- UK
- 2005- Canada
- 2007- India
- 2014- Brazil
- 2015- UAE

What is Globalization?

- The **global circulation** of goods, services and capital, but also of information, ideas and people

(World Bank 2000)

- Creation of **linkages or interconnections between nations**

Hamilton and Webster (2018)

Scholte (2005) identifies five elements:

Internationalization

Liberalization

Universalization

Westernization

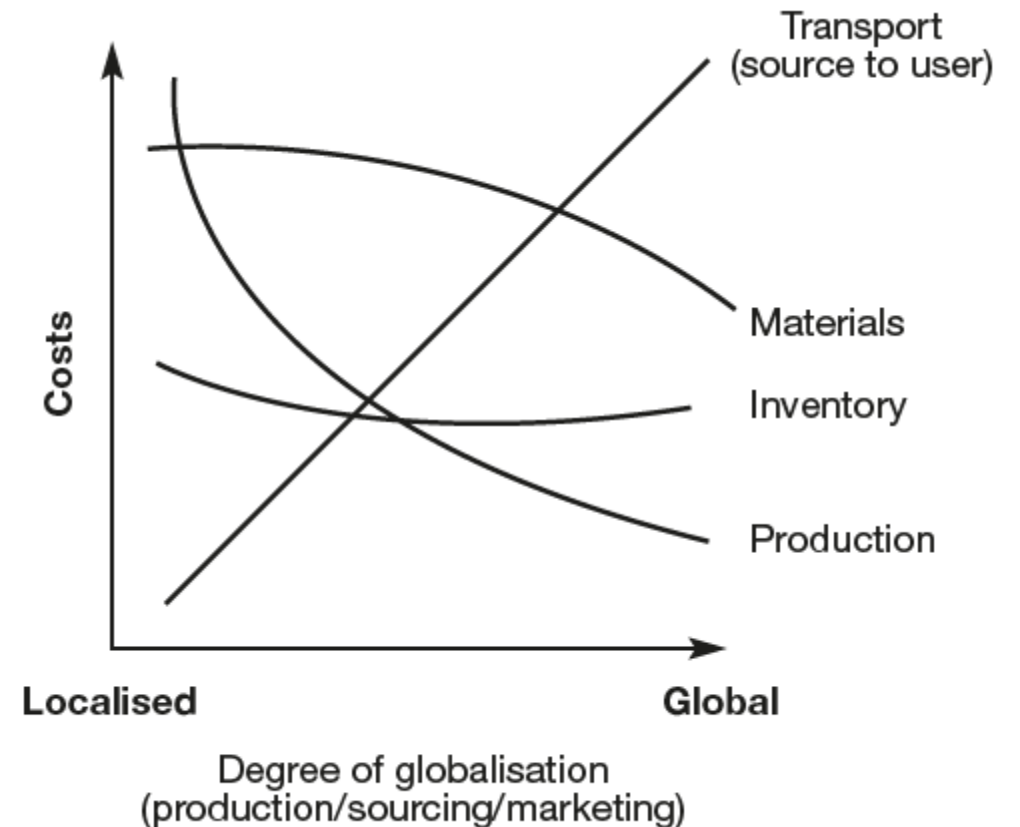
Deterritorialization

Drivers of globalisation

- **Economic:** Growth of international trade, increase in capital, goods and information flows & growth and risk management in emerging markets.
- **Political:** Changing political situations, government policies & emergence of new forms of governance, regionalism.
- **Social:** Rise of a global culture, consumer pressures & domination of media.
- **International/ legal:** Expanded cross-national cooperation/ competition, trade regulations, tariffs & subsidies.
- **Technical:** Application of technology- Digital commerce.

Main Driver of Globalization

- From a production and Distribution viewpoint,
- Globalization offers companies opportunities to simultaneously **grow revenues** and **decrease costs**



Christopher (2013) Trade-offs in global logistics

Barriers to globalisation

- Government regulation
- Tariffs and subsidies
- Controls on Capital
- Border/ Immigration Controls
- Technical Standards
- Protection of Intellectual Property Rights
- Lack of familiarity to the target location/society
- Wrong or misguided perception

Conduit for transfer of Culture

Mass
Media

Migration

Education

Religion

Sport

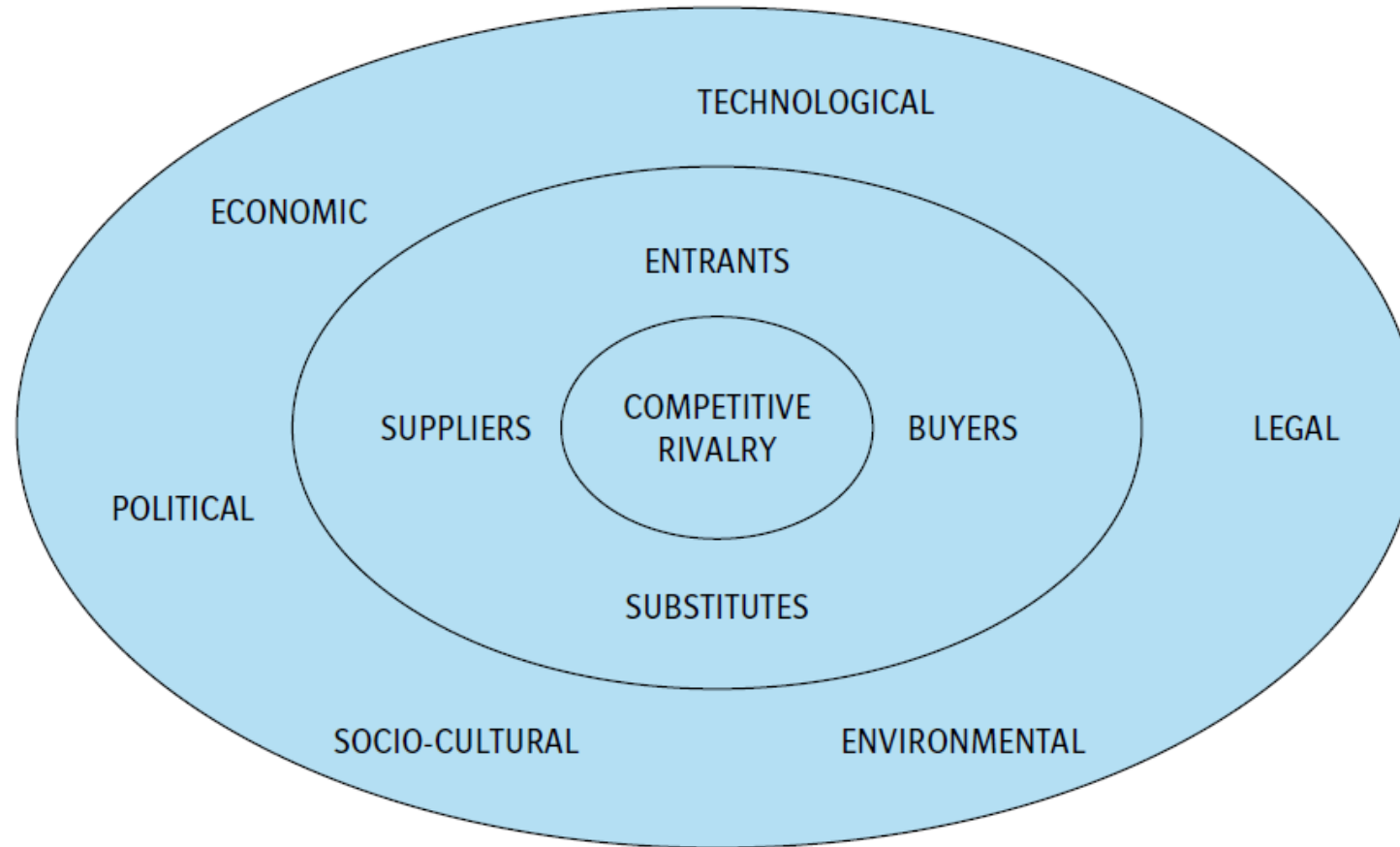
Crime

Health

What is the Global Business Environment (GBE)?

- The GBE has been brought about as a result of Globalization
- When operating in different sovereign countries, firms must align and adapt to the different cultures of each country
- As well as its wider **external environment**
- It is more complex than individual territories
- Think of the trading blocs and Regulatory frameworks they create

Factors of the GBE



From Local to Global Strategy

Why International Trade?

- Some theoretical explanations can be found in:
 - Mercantilism
 - Absolute Advantage Theory
 - Comparative Advantage Theory

Mercantilism

- **Countries should maximize exports**
- Limit imports as much as possible.
- Therefore, **generating a trade surplus**
- $\text{Export} - \text{Import} = ??$
 - Trade Surplus (+ve)
 - Trade Deficit (-ve)

Absolute Advantage Theory

- All countries can gain by **engaging in free trade**- positive sum game.
- **Countries should specialise** in producing the goods in which they are most efficient i.e. in which they have an absolute advantage.
- World output increases and surpluses can be traded.
- Tariffs and quotas should not restrict international trade.

Comparative Advantage Theory

- Based on relative costs of production- one country has a comparative advantage in the production of a certain good if its **opportunity cost in producing that good is lower.**

Multinational Corporations

- An important aspect of globalization has been the market **dominance of the multinational corporation (MNC)**.
- A company is called a multinational if **it functions in its country of origin and has a branch in at least one foreign country**
- Seeking to **maximize profits on a global** rather than national level only
- Initially, characterized by the **production and distribution of a standardized product** or service on a world-wide basis

So How do they do this?

- Offshore Production
- Subsidiaries
- Mergers and Acquisition

So what is a MNC?

- “A firm that **engages in Foreign Direct Investment (FDI)** by directly controlling and managing **value adding activities in other countries**” (Peng 2022, p.4)
- A multinational firm is one that operates and is **managed from bases in a number of countries.**
- **Ownership of assets in a foreign country** is considered a defining feature

Group Activity

Do you believe that firms can be as powerful as nation states?

What arguments and evidence can you bring to support your position?



MNC's-They're bigger than many countries



<https://www.youtube.com/watch?v=vfui9I2Nflc>

Characteristics of a MNC

- Its headquarter in one country
- A branch or subsidiary in at least one foreign country
- There could be several branches, subsidiaries and retail outlets
- The global business operations are managed and controlled centrally, i.e., from the head office located in the home country
- Regional offices abroad manage business operations as per the established norms of the headquarter

Activity- Born Global Companies

- **List 2 Born Global companies**
- These firms **do not seek to follow the traditional growth paths taken by multinationals**, which built up a domestic market before going international.
- Instead, **they either start with a regional or global presence** or acquire one in very little time.



Local Value Chain to Global Value Chain

Why?

- Changes in the global economy
- There is a **shift** away from multinationals using wholly owned subsidiaries to a greater involvement of, **joint ventures and outsourcing using contract manufacturers**
- And **Vertical Specialization**

Vertical Specialization leads to The Global Factory

- A global factory relates to the disaggregation of the production process across a number of different firms in different countries.
- i.e. firms are locating different parts of an increasingly fragmented production process in different countries
- Based on a number of factors including not only access to raw materials and nearness to markets but also the attractiveness of taxation regimes, other regulatory controls, and, of course, the level of wages

T&C Garments Factory Egypt (Levi's)



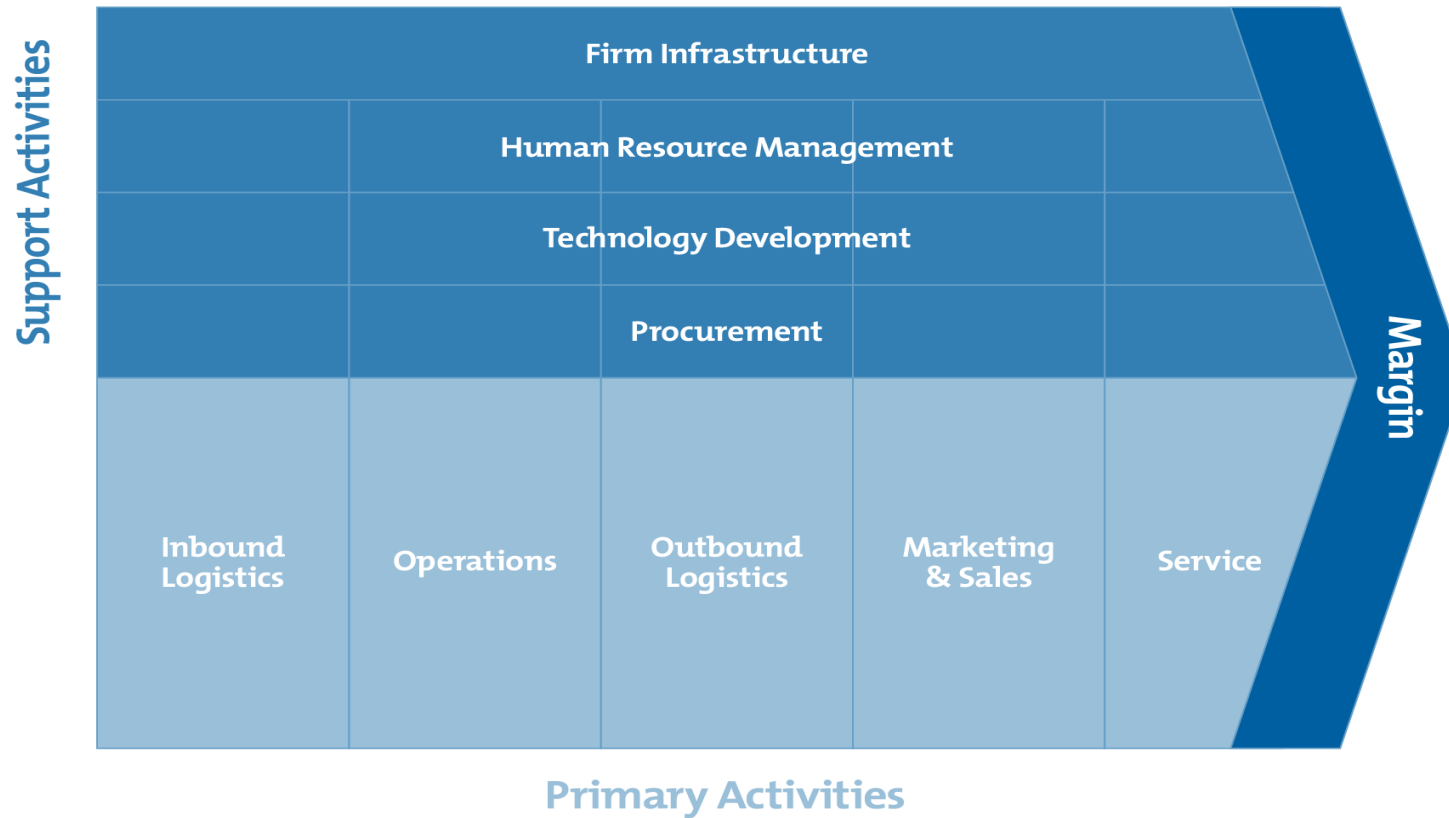
<https://www.youtube.com/watch?v=C1j9ipTFjmw>

- To further understand this shift to Global Value chains, we must delve into the Value Chain Model
- Remember, a MNC **engages in Foreign Direct Investment (FDI) by directly controlling and managing value adding activities in other countries**" (Peng 2022, p.4)

Porter, M.E., 1985 Competitive Advantage, The Free Press

- “Competitive advantage cannot be understood by looking at a firm as a whole
- It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product.
- Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation”

Value Chain Model



Competitive advantage is derived from the way in which firms organize and perform these activities within the value chain.

Primary Activities

- **Inbound logistics**

- Receiving raw materials and/or partly finished goods; storing them; and transferring them to the manufacturing section

- **Operations**

- Producing finished goods from raw materials and/or partly finished goods

- **Outbound logistics**

- Storing finished goods and then distributing them to customers

- **Marketing and sales**

- Promoting the firm's products; soliciting orders from prospective customers

- **After-sales service**

- Maintaining the value of the product to the customer after it has been delivered

Support Activities

- **Firm infrastructure**

- General management; accounting and finance; legal department; health and safety; etc.

- **Human Resource Management**

- Recruiting; training and developing; appraising; career planning; etc.

- **Technology development**

- Research and development, relating to both products and processes

- **Procurement**

- Acquiring the goods and services that the firm needs in order to operate effectively; applicable to both primary and support activities

Implication of Porter's Value Chain Thesis

- Organizations should look at each activity in their value chain
- Assess whether they have a real competitive advantage in the activity.
- If they do not, then:
 - consider **OUTSOURCING** that activity to a partner who can **provide that cost or value advantage**

Outsourcing vs Offshoring

- Outsourcing **relies on an outside vendor** to complete tasks
- Outsourcing **occurs when a company contracts a specific process out to a third party**

- Offshoring is when **production operations are performed in another country**
- Offshoring allows **companies to maintain complete control** over the operation and production of the business

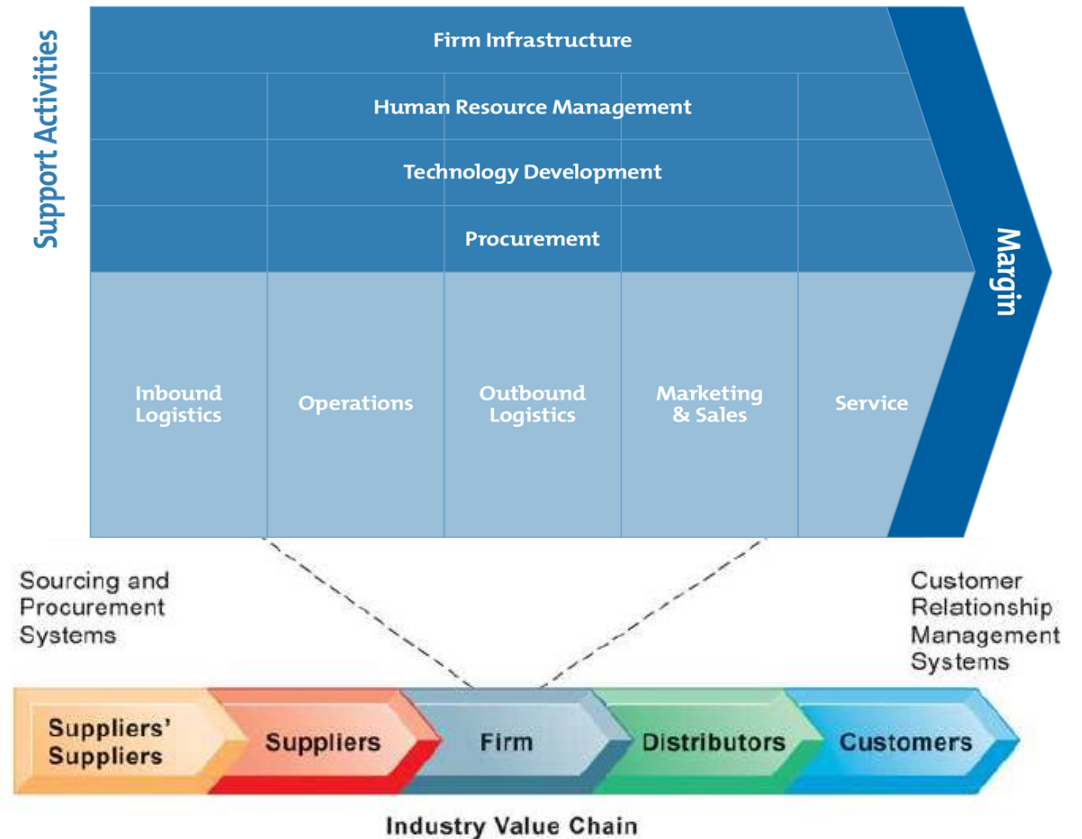


Effects of Outsourcing

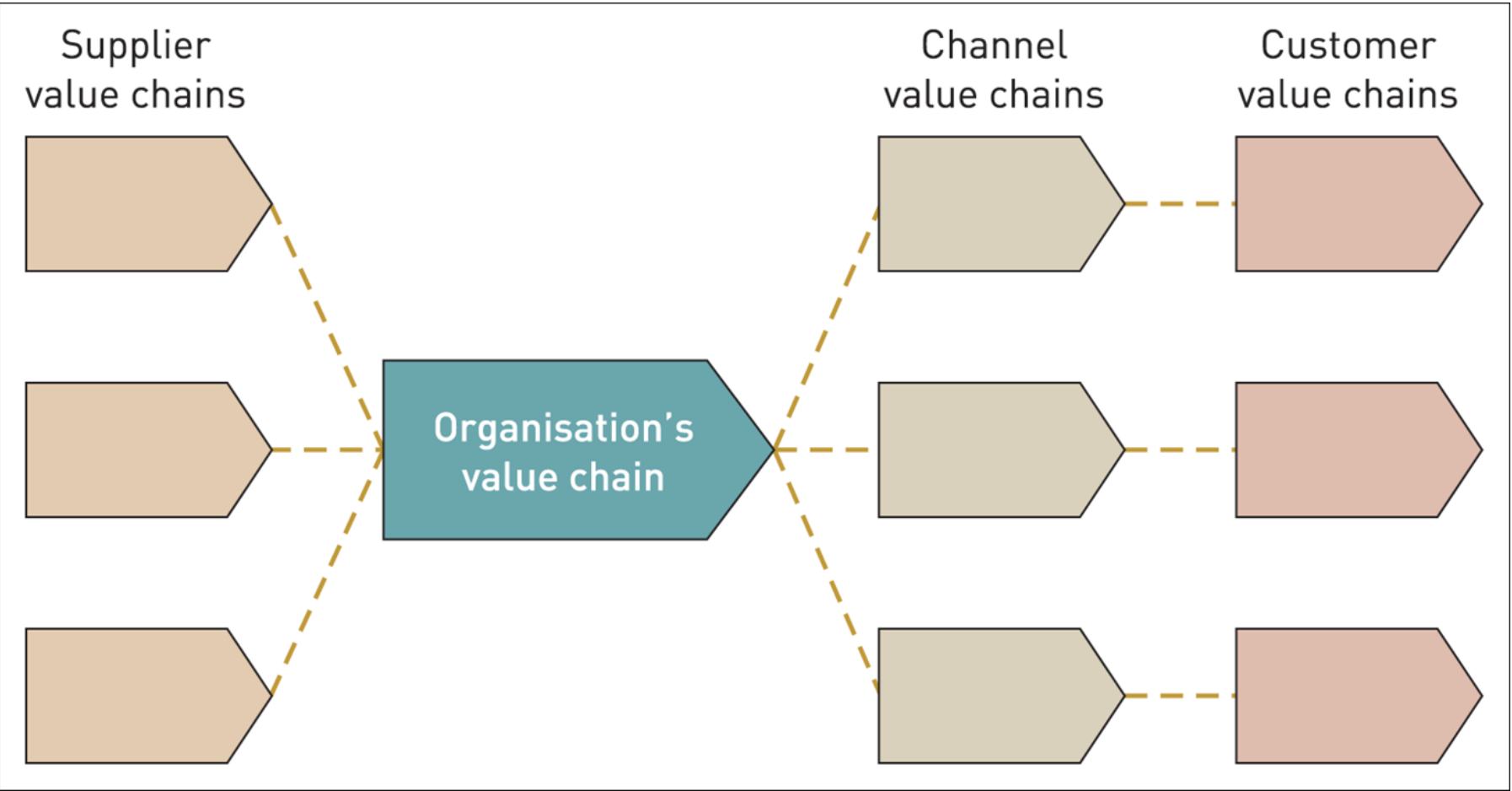
- The **effect of outsourcing is to extend the value chain** beyond the boundaries of the business.
- Value (and cost) is not just created by the focal firm in a network, but by all the entities that connect to each other.
- This 'extended enterprise', as some have termed it, becomes the vehicle through which competitive advantage is gained – or lost.

Extending the Value Chain: The Value Web

- The firm's value chain is linked to the value chains of its suppliers, distributors and customers
- This 'extended enterprise', becomes the vehicle through which competitive advantage is gained – or lost



The value network- Porter (1985, 1998)



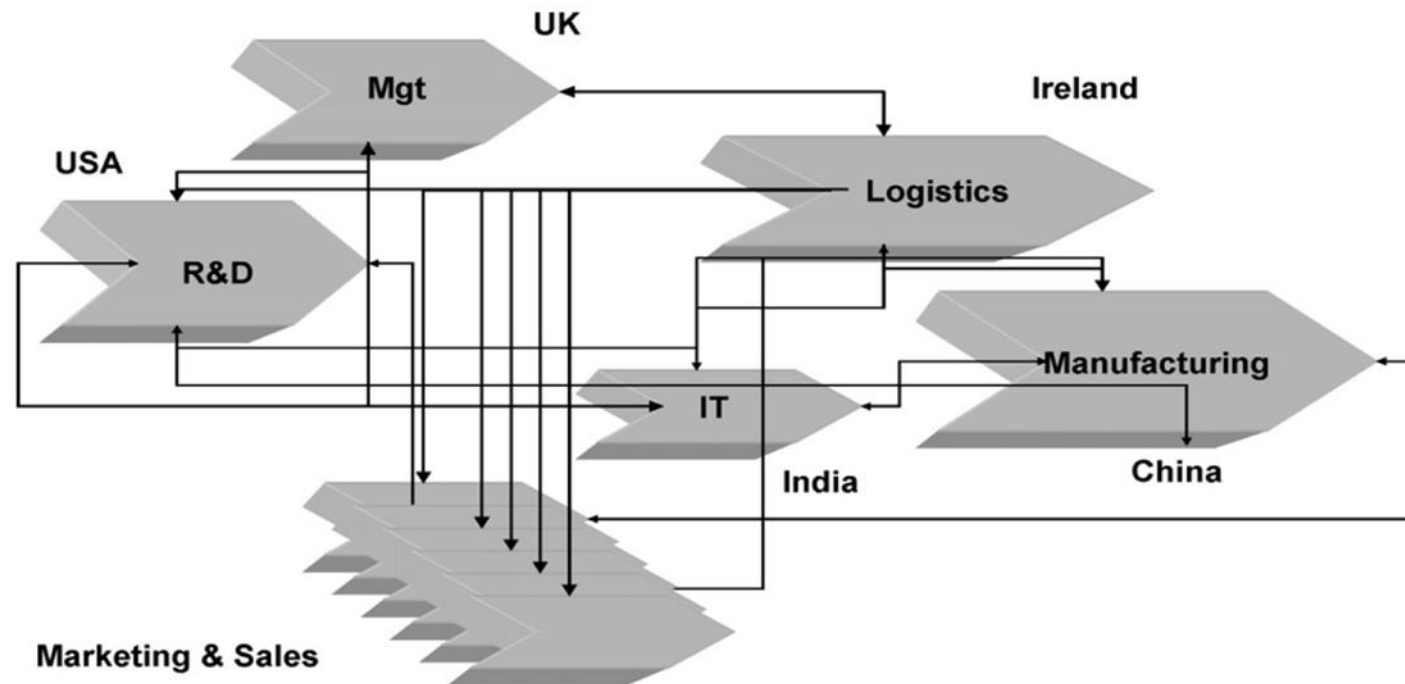
DHL Partnership with Dell Technologies: Direct Shipping



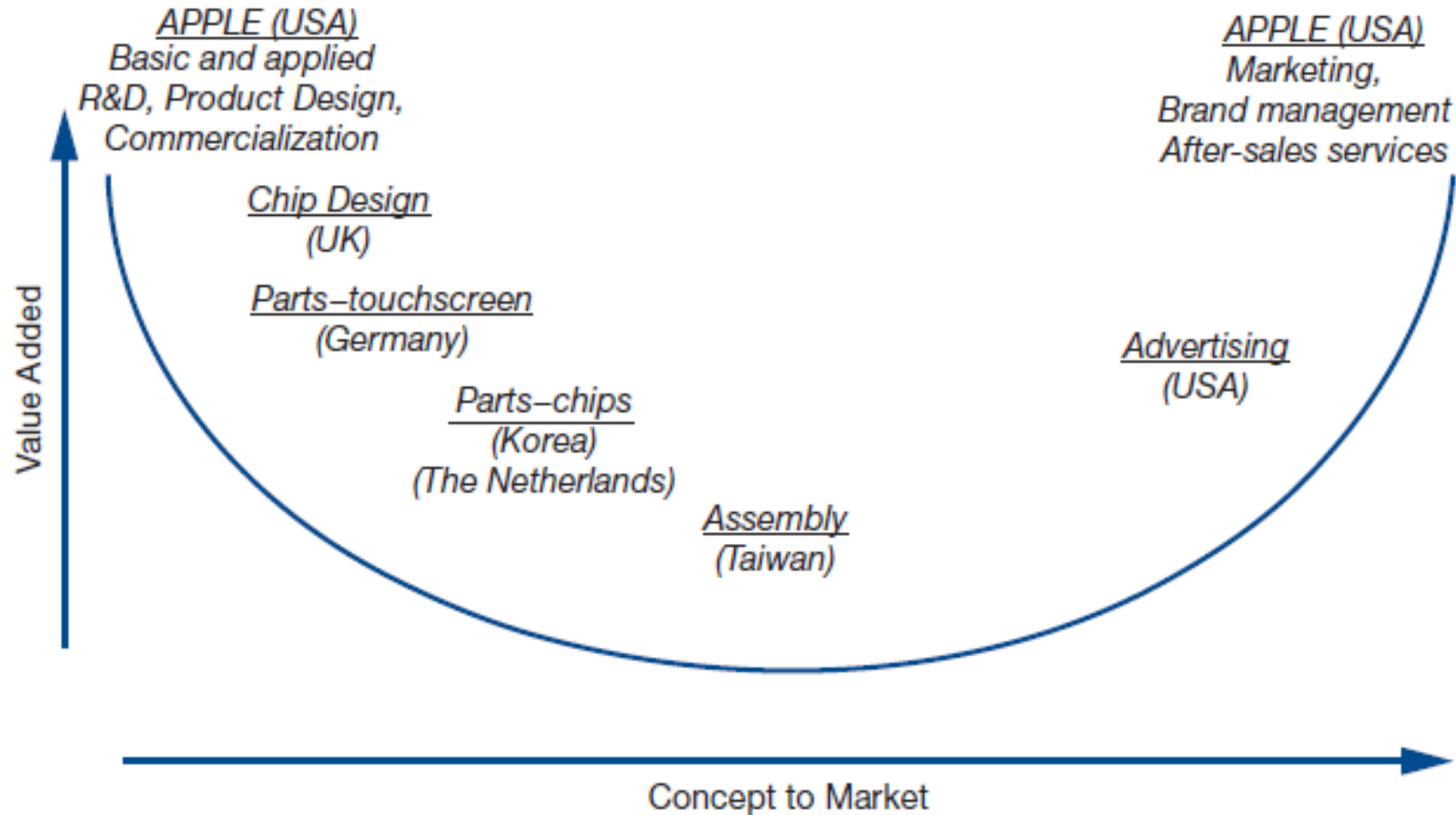
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Global Value Chain (GVC)

- Represents the build up of value along a supply chain made up of a number of international partners



Apple iPhone's GVC

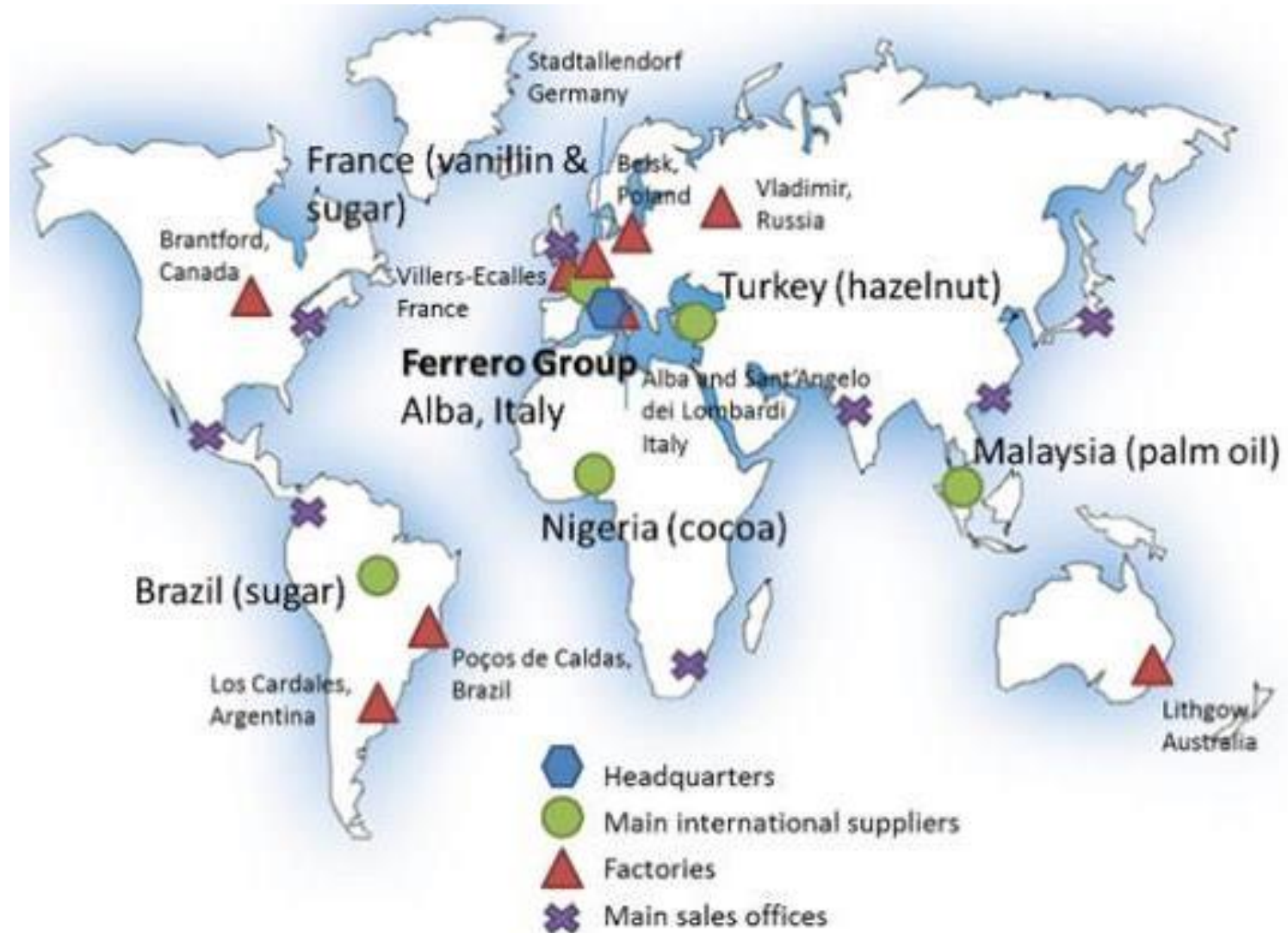


What's the idea?

- We can see from the value chain of the iPhone that **the key value added activities are kept in house** by Apple and include R&D, design, branding and marketing
- The **least value added component is** manufacture, the assembly of the parts, which is **outsourced** either to Taiwan or China, although most iPhones are now assembled in China
- The assembly process represents only about 1 per cent of the cost of the iPhone.

- The MNC retains significant control of the entire process.
- The MNC controls less tangible, high value activities such as design, marketing, branding and management skills and consequently makes it difficult for local firms to compete since these activities are more difficult to copy

Nutella Global Value Chain



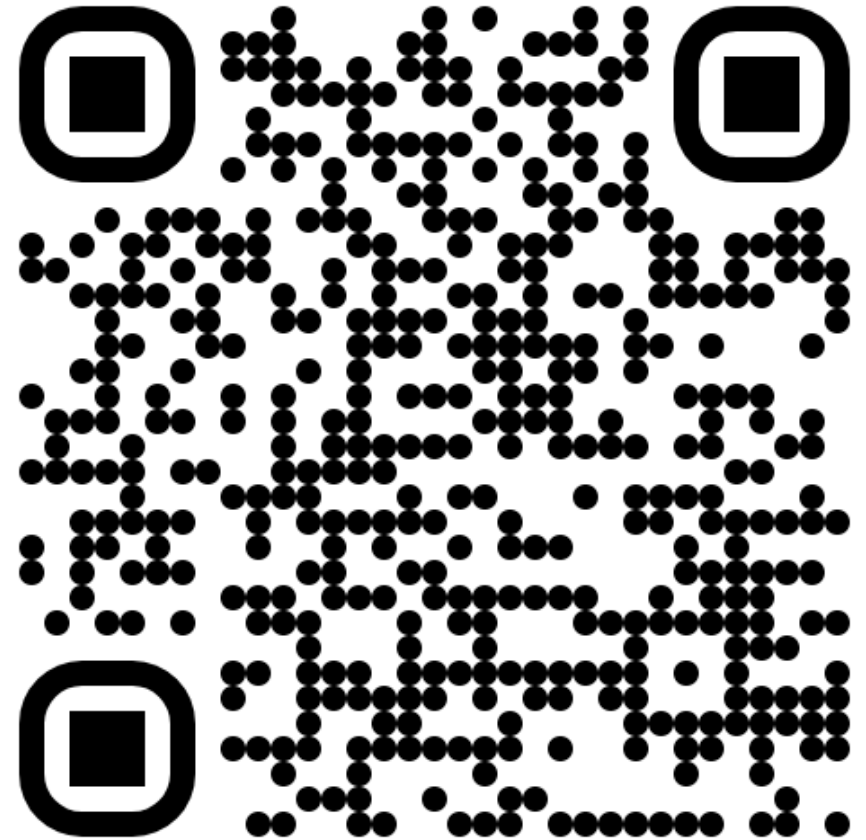
<https://www.thegrocer.co.uk/how-nutella-is-made-study-reveals-global-supply-chain/352954.article>

Activity

MNCs should have their headquarters in the countries where their sales are highest

View Company profiles:

<https://fortune.com/ranking/global500/>





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