

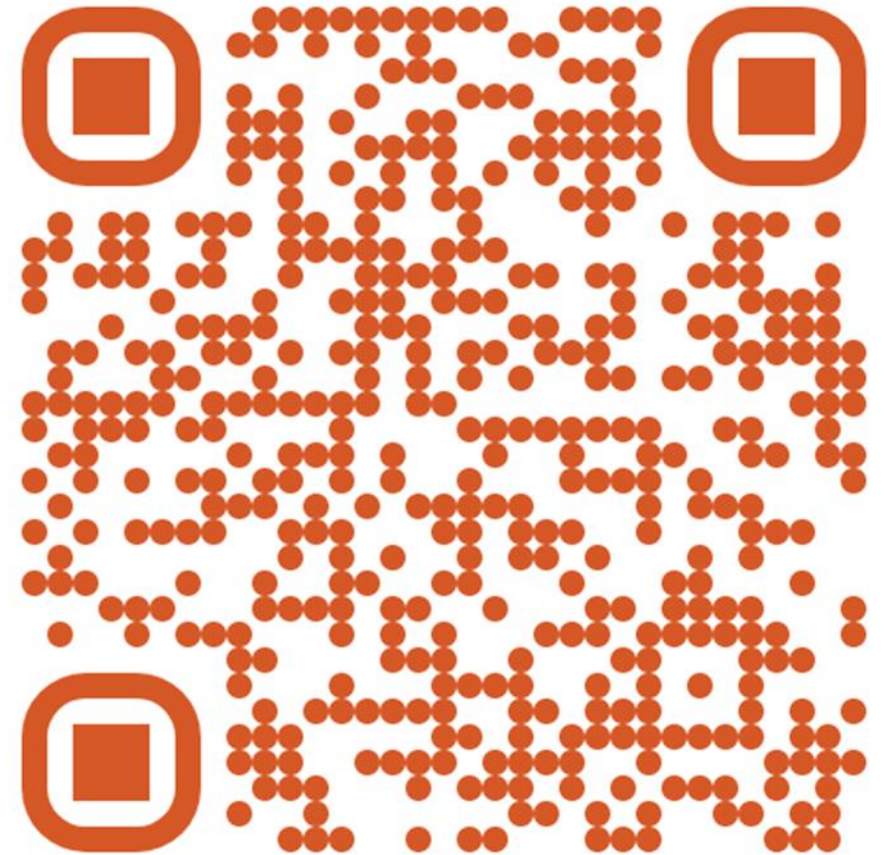
Global Business Environment and International Strategy MOD007191

Lecture 5

The Macro Environment

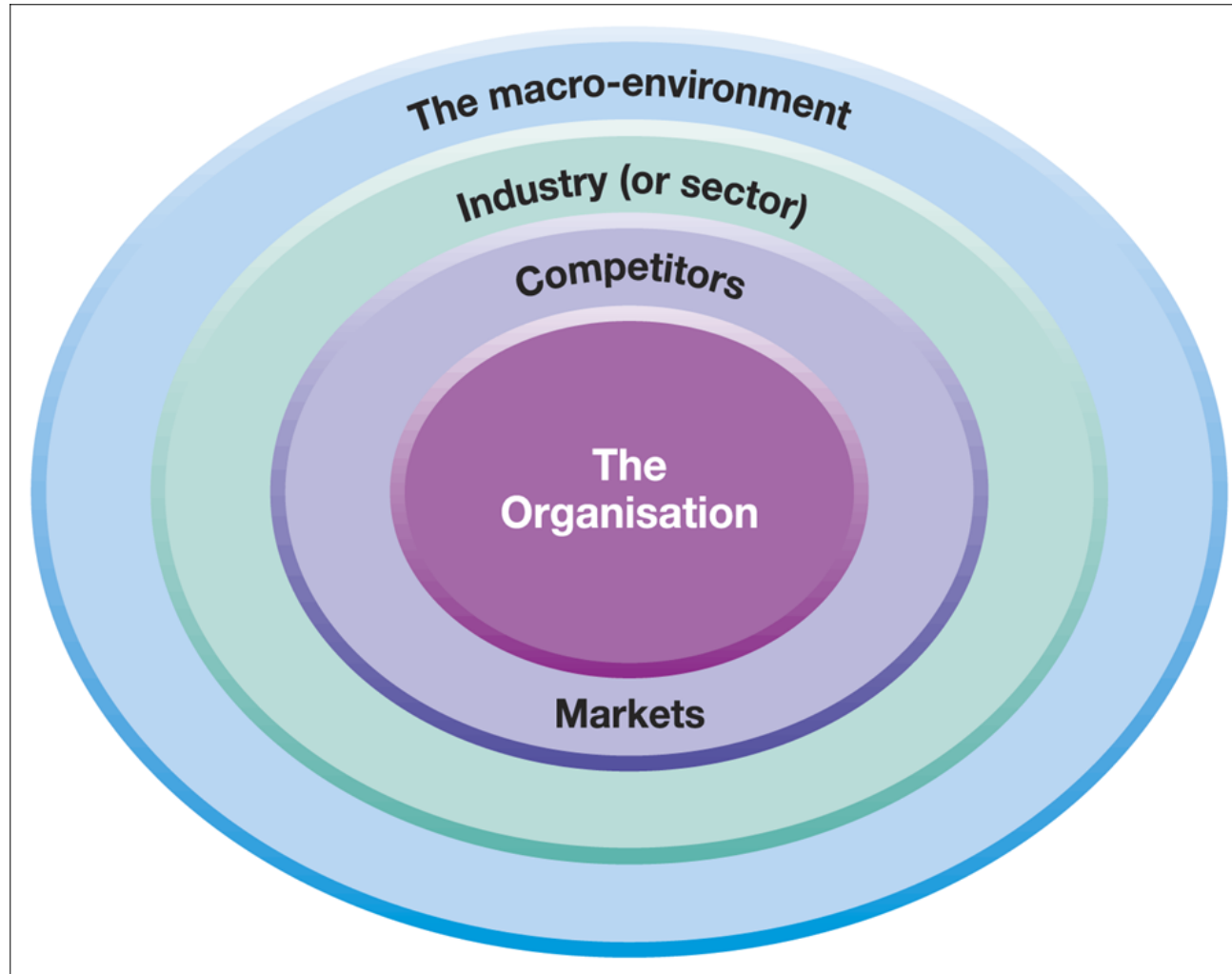
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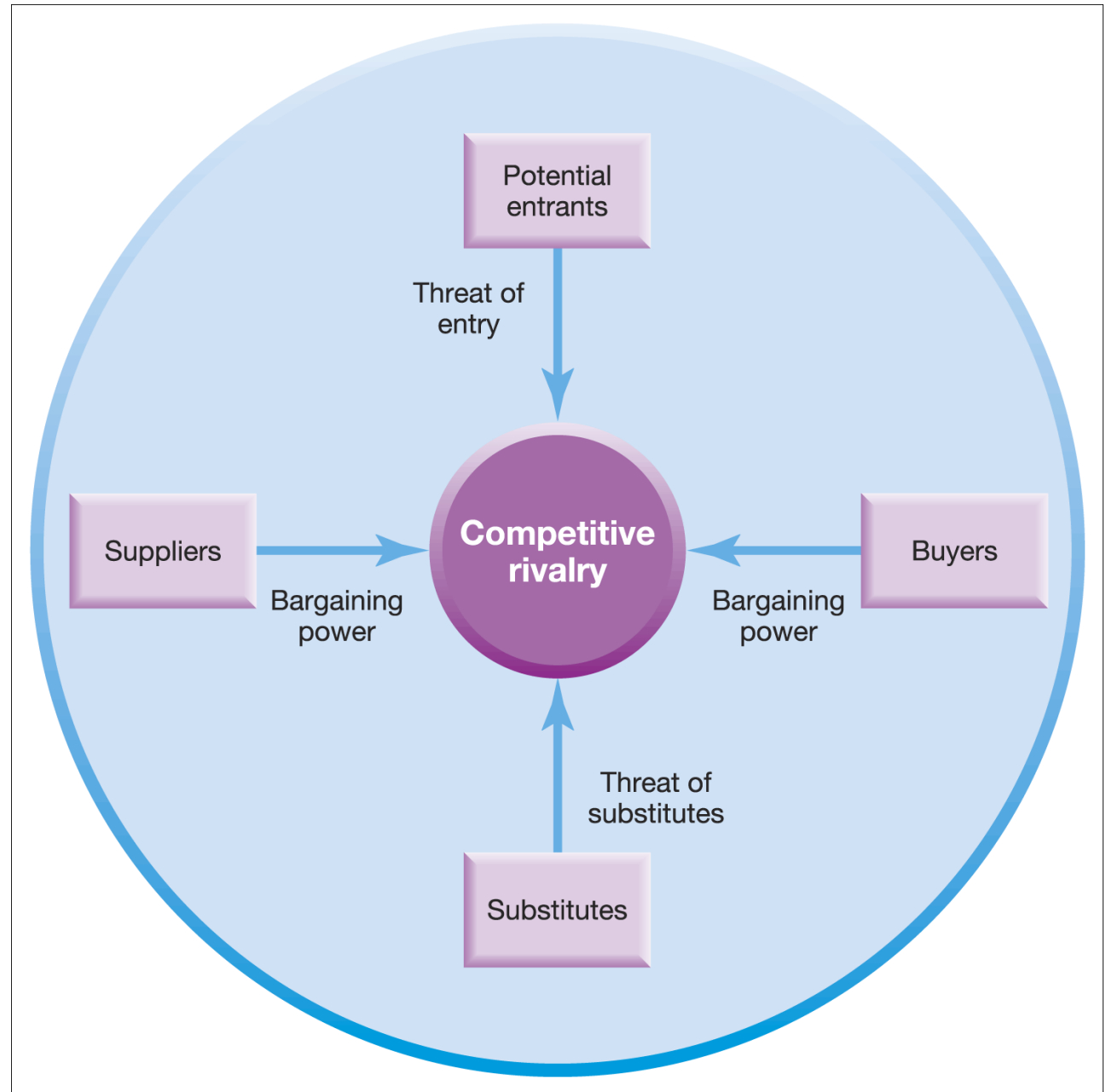


Recap

Layers of the business environment

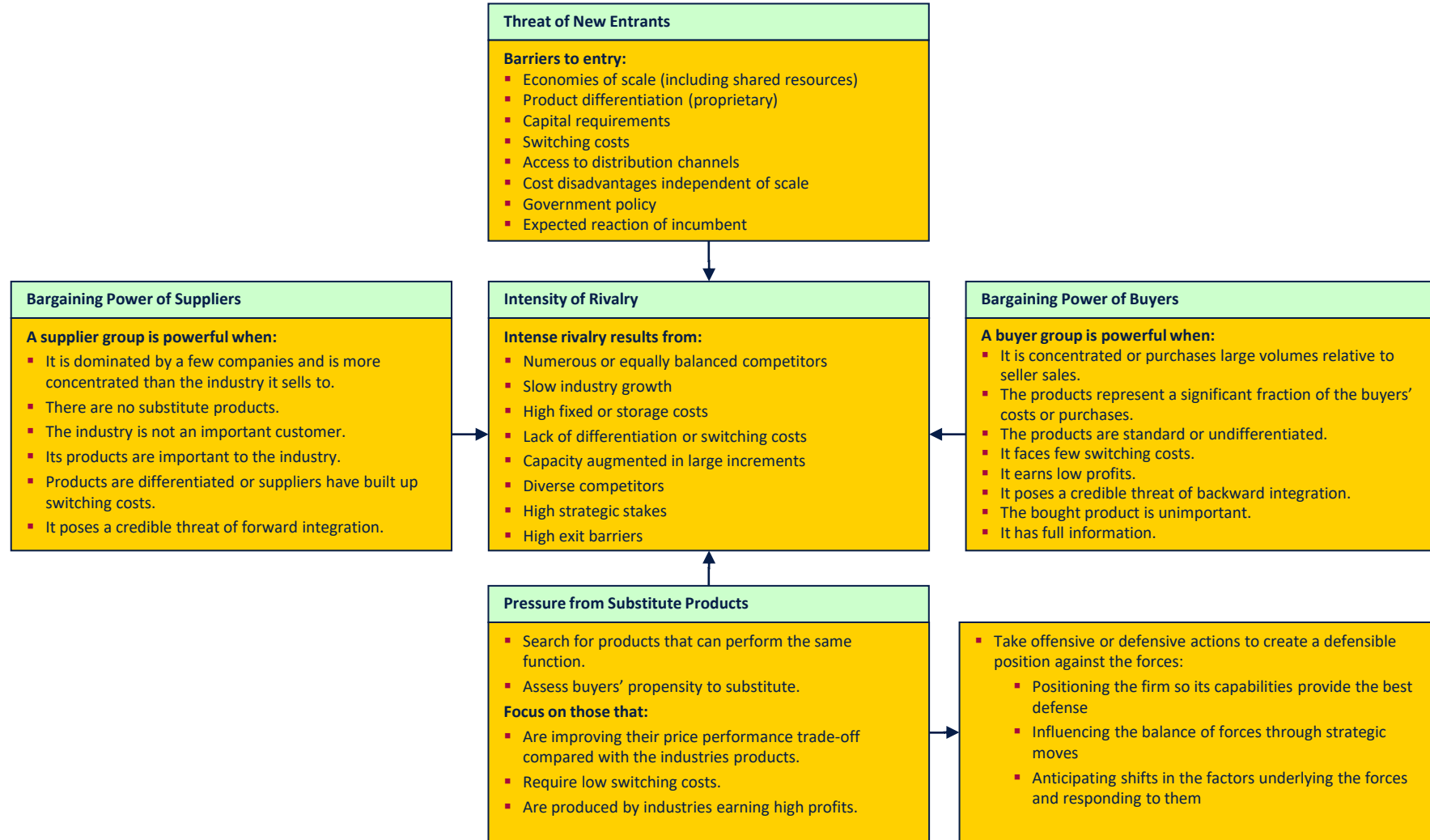


The five forces framework



by Michael E. Porter. Copyright © 1980, 1998

Summary of Porter's 5 forces: influencing factors



Summary of Five Forces- Carbonated Soft Drink

➔ Competitive Forces

Key Takeaways

Manufacturers compete based on several factors including price levels, range of products offered, product innovation and marketing. The expansion of private label brands has also intensified price-based competition among manufacturers.

Competition with producers of other ready-to-drink (RTD) beverages has intensified in recent years. Products manufactured by juice producers, like sparkling fruit drinks, have seen growth recently.

Concentration

Low

Competition

High Increasing

Barriers to Entry

Moderate Increasing

Substitutes

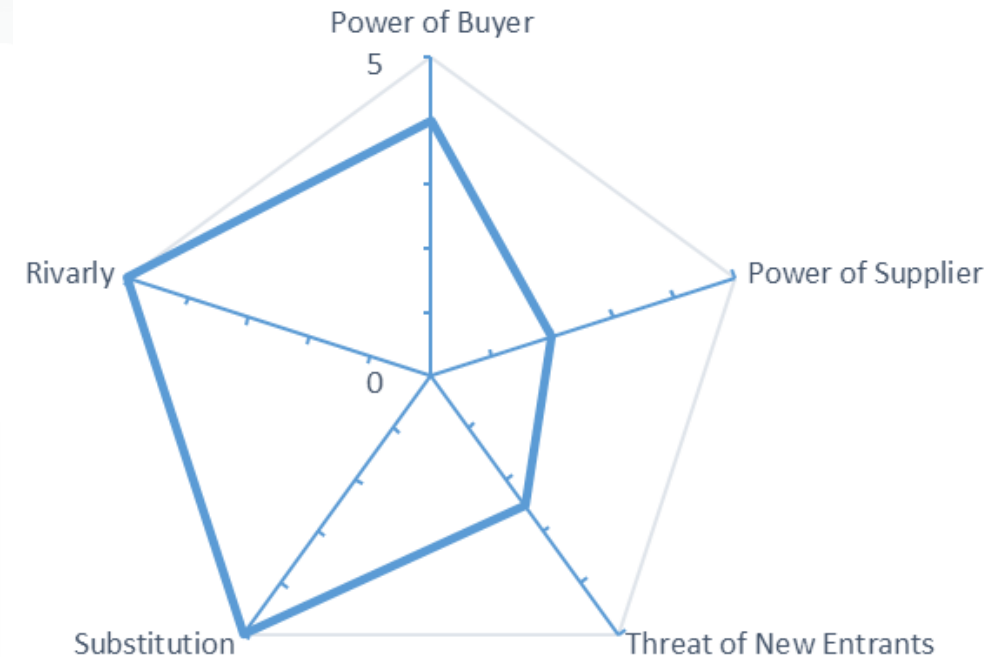
High Increasing

Buyer Power

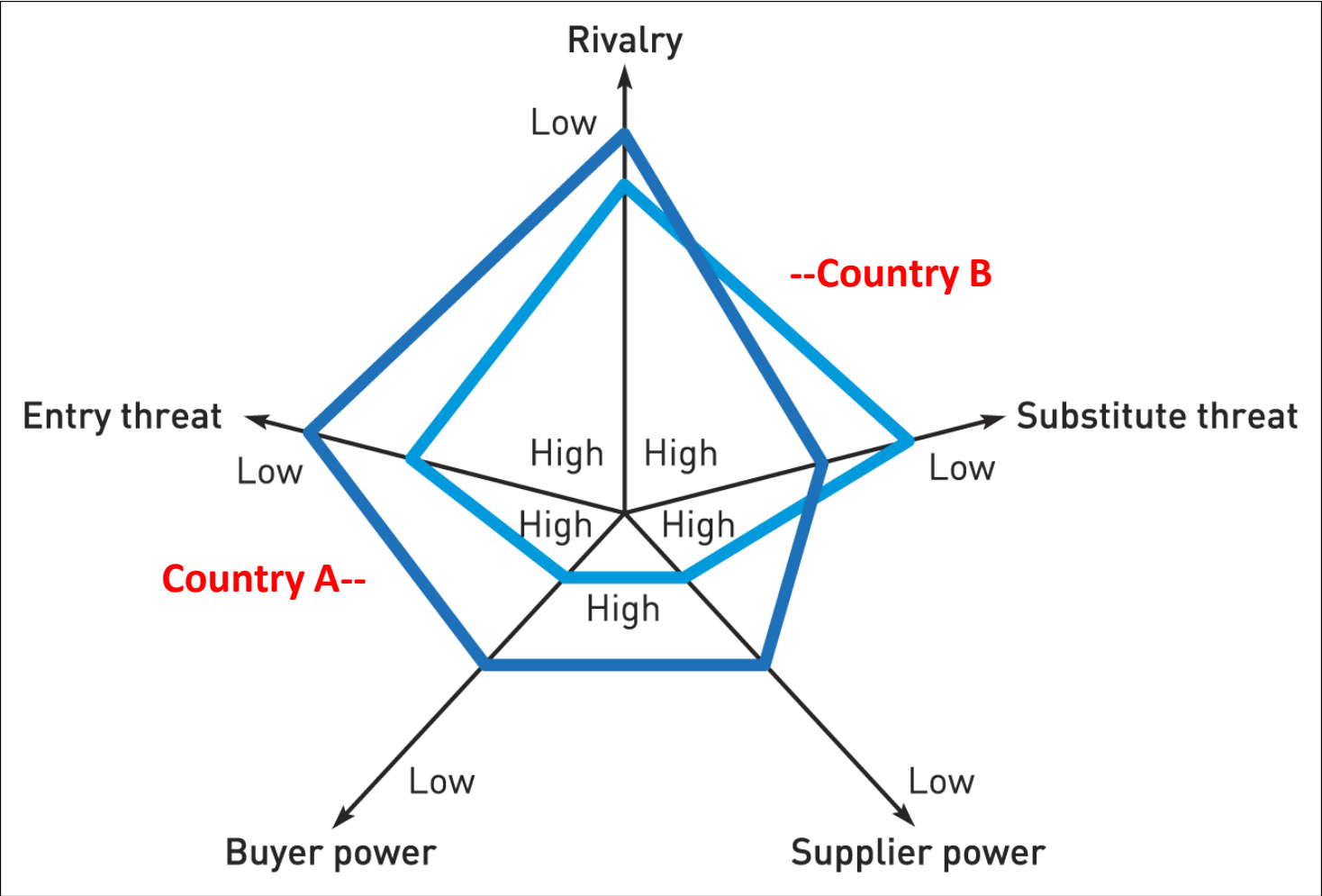
High Steady

Supplier Power

Low Steady



Five Forces- Country Comparative

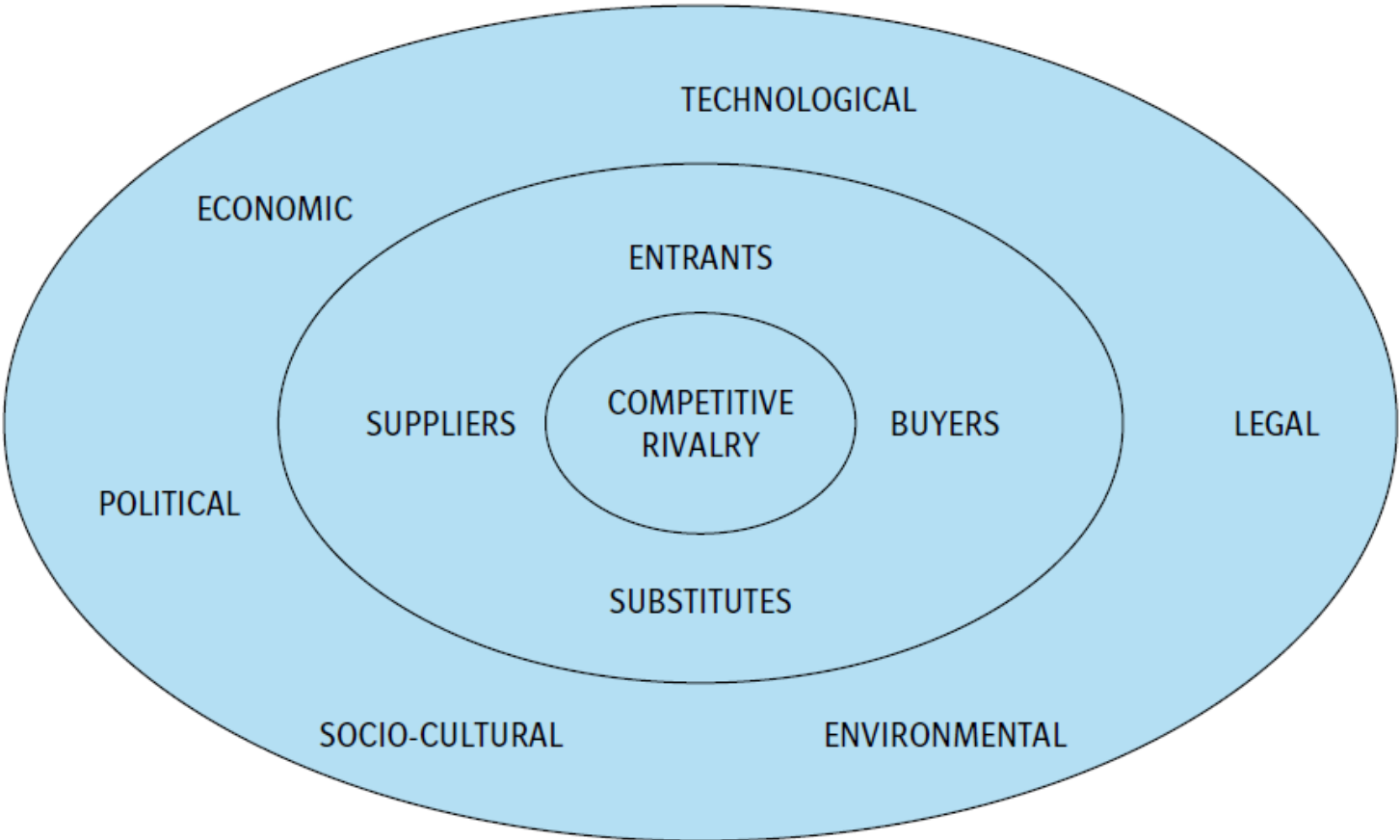


Essential Reading to Date

- 1. Hamilton and Webster, *The International Business Environment*, Fourth Edition
 - Chapter 1-4

- 2. David Needle and Jane Burns, *Business in Context*, Seventh Edition
 - Chapter 1-3

The Macro-environment



Why analyse the Macro Environment?

- **A turbulent environment** is one where there is rapid, unexpected change
- Turbulence has increased with the rapid widening and deepening of the political, economic, socio-cultural, and technological interconnections
- brought about by globalization and facilitated by advances in telecommunications.

Opportunities

- Globalization **generates opportunities for business to:**
 - Enter new markets
 - Take advantage of differences in the costs and quality of labour and other resources
 - Gain economies of scale
 - Get access to raw materials

Threats

- Globalization is also accompanied by threats
- **Threats for international firms** tended to be seen as country-specific, arising from:
 - **Financial risks**—for example, currency crises, inflation
 - **Political risks** associated with events such as expropriation of assets by foreign governments
 - **Unwelcome regulations**
 - **Natural disasters** such as earthquakes and tsunamis.

Frameworks -- PEST, PESTEL AND LoNGPEST

PEST

- Political environment (P)
- Economic environment (E)
- Socio-cultural environment (S)
- Technological environment (T)

PESTEL

- PEST AND ADD.....
 - Ethical/Environmental (E)
 - Legal environment (L)

LoNGPEST

- PEST plus
 - Local (Lo)
 - National (N)
 - Global (G)

The PESTEL framework

The PESTEL framework categorises environmental influences into six main types:

political,

economic,

social,

technological,

environmental

legal

Thus PESTEL provides a comprehensive list of influences on the possible success or failure of particular strategies.

The PESTEL framework

- ***Political Factors:*** For example, Government policies, taxation changes, foreign trade regulations, political risk in foreign markets, changes in trade blocks (EU).
- ***Economic Factors:*** For example, business cycles, interest rates, personal disposable income, exchange rates, unemployment rates, GDP trends.
- ***Socio-cultural Factors:*** For example, population changes, income distribution, lifestyle changes, consumerism, changes in culture and fashion.

The PESTEL framework

- *Technological Factors:* For example, new discoveries and technology developments, ICT innovations, rates of obsolescence, increased spending on R&D.
- *Environmental ('Green') Factors:* For example, environmental protection regulations, energy consumption, global warming, waste disposal and re-cycling.
- *Legal Factors:* For example, competition laws, health and safety laws, employment laws, licensing laws, IPR laws.

Key drivers of change

Key drivers for change:

- The environmental factors likely to have a high impact on the success or failure of strategy.
- For example, the birth rate is a key driver for those planning nursery education provision in the public sector.
- Typically key drivers vary by industry or sector.

Using the PESTEL framework

- Apply *selectively* –identify specific factors which impact on the industry, market and organisation in question.
- Identify factors which are *important currently* but also consider which will become *more important in the next few years*.
- Use *data* to support the points and analyse trends using up to date information
- Identify *opportunities and threats* – the main point of the exercise!

Culture

Impact on Business

Hofstede's Cultural Framework

- Power distance
- Uncertainty avoidance
- Individualism-collectivism
- Masculinity-femininity
- Long versus short-term orientation
- Indulgence Vs restraint

POWER DISTANCE

- High power distance
 - Unequal power distribution accepted
 - Social arrangements reflect this
 - Importance of titles and status
 - High dependence on bosses
- Low power distance
 - A wish to equalize power in society
 - Low dependence on bosses

UNCERTAINTY AVOIDANCE

High uncertainty avoidance

Rejection of deviant ideas

Careful consideration of proposals

Procedures to avoid ambiguity – rules, low job mobility

Slow decision-making

Low uncertainty avoidance

Welcome new ideas

Relaxed attitude to rules

Fast decision-making

INDIVIDUALISM-COLLECTIVISM

- **Individualism**

- Focus on self and immediate family
- Loose social networks

- **Collectivism**

- Collaboration for the collective good
- Importance of the extended family
- Strong wide networks

MASCULINITY-FEMININITY

- **Masculinity**

- Assertiveness
- Competitive and concern for performance
- Focus on financial rewards
- Clear differentiation of male and female roles

- **Femininity**

- Sensitivity towards others
- Concern for welfare and security
- Concern for quality of life
- Overlap of male and female roles

LONG VERSUS SHORT TERM ORIENTATION

- **Long-termism**
 - Pursuit of long-term goals
- **Short-termism**
 - Pursuit of short-term gain and advantage
 - Market share versus profit motive
- **Long-termism associated with Confucian dynamism**
 - Commitment to the work ethic
 - Respect for tradition
 - Savings

INDULGENCE VERSUS RESTRAINT

A recent addition to Hofstede's work (in 2012)

- Indulgence
 - Importance is attached to satisfying basic drive leisure and free speech. Sexual norms are fairly lenient
- Restraint
 - Suppression of gratification and control of impulses. Importance of savings. Sexual norms are much stricter.

Politics

Impact on Business

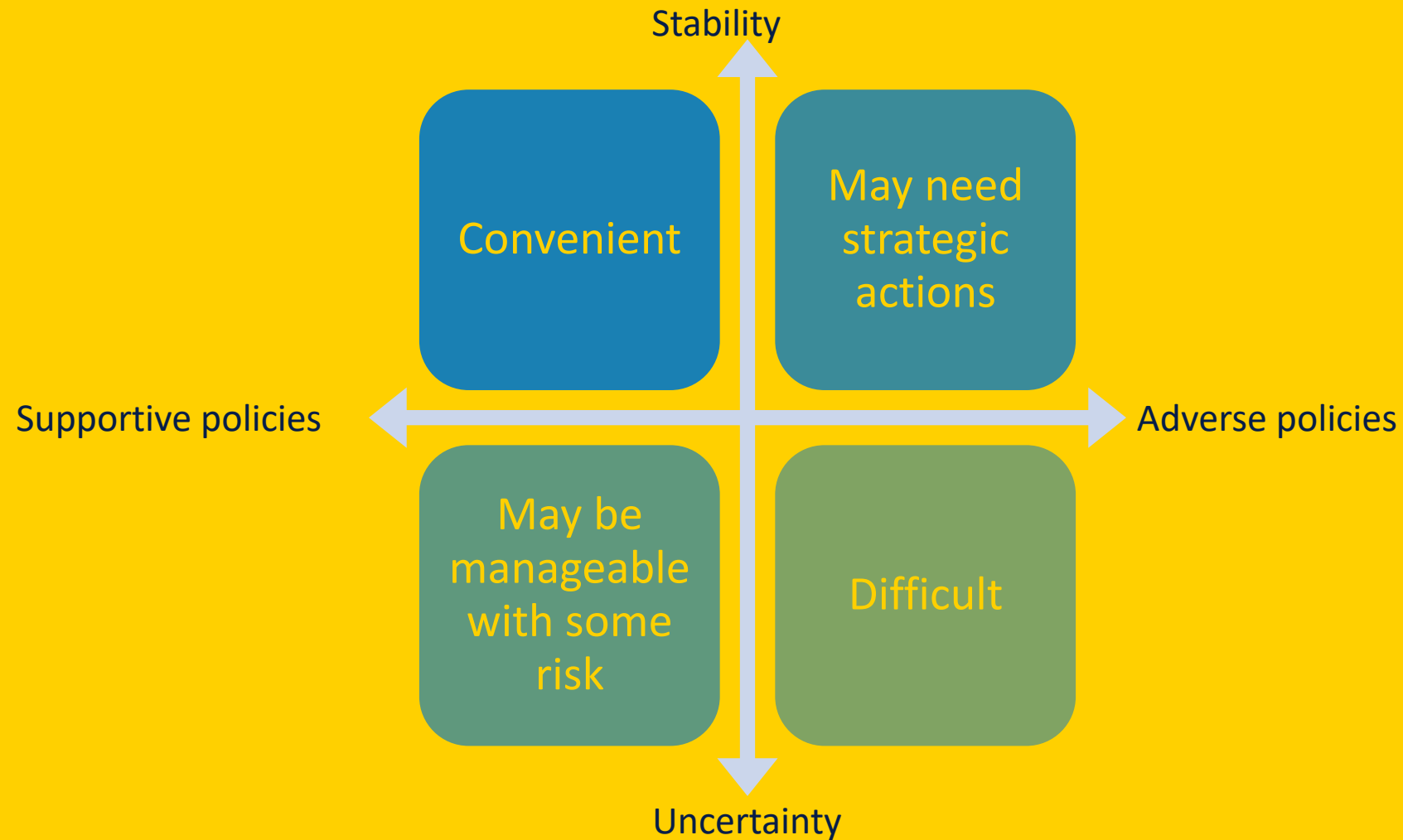
Political Economy of the region/market

- **Liberalization** -- A shift from state control of the economy towards a free market
- **Privatization** – the sale of state assets to private interests. It has been a feature in many countries gaining momentum since the 1980s.

Political environment

- Most countries have their own unique political and legal environment.
- Political and legal environments keep changing, in some countries more often than in others.
- Organisations must adjust their business practices to these changing environment.
- Companies spend time and money trying to influence governments & politicians – at times unethically or illegally too
- Politics influence the economics of the country
 - Capitalism
 - Communism/socialism
 - Conservative/Progressive
 - Closed/Open

Impact of Politics on the Business Environment



Assessing a Country's Potential

Gross domestic product (GDP)

- Total value of all goods and services in a year including exports less imports.

GDP per capita

- As above divided by the number of population.

Gross National Product (GNP)

- Total value of all goods and services in a year plus income from residents overseas minus income at home by non-residents.

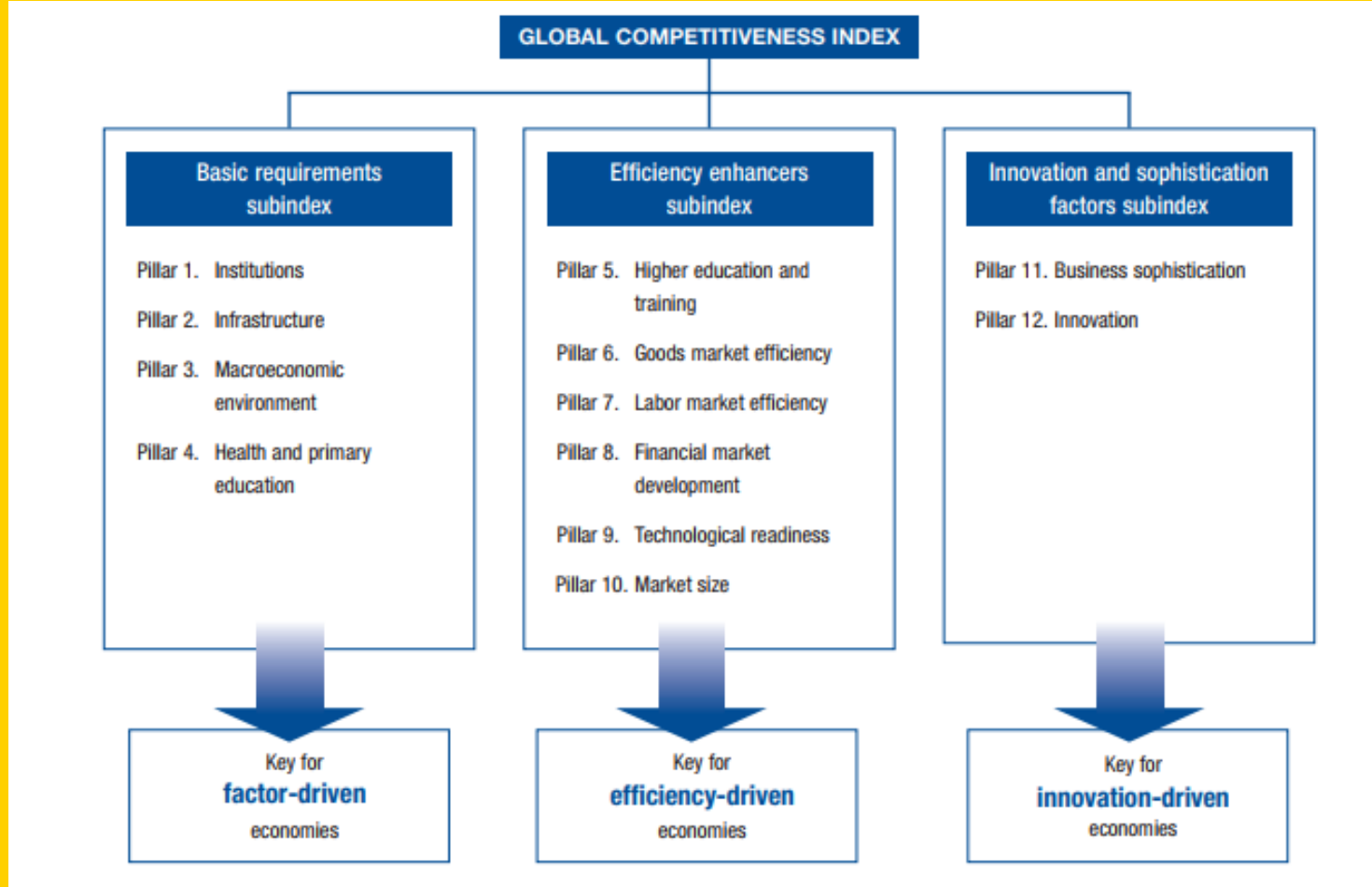
Gross National Income (GNI)

- GDP plus or minus income received from or paid to other countries e.g. Interest on loans.

Purchasing power parity (PPP)

- Measure of the relative cost of living in different countries and an indicator of poverty.

Measuring Global Attractiveness



Process of entering (foreign) markets - Analysis

FACTOR	WEIGHT	COUNTRY A	COUNTRY B	COUNTRY C
MARKET POTENTIAL				
Size of market	0.4	4	3	3
Growth rate	0.3	2	2	1
Market share	0.3	3	2	2
TOTAL		9	7	6
EASE OF DOING BUSINESS				
Starting a Business	0.3	3	3	3
Getting Credit	0.1	3	1	2
TOTAL		6	4	5
RISKS				
Political risks	0.4	2	3	2
Foreign exchange	0.2	1	2	1
TOTAL		3	5	3
NET TOTAL		12	6	8



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