Tutorial Letter 501/3/2018

Global Business Management

MNB3702

Semesters 1 & 2

DEPARTMENT OF BUSINESS MANAGEMENT

IMPORTANT INFORMATION:

This tutorial letter contains important information about your module.

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Dear Student

A warm word of welcome to you. We trust that this module, Global Business Management, will be an enjoyable and informative learning experience for you. In the absence of a study guide, which will be available as from 2019, we will guide you through the study material for this module in this tutorial letter. Complementary to this will be the release of additional tutorial letters during the course of the semester, which will seek to provide you with additional information, notably, with reference to the assignments set for this module and the proposed solutions. This will enable you to prepare for the forthcoming examination, the structure and composition of which will also be discussed in these additional tutorial letters.

Tutorial Letter 501, therefore, serves as an abbreviated version of the study guide which will only be made available as from 2019, and you must study it carefully, in conjunction with the textbook. Once you have worked through each learning unit, go back to the outcomes specified at the beginning of the learning unit and mark those off which you feel you have attained. If there are any outcomes you are unsure of, go back to the relevant sections and revise the work. Remember, however, that the examination will be based on the textbook.

This tutorial letter comprises learning units 1-11.

Best wishes for the academic year!

Your lecturers for this module.

CONTENTS

LEARNING UNIT 10: GLOBAL MARKETING STRATEGIES

LEARNING UNIT 11: INTERNATIONAL HUMAN RESOURCE MANAGEMENT

LEARNING UNIT 1: GLOBAL BUSINESS OPERATIONS

1.1 AIM

In the context of the purpose, nature and scope of this module, the aim of this learning unit is to provide you with an overview of globalisation and the role and modus operandi of multinational corporations in the context of the globalisation process.

1.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Define multinational corporations (MNCs).
- Analyse the stages of MNC development.
- Explain MNCs' response to aggressive globalisation.
- Defend the importance of an MNCs' strategic orientation.
- Debate "ethnocentrism" versus "polycentrism".

1.3 GLOBAL BUSINESS OPERATIONS

Global business operations are rooted in the dynamics of the globalisation process. One of the driving forces of this process is the global operation of multinational corporations (MNCs). Their growth has, for many years, been the product of progressive economic liberalization and integration, in the context of the global economy. MNCs are important non-state actors wielding substantial economic power through their cross-border activities, despite the delineation of country borders and their vindication of their sovereignty.

However, their contemporary role in the modern world economy, has been established as a result of the evolution of MNCs through various, distinctive stages, which are discussed in chapter 1 of the textbook.

1.4 EVOLUTION OF MULTINATIONAL CORPORATIONS (MNCs)

Sections 1.2 and 1.3 of chapter 1 of the textbook, highlight the evolutionary process which many MNCs go through and the significant trends accompanying this process. These trends reflect the role of global value chains, innovative means to minimize their global tax liability, including inter-group transfer pricing and the use of off-shore financial centres. This reflects a change in mindset, as the executives of MNCs' seek to implement these innovations, by taking cognizance of the environmental and social regulative issues, invariably required by the host country.

These constraints impact on MNCs' originating in developed as well as developing countries. This often determines whether they are early movers, in their quest to achieve competitive advantage in the global economy. The dichotomy between conventional and unconventional MNCs, operating in developed and developing countries clarifies, determines the type of entry mode for foreign market penetration. This aspect seeks to compare "late comers" and "early movers", in the context of conventional and unconventional MNCs, trying to exploit competitive advantages in both developed and developing countries. However, the thrust of this chapter, focuses on the actual developmental stages of MNCs. It describes their trajectory in this regard.

1.5 THE STAGES OF MNC EVOLUTION

MNCs often move through various stages in their quest to internationalize their operations. The stages involved are discussed in section 1.4 of chapter 1, of the textbook. They include: the pre-export stage, the immature export stage, the mature export stage, the infant stage, the teenage stage and the adult stage. These respective stages of evolution are clarified and elaborated on in section 1.4 of this chapter. Moreover, the growth trajectory of MNCs' in the adult stage, is discussed in the context of MNCs' eventually experiencing a slowdown in their revenue growth, due to a number of factors in the global business environment.

These factors are identified, listed and discussed in terms of their constraints on economic growth and the extent to which they give rise to "declining industries". This emphasis appears in section 1.4.6 of chapter 1 of the textbook.

1.6 STRATEGIC ORIENTATION OF MNCs

This discussion appears in section 1.5 of chapter 1, of the textbook. The focus is on the resource requirements of MNCs', especially when they reach the adult stage of evolution. It makes particular reference to the staffing requirements of MNCs operating in this stage. Moreover, the strategic orientation of an MNC will reflect its global business strategy of choice. The implementation of this strategy depends on a strong corporate culture, compatible with its strategic orientation and the requisite skills it needs.

The textbook encompasses the following strategic orientations. These include the: ethnocentric approach, the polycentric orientation, and the concepts of "geocentricism" and "regiocentric" orientation. These strategic orientations are discussed in considerable detail in section 1.5 of chapter 1, of the textbook. The advantages and disadvantages are discussed in this section as well. This comparative discussion includes aspects such as risks, costs, benefits and payoffs.

1.7 CONCLUSION

The emphasis of this chapter is on the multi-nationality of MNCs and the extent to which this reflects the geocentric, polycentric and ethnocentric orientation of MNCs. This orientation must be understood against the backdrop of the MNCs' developmental evolution.

In essence, the strategic orientation of an MNC reflects its distinctive behaviour and attitude, indicative of how its managers think and the type of strategic choices they are likely to make, in their quest to achieve global, competitive advantage. To this end, it reveals the MNCs' modus operandi as a driving force behind the globalisation process. These dynamics are discussed in section 1.3 of chapter 1.

ACTIVITY 1.1

"The rise of multinational corporations (MNCs), is perceived by many to eclipse the family owned business, despite attempts, by the latter, to globalise its operations, in the face of protest action by anti-globalists".
Source: Economist, April 15^{th} – 24^{th}, 2015: Special survey: "The enduring power of family business and politics".

In the light of this observation you are required to:

- Explain the steps a family owned business would have to go through in order to become a multinational enterprise, in a bid to establish itself in a foreign market.
- Identify and justify the most appropriate strategic orientation for this purpose?

We will discuss this on the discussion forum.

LEARNING UNIT 2: GLOBAL DIVERSITY MANAGEMENT AND LEADERSHIP

2.1 AIM

The purpose of this learning unit is to address the various issues pertaining to the management and leadership of global organisations, that are crucial for the success of global organisations. The leadership/management debate will be addressed first, followed by a discussion of global diversity management. Lastly, we will focus on global management and leadership skills and intervention that are required for organisational success.

2.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Differentiate between leadership and management
- Differentiate between global business managers and leaders
- Discuss the concept “diversity”
- Discuss global leadership and management

2.3 THE MANAGEMENT LEADERSHIP DEBATE

The management/leadership debate is explained in detail in Section 2.2 of the textbook.

- In the context of Global Business Management, it is even more important that we make a clear distinction between the following concepts:
- management and global management (Section 2.2.1)
- leadership and global leadership (Section 2.2.2)
- global management and global leadership (Section 2.2.3)

These considerations are expanded on in the individual sections of chapter 2 of the textbook as indicated in the brackets above.

2.4 GLOBAL DIVERSITY MANAGEMENT

As explained in Section 3 of chapter 2 of textbook, it is important to clarify the concepts “diversity” and “workforce diversity”. Diversity is explained in Section 2.3.1.1 of the textbook and illustrated by figure 2.1. Workforce diversity is explained in Section 2.3.1.2 of the textbook.

Global diversity management (GDM) is an approach to managing diversity in a way that leverages differences in a global workforce. Global diversity management is expanded on in Section 2.3.2.1 of the textbook. This is followed by Section 2.3.2.2 of the textbook which discusses the models of global diversity. These models include the: strategic, process, context, intervention, house and communications models.

2.5 GLOBAL LEADERSHIP AND MANAGEMENT

Section 2.4 of the textbook differentiates between global leadership and management. Working effectively and efficiently across national borders, and thus dealing with a diverse workforce, has become a requirement for many leaders in global business organisations. A global leader is a leader with the skills and attitudes to relate effectively to and motivate people across gender, race, age and all the other dimensions of diversity that were explained in section 2.3.1 of this learning unit.

Global leadership skills refer to the ability to exercise effective leadership across borders in a global management environment. Section 2.4.1 of the textbook explains the skills required by global leaders.

Section 2.4.2 of the textbook explains the difference between global leadership and management. Initiatives that can be implemented in organisations by global leaders and managers are expanded on in Section 2.4.2 of the textbook.

2.6 CONCLUSION

This learning unit dealt with global diversity management and leadership. First, we made a distinction between the concepts management and global management, followed by a distinction between leadership and global leadership. Then, we differentiate between the terms “global management” and “global leadership”. Our attention then turned to diversity and global diversity management. The learning unit concluded with a discussion of management and leadership in global organisations – the skills required and well as various interventions that can contribute to the success of global organisations.

ACTIVITY 2.1

Consider your current job – it might be a permanent position or a contract/part-time position – to answer the questions below:

- Write a description of yourself and your current job role as you see it. Your description should be more or less 300 words in length.
- Re-read your description and assess the identity of your job – is it that of a leader or a manager?
- If your job identifies with that of a leader, write down your recollections of any specific work you have done to make the transition from manager to leader. If you see yourself as a manager, reflect on how you would have to see yourself differently in order to feel like a leader, not a manager.

We will discuss this on the discussion forum.

LEARNING UNIT 3: BUILDING STRATEGIES FOR GLOBAL COMPETITIVE ADVANTAGE

3.1 AIM

The purpose of this learning unit is to:

- Introduce you to the role of global business strategies as MNCs' seek to secure competitive advantage(s). In so doing, we reveal the sources and determinants of global competitive advantage and their infusion into the choice of an appropriate global business strategy.
- Sensitise you to the differences between global, national and industry, competitive advantages, as MNCs' seek to attain a competitive advantage.
- Illustrate the application of Porter's diamond of competitive advantage, in the pursuit of national and global competitive advantages, taking cognisance of location economies and economies of scale, scope and experience, in the leveraging of an MNC's core competencies.
- Highlight how MNCs', in pursuit of their goals, utilise subsidies, skill competencies and government incentives, in an attempt to achieve its goals.
- Expose you to the evolutionary development of industries, including: growth industries, mature industries, declining industries and fragmented industries, all of which presupposes the alignment of global business strategies with the distinctive stages of industry development.

3.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Explain the concept of "global competitive advantage".
- Explain the determinants of global competitive advantage.
- Clarify the goals of an MNC, in the context of establishing competitive advantage(s)
- Enunciate the sources of competitive advantage(s)
- Distinguish between global, national and industry competitive advantages

3.3 GLOBALISATION AND COMPETITIVE ADVANTAGES

The search for competitive advantages is a constant pursuit, on the part of MNCs', seeking to strategically position themselves in the global business environment. But, it is this environment that is subject to unpredictable volatilities, due to: changing political economies, the ebb and flow of international poverty and inequality, and, the uncertainties surrounding trade liberalisation and the future of free trade.

These forces are discussed in section 3.1 of chapter 3, of the textbook. This discussion highlights the need for all MNCs' to consider all relevant strategic options, when developing appropriate, global strategies. This is highlighted in section 3.2 of chapter 3, in the textbook. The extent to which the use of the Porter model can assist MNCs' in positioning themselves in the global economy is discussed in section 3.3 of chapter 3 of the textbook.

3.4 CONSTITUENTS AND CONSTRAINTS OF GLOBAL COMPETITIVE ADVANTAGE

These elements shape the way in which MNCs' organise and perform discrete value creation activities, comprising the value chain. Indeed, discrete, value creation activities, represent those constituents, comprising the value chain, which, if optimally configured, have the potential to drive an MNCs' progress towards achieving a sustainable, competitive advantage. But, these constituents are subject to various constraints, which could impede an MNCs' progress in pursuit of global, competitive advantage(s).

These constraints could include the following impediments:

- Unpredictable costs, relating to the performance of these value creation activities.
- An inability to create comparable buyer value, relative to their competitors.
- An inadequate supply of raw materials, infrastructural facilities, skills, etc; all of which works against the creation of comparable, buyer value.

The lack of supporting industries and the prevalence of an attractive industry environment. They are elucidated in section 3.3 of chapter 3, of the textbook. They reflect Porter's diamond of national competitive advantage, as outlined in this same section.

3.5 LOCATIONAL ECONOMIES OF SCALE: BUILDING COMPETITIVE STRATEGIES

Section 3.2.1 of chapter 3 of the textbook, specifically focuses on the modus operandi of location economies and economies of scale, scope and experience, as catalysts in an MNC' s quest to forge appropriate global business strategies.

By highlighting the value-creation activities flowing from the exploitation of location economies and economies of scale, scope and experience, the focus shifts to those factors which are favourably conducive to the performance of an MNC's operations, as discussed in sections 3.2.1.3 to 3.2.1.5 chapter 3, of the textbook. Indeed, this illustrates the effect of locating value-creation activities where they are most effectively and efficiently performed.

Consequently, the authors' focus on value creation nuances, arising from unique locational advantages, vindicates the benefits realised through the exploitation of location economies. These benefits are, potentially sustainable, notwithstanding constraints such as: transportation costs and the operation of trade barriers. These limitations are discussed in section 3.2.1 1 of chapter 3, of the textbook.

Allied to the utilisation of location economies, is the role that economies of scale, scope and experience play in the attainment of competitive advantages. These catalysts are discussed in sections 3.2.1.2 of this chapter, and provide an indication of how MNCs' can take advantage of economies of scale, scope and experience, in their quest to increase their presence in international markets. These catalysts strengthen an MNC's ability to recover some of the inordinate expenses relating to research and development and production costs, associated with the globalisation of their operations.

3.6 EVOLUTION AND DEVELOPMENT OF SUSTAINABLE INDUSTRIES

Forging industry competitive advantages, presupposes an understanding of the evolutionary development of industries. The stages of this development process are outlined in section 3.4.1 in chapter 3 of the textbook.

They include the following:

- emerging industries
- growing industries
- mature industries
- declining industries
- fragmented industries

The constraints shaping the various stages of industry development and the corresponding, competitive strategies that can be used in each stage, are described section 3.4.2 in chapter 3, of the textbook. They highlight a number of tensions that can arise in the pursuit of industry-specific competitive advantages. These tensions reflect the need for cost reductions and local responsiveness, indicating different consumer preferences.

3.7 CONCLUSION

This chapter assumes a particular focus on industry competitive advantages and their reflection of the different stages of industry evolution. These competitive advantages are subsumed, under a pattern of national, industry and business-level strategies. In essence, this chapter focuses on the forging of appropriate, global business strategies, in the context of the pursuance of global, competitive advantages. Moreover, the unique attributes of global business strategies are highlighted in section 3.2 of chapter 3. These attributes reflect two fundamental forces shaping global business strategies: cost reduction and local responsiveness. They represent industry forces that could be affected by the different stage of industry evolution, as spelled out in section 3.4.1 in chapter 3, of the textbook. This section confirms the importance of industry evolution, as highlighted throughout this chapter.

ACTIVITY 3.1

STUTTAFORDS IN DECLINE

South Africans have been shocked by the news of the imminent closure of Stuttafords, one of the country's oldest retailers. Despite the implementation of a contentious business rescue plan to save the retailer, closure seems inevitable. Indeed, it's fate could befall other companies operating in the same industry as well, which is already showing signs of distress and decline. The reasons for this are, fundamentally, financial. Stuttafords owed a sizeable amount to hundreds of creditors, including one of South Africa's big four banks. Some of these creditors stand to lose a great deal. In fact, the rescue plan proposes that small suppliers, whose debt was not secured, will only receive 5 cents in the Rand, with a possibility of further, but still small payouts in the future. There is a justifiable measure of bitterness on the part of suppliers. The rescue plan proposals are heavily prejudicial to suppliers. Moreover, the financial consequences for many other players in the industry, could be similar to the fate of Stuttafords and its creditors, as borne out by the financial plan proposed in the business rescue plan. It is typical of an industry in decline, with companies facing serious challenges to the sustainability of their business models.

This saga highlights the grim consequences facing many companies trying to operate in an industry which is either in decline or stagnant. In many cases, it is already too late for some of these companies to diversify, as this would be too costly.
Source: Financial Mail, 16 – 22 February, 2017.

In the light of this pitiful account relating to Stuttafords, trying to operate in an industry in decline, you are encouraged to respond to the following questions.

- Explain when and how an industry could find itself in a state of decline?
- Distinguish between "industries in decline" and "fragmented" industries. Illustrate this with examples.
- Enunciate the global, competitive strategies, MNCs could resort to, as they try and extricate themselves from the "declining" stage of development.
- Illustrate the use of Porter's model, in explaining an MNCs' descendancy to "decline" status?

We will discuss this on the discussion forum.

LEARNING UNIT 4: STRUCTURING GLOBAL ENTERPRISES AND OPERATIONS

4.1 AIM

The aim of the learning unit is to explain the adage "structure follows strategy", and where the structuring of an organisation fits into its strategic management process. Second, the importance of organising and the organising process will be highlighted, followed by an explanation of the various possible structures for global enterprises. Lastly, we will also highlight the many challenges that senior managers experience when structuring global enterprises.

4.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Explain the adage "structure follows strategy"
- Explain the importance of organising, the organising process and organisational structures
- Explain the principles in designing an organisational structure
- Explain the various structures for global organisations
- Identify and explain the challenges in structuring global organisations

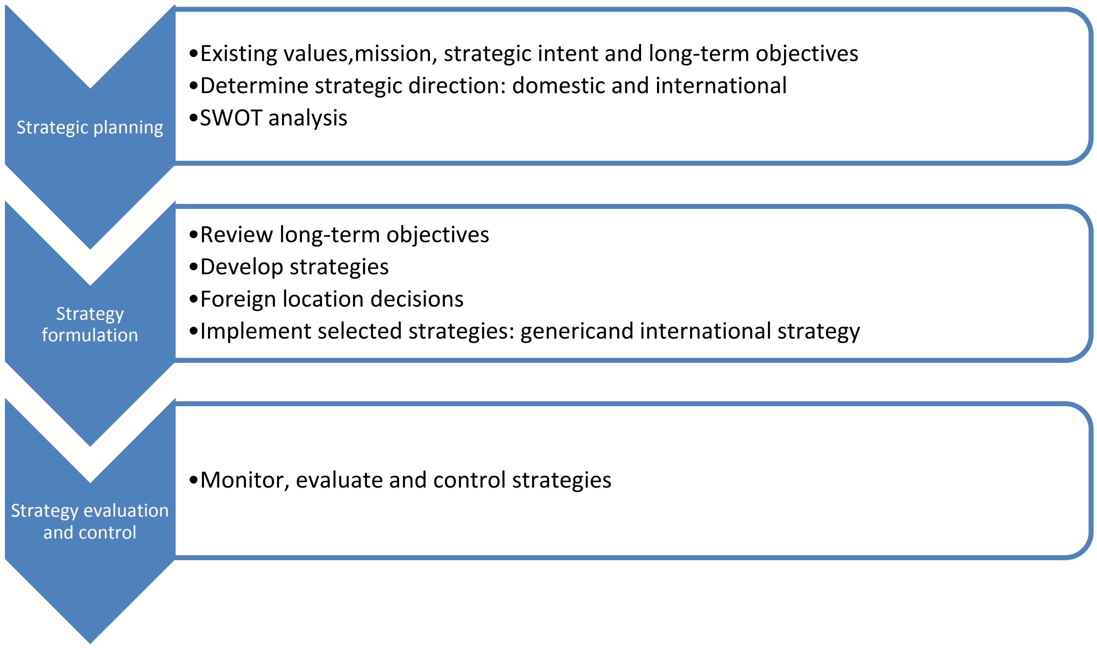
4.3 INTRODUCTION

On 7 May 1998, Daimler-Benz Aktiengesellschaft in Germany, the manufacturers of the iconic Mercedes Benz range, and Chrysler Corporation in the United States of America, signed a merger contract to establish a new company - DaimlerChrysler AG. The newly formed *Aktiengesellschaft* was organised and existed under the laws of the Federal Republic of Germany. Daimler, who proposed the merger and dominated it, paid US$35 billion for Chrysler. The intention of the merger between the two companies was twofold – (i) to safeguard its long-term competitiveness, mainly by reducing the new company's production costs; and (ii) to increase the new company's footprint dramatically, especially in North America. Sadly, the merger between the two companies is probably the most famous of all international mergers that ended in failure.

4.4 STRUCTURE FOLLOWS STRATEGY

The discussion in this section is based on section 4.2 of the textbook.
In the previous learning unit (Learning unit 3 – Building strategies for global competitive advantage), you were introduced to the strategic management process of global enterprises. While the generally accepted phases of the generic strategic management process involving strategy formulation, strategy implementation and strategy evaluation and control, apply to both domestic and international enterprises, international involvement significantly adds to the complexity of the strategic management process and the demands on all managerial levels, but especially on senior level. The textbook explains the international strategic management process, which is summarised in Figure 4.1 on the following page.

Figure 4.1 The international strategic management process



The implementation of selected strategies, as indicated in Figure 4.1 above, requires the development of an organisational structure, that needs to create an enabling environment for the execution of tasks, activities and functions in order to attain the vision, mission, strategic intent and long-term objectives of the international enterprise. Structure always needs to follow strategy

4.5 THE IMPORTANCE OF ORGANISING, THE ORGANISING PROCESS AND ORGANISATIONAL STRUCTURES

Section 4.3 of the textbook addresses the importance of organising, the organising process and organisational structures. A description of the process of organising is presented in Section 4.3.

Furthermore, Section 4.3 of the textbook explains the following reasons for the importance of organising, the organising process and the resulting organisational structures:

- Allocation of responsibilities
- Accountability
- Establishing clear channels for communication
- Resource deployment
- Synergy
- Division of work
- Systematic grouping
- Departmentalisation
- Coordination

4.6 THE PRINCIPLES INVOLVED IN DESIGNING AN ORGANISATIONAL STRUCTURE

Section 4.4 of the textbook explains the various principles involved in designing an organisational structure.

These principles are listed below:

- Unity of command and direction
- Chain of command
- Division of work
- Standardisation
- Coordination
- Responsibility
- Authority
- Accountability
- Power

4.7 THE PRINCIPLES IN DESIGNING AN ORGANISATIONAL STRUCTURE

The principles in designing an organisational structure are explained in Section 4.4. of the textbook.

These principles are listed below:

- Unity of command and direction
- Chain of command
- Division of work
- Standardisation
- Coordination
- Responsibility
- Authority
- Accountability
- Power

4.8 STRUCTURING THE GLOBAL ENTERPRISE

The structuring of a global enterprise is explained in detail in Section 4.5 of the textbook.

Compared with national enterprises, international organisations will have much more complex organisational structures due to the complexity of the environment in which they operate. The following international organisational structures can be distinguished (these are explained in detail in Section 4.5 of the textbook with illustrative diagrams):

- Export department
- International division
- Global function division structure
- Global product structure
- Global geographic structure

- Global matrix structure
- Transnational network structure

Organisations normally go through an evolutionary process in structuring for international business. This process of highlighted and explained in Section 4.5 of the textbook.

4.9 CHALLENGES IN STRUCTURING GLOBAL ORGANISATIONS

Due to the complexity of the international management environment, managers will experience numerous challenges when structuring global organisations. The textbook explains these challenges in section 4.6.

4.10 CONCLUSION

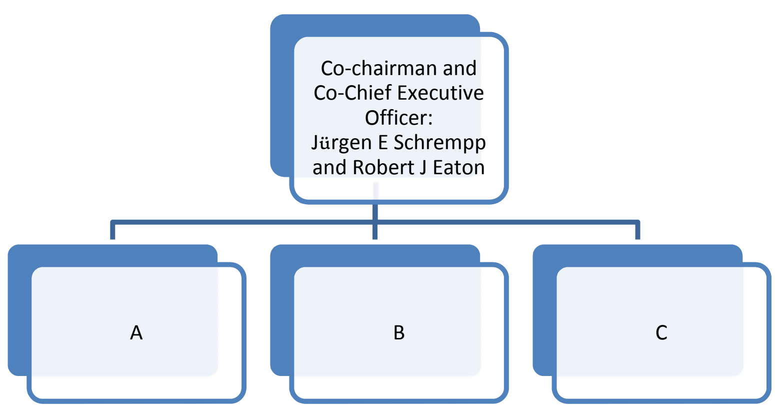
This learning unit focused on the structuring of global enterprise and operations. The adage "structure follows strategy" was highlighted, followed by an explanation of the importance of organising, the organising process and organisational structures. Then, we focused on the principles in designing an organisational structure and the various structures for global organisations. Lastly, the challenges in structuring global organisations were identified and explained.

ACTIVITY 4.1

The introductory paragraph of this learning unit, briefly discussed the merger between Daimler-Benz Aktiengesellschaft in Germany and the Chrysler Corporation in the USA.

Figure 4.2 illustrates the DaimlerChrysler Management Board, responsible for managing DaimlerChrysler AG and represents the new company in its dealing with third parties. Jürgen E Schrempp from Daimler and Robert E Eaton played key roles in the merger process.

Figure 4.2: DaimlerChrysler AG Board of Management[i]



Group A consisted of board members that represented the following interests in the company:

- Research and Technology
- Services
- Aerospace
- Commercial Vehicles
- Sales and Marketing: Mercedes-Benz

Group B consisted of board members that represented the following interests in the company:

- Passenger Cars: Mercedes-Benz
- Passenger Cars and Trucks: Chrysler and Integration
- Corporate Development
- Chief Financial Officer
- Global purchasing

Together with the Co-Chairmen and Co-Chief Executive officers, Group B's board members formed the Chairmen's Integration Council.

Group C consisted of board members that represented the following interests in the company:

- Sales and Marketing: Chrysler
- Human Resources: Daimler-Benz
- Product Strategy and Design: Chrysler
- International: Chrysler
- Procurement and Supply: Chrysler
- Manufacturing: Chrysler

Questions:

- Identify the organisational structure implemented by DaimlerChrysler. Substantiate your answer.
- In your opinion, what was the shortcomings the organising process in the merger.

We will discuss this in the discussion forum.

http://www.commisceo-global.com/blog/cultural-differences-in-international-merger-and-acquisitions; AND

http://www.casestudyinc.com/daimler-chrysler-and-the-failed-merger. [Accessed 1 June 2017]

LEARNING UNIT 5: POLITICAL ECONOMY OF FOREIGN EXPANSION

5.1 AIM

The purpose of this learning unit is to:

- Explain the term "political economy" and link it to the use and application of the PESTEL model.
- Help you evaluate the components of a country's political economy.
- Debate the concept "political economy" and its application.
- Expose you to different approaches to gauging the composition of a country's political economy.
- Evaluate the relevant theories relating to the concept, "political economy".

5.2 LEARNING OUTCOMES

After you have studied this chapter you should be able to:

- Explain the meaning of the concept "political economy".
- Identify and discuss the components of the "political economy" of a country.
- Enunciate the effects of the "political economy" on global business operations.
- Explain the role played by each component on the functionality of global business.
- Distinguish the roles played by the political economy, vis-à-vis domestic versus global businesses.
- Articulate the rationale of the "new norms" in the context of global business operations.

5.3 DEFINING THE "POLITICAL ECONOMY" OF COUNTRIES

How do we define a country's "political economy"? In response to this question, we note that section 5.2 of chapter 5 of the textbook, provides some perspicacity on the meaning of the term "political economy". However, the distinctiveness of international business, relative to the modus operandi of domestic businesses, is pivotal to understanding the term "political economy". A country's political economy reflects the differences between countries, in many ways. This is because country's have different political, economic and legal systems. Moreover, national cultural practices can vary dramatically as well, as can its skill levels and level of education, all of which reflects different stages of a country's economic development.

Consequently, a country's political economy highlights how the political, economic and legal systems of a country are interdependent and how they interact and influence each other, thereby affecting the level of economic well-being. Collectively, we refer to these systems as constituting the political economy of a country. Moreover, this chapter also focuses on the profound impact a country's political economy can have on the benefits, costs and risks associated with doing business in different businesses in different countries and the way in which operations in different countries should be managed and how the strategies MNCs' have adopted, should be pursued in different countries. Indeed, this is the essence of understanding the impact and composition of a country's political economy. Sections 5.1 and 5.1 of this chapter, provide a synopsis of the term "political economy" and spell out the implications of both the supply side and the demand side of a country's political economy, and the practical implications thereof.

5.4 COMPONENTS

The composition of a country's political economy is articulated in section 5.3 of this chapter. It highlights the legal/judicial, political/philosophical and economic constituents of a country's political economy. These predominant considerations are complemented by including a country's technical capabilities, which is deemed crucial to contemporary, global business operations. All of these components characterise a country's attractiveness to foreign investors. Examples of the importance of the availability of these components highlights the importance of a country's engineering and technology capabilities in a country seeking to attract foreign investments.

Eclipsing some of these components are the complementary additives which host countries infuse into their political economies, relative to those incentives potential investors look for, when contemplating foreign expansions. For example, the question of environmental pollution and the measures host countries are taking to combat this deterrent, could be pivotal to an international investor's location decision outcomes. This is particularly important when considering certain countries, such as China, for instance, as a possible location for foreign expansion purposes.

5.5 THEORETICAL UNDERPINNINGS

The theoretical foundations of the concept and outworking of a country's political economy is premised on a number of key concepts, theories, ideologies and institutional actors. These include, inter alia: the principle of productivity gains, poverty and income inequality, labor pricing, wealth distribution and institutional systems, all of which are subsumed under the mantle of a country's political economy. These are explained in section 5.6, of chapter 5, of the textbook. Moreover, infused into these key notions, is the doctrine of capitalism, as articulated in section 5.6.3 of this chapter.

Furthermore, the challenges discussed in this chapter, allude to a number of catalysts driving an MNC's foreign expansion policies and practical initiatives. They include: labor compensation and the tensions posed by low wages encountered in certain host countries, a practical reality which is interwoven into the doctrine of capitalism and wealth distribution. Another catalyst, is the role of the institutional apparatus, underpinning those theories that support the practical implementation of an MNCs' foreign expansions. Indeed, the development of these theories, foreshadows the advent of new norms and the thinking underlying the evolution of an MNCs' foreign expansion policies and programmes. This flows out of the discussion in section 5.6, of this chapter.

5.6 PRACTICAL IMPLICATIONS

Section 5.4 of this chapter, focuses on the practical implications of the potential a country's political economy has to attract foreign investment.

A country's capacity to do so, is discussed in section 5.5 of this chapter, and is augmented with reference to a country resorting to the following investment incentives:

- The use of investment subsidies to improve competitiveness.
- The offering of tax holidays to attract and protect new investments.
- The implementation of an exchange rates differentials policy, as a concessionary initiative, which can be used by host country governments to ensure access to reasonable exchange rates for MNCs' who would be affected by exchange rate distortions.
- Profit repatriation allowance aimed at enabling MNCs' to recover the initial outlay and other benefits flowing from the foreign expansion investment. This is pivotal to prospective negotiations between MNCs and host country governments.
- Staffing concessions, especially if MNCs adopt a polycentric approach to hiring employees to spearhead their offshore subsidiaries. This is rationalised and discussed in chapter 3, of the textbook.
- Transfer pricing concessions, which are used to augment profit repatriations to home countries, but, often at the displeasure of host governments. Consequently, section 5.4 of this chapter clarifies this practice with reference to BMWs' operations in South Africa, pointing out the accounting implications of moving resources within its network of multinational operations.

However, these incentives and concessions need to be tempered by a number of deterrents to foreign investments, which can adversely affect a home country's political economy. For instance, they could include trade and investment restrictions.

But, for purposes of clarifying their impact on a country's political economy, they are also discussed in the context of section 5.4.2 of chapter 5 of the textbook. Included in this discussion are references to the use of voluntary export restraints and import permits. Some of these constitute restrictive, administrative measures, reflected in the use of voluntary export restraints and import permits.

5.7 APPROACHES TO GAUGING A COUNTRY'S POLITICAL ECONOMY

Sections 5.5.1 through to 5.5.3, ventilate various documented approaches and methods used to measure the political economies of countries.

These include some of the following, popular approaches:

- The use of SWOT analysis which is discussed in 5.5.1 The discussion is devoted to its application to the political economy of a country, and the internal strengths of MNCs' contemplating foreign expansions. Indeed, it embraces both internal and external analysis, relative to the challenges and opportunities facing such MNCs.
- The use of the Boston Matrix, to analyse the market growth potentials and the prospect for portfolio growth diversification, should an MNC pursue foreign expansion, aimed at penetrating certain foreign markets. Allied to the Boston Matrix is the use of the Ansoff matrix and balanced score cards which are used to measure potential performance and abilities of MNCs to overcome the obstacles facing foreign expansion initiatives, so as to optimise results as discussed in section 5.5.2 of chapter 5.
- The use of the resource-based view to pursuing foreign growth strategies. It is used to determine the potential contribution of an MNC's resources to their competitiveness as they face threats which could undermine their foreign expansion efforts. This is the thrust of the discussion in section 5.5.3 in this chapter.

5.8 THE ADVENT OF NEW NORMS AND THINKING

The emergence of new norms and thinking has highlighted the challenges facing traditional, normative approaches to fostering foreign expansion initiatives. This is being driven by the application of international business ethics, the notion of egalitarianism, which resonates with fair jobs and equitable pay, as a means of ensuring fair wealth distribution, in country's whose political economy stands to be affected by interventionist approaches, aimed at ensuring successful foreign expansion.

These caveats resonate with the democratic values and principles of host countries which can be affected by foreign investor expansionism, which, in turn, could emanate from unstable political systems, which are fraught with the risks associated with developing countries pursuing initiatives, which are thoroughly opportunistic, in a bid to improve their economies. These threats and opportunities and other dangers, are discussed in section 5.7 of chapter 5, of the textbook. They are particularly conducive to many African countries, searching for foreign investment opportunities, particularly inward, investment opportunities. All of this is discussed, in the context of the "African imperative".

5.9 CONCLUSION

This chapter casts some light on the popularity of the concept "political economy" as an academic idea, which has gained traction over the years and which is supported by substantial literary inputs.
Consequently, it prompts us to evaluate the inter-play between a country's politico-economic system and the investment decisions of MNCs. In so doing, it highlights the importance of the composition of a country's political economy, in terms of the various components underpinning it. These provide us with a focus on components such as a country's political system, the socio-economic policies that drive its stability, it's technological capability and the implications of a distinctive political economy for global business.
These implications are unpacked, in terms of incentives, which can encourage inward investments. Incentives such as: subsidies, tax holidays, assistance with exchange rate differentials and policies on profit repatriation are evaluated and discussed. Recommended approaches to evaluating the viability of investments, in response to a host country's capabilities, in terms of its political economy capacity, warrant consideration.

Undergirding the foundations of a political economy are a number of related theories, seeking to clarify the modus operandi of a country's political economy. These are identified and explained.
The implications of these theoretical applications are evaluated in the light of the "Africa imperative", which is exemplified in the unfolding of South Africa's political economy, as illustrated by the accompanying activities.

ACTIVITY 5.1

Special economic zones (SEZs) have been introduced in South Africa, in an attempt by the Government, to kick-start economic activities in South Africa's townships and rural communities, by attracting direct foreign investments and domestic investments.
Under the SEZ programme, "qualified investors" will be lured to these locales, through a package of improved incentives such as: a 15% corporate tax rate, a building allowance, a special tax allowance to develop greenfield operations and a customs-controlled area. Government sees the SEZ programme as important to its economic development goals and pivotal to radically transforming South Africa's economy. They will provide business opportunities for companies owned by Black people. There are eight such SEZs at present in the country.
Source: Financial Mail: May 11 – 17th, 2017, p.29.

Given this latest initiative by the South African Government to attract investments to these SEZs, many of which are located in rural areas, you are encouraged to:

- Explain how South Africa's political economy could constitute a deterrent to investors being attracted to these SEZs.
- Evaluate the incentives on offer by South Africa's Government, through the agency of the Department of Trade & Industry, in the light of other incentives that could have been offered.
- Interrogate the various theories applying to a country's political economy and which could support South Africa's decision to create these SEZs.
- Defend a foreign investor's use of the SWOT analysis as a means of investigating the viability of an investment opportunity in South Africa.

We will discuss this on the discussion forum.

LEARNING UNIT 6: COUNTRY ATTRACTIVENESS

6.1 AIM

The purpose of this learning unit is to:

- Enable you to understand the meaning of "country attractiveness" and the need to evaluate it in terms of the proposed definition.
- Articulate the factors influencing a country's investment attractiveness.
- Expose you to the various approaches that can be used in assessing a country's attractiveness.
- Evaluate and criticise the components of a country's attractiveness.
- Identify and discuss the drivers of national competition.
- Encourage you to contest the different comparative measures of attractiveness

6.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Explain the concept of "country attractiveness".
- Explain the determinants of"country attractiveness".
- Clarify the goals of an MNC, in the context of country attractiveness
- Enunciate the measures of country attractiveness

6.3 THE IMPORTANCE OF UNDERSTANDING COUNTRY ATTRACTIVENESS

Most country's attractiveness is tempered by a measure of risk, that carries uncertainties stemming from the unknowns of new markets. This in turn causes foreign investors to focus on specific factors that epitomise the attractiveness should the investor contemplate entering such a new market.

The attractiveness of a country, coupled with numerous risk factors, is what characterises many business environments, within the borders of numerous countries. It represents a combination of a country's potential attractiveness and the risks inherent in the country's business environment.

This is what causes foreign investors' to approach foreign markets with a measure of caution as informed by the country's political economy and its inherent risks.
These constraints enable MNCs' to match a prospective country's attractiveness, with its own capabilities. This will enable it to evaluate the prospect of successfully doing business in this country's markets, based on the MNC's competitive position, given the attractiveness of the country, which is being targeted.

All of these considerations point to the importance of understanding a host country's potential, investment attractiveness. This is the thrust of the discussion in section 6.1 of chapter 6, which culminates in a definition of country attractiveness, as articulated in section 6.2 of the chapter.
This definition confirms the complexities inherent in the concept "country attractiveness" and its implications for foreign investors. Section 6.2 argues that country attractiveness need to be understood in terms of the country's political economy, undergirded by whatever risks could torpedo the integrity of such a political economy.
This section focuses on those attributes which enable us to encapsulate the "most favoured" country, for purposes of evaluation. But it does so by highlighting the importance of those components shaping a country's attractiveness. To this end, it preempts the need to interrogate those components set out in section 6.3 of chapter 6.

6.4 COMPONENTS OF COUNTRY ATTRACTIVENESS

Section 6. 3 of chapter 6, unpacks those components that can be used to gauge a country's attractiveness, depending on the predilections of foreign investors. It does so in some detail. This applies to a range of components including: 6.4.1 Macro-economic and institutional variables, as spelled out in section 6.3.1 of chapter 6, in the textbook "Principles of Global Business Management". 1. They serve as a collective precursor to a number of related and constituent variables. These variables are a function of global, economic growth. They include: country, economic growth, inflation, interest rates, the management of foreign exchange, unemployment rates, the human development index (HDI), market size, access to global markets, consumer/investor protection and political stability. These variables form part of the political economy of a country, and they point to the potential of a country to attract foreign investment. Moreover, they provide an indication of the extent to which investors will face obstacles, as they seek to do business in this country. Consequently, the potential of a country to overcome such impediments, is discussed in section 6.3.2 in this chapter. Furthermore, these variables are subject to a circumspect, exposition, as set out in section 6.3.1 of this chapter.
To this end, "economic growth", as one of the macro-economic variables, is clarified and explained, inasmuch as MNCs' pay careful attention to economic growth, since it is one of the most important considerations, in choosing a foreign locale.

"Inflation, in turn, is discussed, as an important macro-economic variable, with reference to purchasing power. Moreover, the operation and measurement of inflation, is explained, with reference to the South African economy.

"Interest rates", as a macro-economic variable, are explained and elaborated on, with reference to financial and capital markets, and the effects of cost-push inflation.

Similarly, the variable, "foreign exchange", is defined and explained, with reference to the impact of foreign exchange rate vacillations, on a country's political-economy, and the modus operandi of foreign exchange operations.

A complementary variable is included, in the form of the “unemployment rate”, peculiar to specific countries, together with a definition of unemployment, and the metrics used to measure this phenomenon. The impact of unemployment, on a country’s political economy, is elucidated.
Allied to the explanation of unemployment, is the Human Development Index(HDI), of a country, which clarifies the prevalence of human rights in a country, and the treatment of people in a dignified manner.

However, market size, in a country, is discussed as of importance to investors, contemplating investing in a specific country, inasmuch as it clarifies the potential, buying power of the country. But, market size, is of no use to investors, unless the prospect of market access can be gauged by such investors. This probe must also take account of the country’s economic integration with other economic/trading blocs. The ultimate purpose of gauging the strength of such economic integration is to be able to target specific consumers, in the context of viable markets. Moreover, it also serves as a catalyst to consumer protection, in the event of unforeseen market failures.

Political stability, in turn, points to the integration of a country’s political economy, and is, therefore, seen as one of the most composite indicators of the potential for peaceful, democracy, in a country. Forasmuch as political instability and the threat of terrorism could lead to blatant aggression against a country’s socio-economic and political placidity, it does not bode well for a political economy that is conducive to attracting FDI. All of this is borne out in section 6.3.1 of this chapter.

6.5 MEASURES OF STRATEGIC RELEVANCE

This aspect of country attractiveness, helps us understand the complexities involved in determining a country’s attractiveness for FDI purposes. It refers to a nation-state’s capability to provide certain amenities to foreign, investing firms(MNCs). How, for example, would a country’s infrastructural facilities, enable MNCs to operate efficiently, with a view to earnings maximisation. This is spelled out in section 6.3.2 of this chapter.

Consequently, the logistics of a country’s capacity to provide such amenities, can be gauged in terms of the following prerequisites:

- Infrastructural amenities, which refers to the availability and affordability of prevailing infrastructural capacity, as a source of competitive advantage, for a host country. The types of infrastructure are enunciated in section 6.3.2 of this chapter, and the extent to which they serve as a potential deterrent to a country’s investment attractiveness.
- Global political weight/political influence, denotes the use of power, as a determinant of the capacity to change and influence decisions relating to the course of globalisation. This points
  to the scope of a country’s national sovereignty, insofar as its ability to transcend national borders is concerned. To this end, practical examples are provided.
- Economic relevance/power: this refers to the performance of a country’s economy over a given period of time. The metrics used for measuring the extent of economic power and relevance are identified and discussed. They, too, help to ascertain how attractive a country is for investment purposes.
- Regional relevance: this is closely aligned to political weight and influence. “Regional relevance” provides a microscopic perspective on the scope of global weight and relevance.

This is because a country may not be powerful in a global context, but an important player in a regional context. These relationships are clarified, in the context of highlighting their potential to influence opinions on critical issues. This process is exemplified in the exercise of “soft power”, as an indication of a country’s “power-broker” abilities. Interestingly, section 6.3.2 of this chapter, elaborates on how a country’s use of “soft power” could influence the BREXIT process, thereby avoiding an international catastrophe.

6.6 DRIVERS OF NATIONAL COMPETITION

This refers to the drivers of a country’s national competitive advantage. Pivotal to the determinants of national competitive advantage is: “wealth creation” and “poverty alleviation”, which could be endemic to a country’s political economy. These determinants allude to a country’s: human capital, financial resources, natural endowment, household consumption patterns, income disparity and social status.

Section 6.4.1 of this chapter incorporates supply-side economics, with its focus on the stimulation of economic productivity and national wealth, labor behavior and equitable compensation metrics, designed to enhance capital and labor inputs.
It incorporates the following components:

- Human capital potential, as a means of enhancing national productivity.
- Financial resources, which refers to the value of domestically available funds/capital and the ability to raise additional funds, to breach disparities in a country’s economy. It stresses, that the major role played by financial resources, in any given economy, is intermediation. This is emphasised and clarified in section 6.4.1 of this chapter.
- Natural resources(endowments) indicative of the availability of natural resources like minerals, which are important drivers of competition. Practical examples are provided in this discussion.

Section 6.4.2 of chapter 6, labelled “Demand-side” economics, encapsulates government and household consumption patterns, which is a function of household income levels and the marginal propensity to save. The focus is on “households”.

Demand-side economics includes:

- Income levels, incorporating earnings per actively employed people. The business environment, in turn, includes income levels, reflective of the inter-change of finances, between economic agents. This takes place in the form of physical or monetary assets. However, disparity is the deepest concern. This is gauged, with the aid of the Gini coefficient, which measures the level of income disparity in a country. Section 6.4.2 of this chapter, explains this measurement process very carefully.
- Social status. This is a function of the income levels and cost of living, in a particular society. For purposes of a comparative illustration, reference is made to the definition of a middle-income earner in Kenya, as opposed to a low-income earner in Kenya. This analogy is unpacked in this section of the chapter.
- Consumption patterns; indicative of what people and government are consuming, the frequency of such consumption and the percentage of each item consumed, as a proportion of total consumption. Ultimately, this process captures the ratio of consumption expenditure to total income. This metric is enlarged upon in this section of the chapter.

6.7 COMPARATIVE MEASURES OF ATTRACTIVENESS

Section 6.5 of chapter 6 of the textbook, focuses attention on the accuracy of the measurement of a country's attractiveness, to investors. It emphasises the specific advantages that flow from location advantages. The metrics used to provide a ranking of each country, in terms of their performance, are determined by measurable indicators of attractiveness, and a country's potential competitiveness.
Such a mosaic of indices, indicating a country's relative attractiveness, serves as a guide to investors, in terms of the kinds of opportunities provided by specific locations and the challenges these present.

6.8 THE "AFRICAN IMPACT"

Developments in Kenya's cotton industry provide some perspicacity in this regard. This gels with the "African dynamic", which is part of the equation, in determining a country's attractiveness. But, it also resonates with the proposed activity, presented at the end of this learning unit, and designated Activity 6.1, entitled, "Kenya's cotton boll's journey".

Indeed, section 6.6 of this chapter, provides us with a discussion about the uncertainties surrounding investments in Africa, as a community, and as a repository economic and trading blocs. Notwithstanding the negativism in this regard, this section of the chapter provides a countermand to the perception that Africa, as a land, is fraught with desolation, hunger, crime, poverty, sickness, rampant war, and persistent conflict.

While this may not bode well for Africa's investment environment, section 6.6 tries to counter this by highlighting many of the positive attributes of Africa's business environment. It does so, with reference to its economic and institutional capacity, denouncing the historical perspective of Africa, as a continent, always subjugating itself to global institutions, such as the World Bank, the IMF and the United Nations, who are often portrayed as Africa's benefactors.

6.9 CONCLUSION

This chapter focuses on the importance of "country attractiveness" in the world of global investments. It covers a range of constraints, dealing with the components of attractiveness, the capacity of country to attract investments, in terms of possessing the necessary infrastructural amenities, the and "global weight" influence, the capacity of financial intermediaries, the relevance of regional potential and capacity and the availability of financial and natural resources.

Allied to the above constraints are allusions to income levels, social status and consumption patterns peculiar to the host country. These are important indicators of the health of a country's political economy. But, the potential attractiveness of a country's investment climate, also depends on the metrics used to gauge this attractiveness. This, too, is evaluated in this chapter. These discussions culminate in a review of their application to Africa. This serves as a precursor to Activity 6.1, with its focus on Africa.

ACTIVITY 6.1

“Kenya’s cotton boll’s journey” presents us with an interesting vignette of the challenges facing African countries, as they try to improve their business environments.

Kenya’s cotton bolls travel 600 miles until they reach their seaport destination, from which locale they are exported to Hamburg, Germany. From here they are packaged for distribution across Europe. Along this journey, they are ultimately turned into shirts, the culmination of these cotton bolls, which have their origins on the border of Uganda and Kenya. The idea now, is to begin an industrial revolution in textiles, and that in the rural areas of Kenya. But, this will not be easy, for the country’s attractiveness, in this regard, is problematic.

The erosion of Kenya’s attractiveness is, for instance, seen in the progressive decline in its manufacturing capacity, as typified in its textile industry. Consequently, it’s cotton producing industry is facing decreasing support from any related industries, due to this decline. This is a trend across Africa, where manufacturing capacity is on the decline. Indeed, by 2014, Africa’s share of global manufacturing capacity had slumped to 4%. Africa, it is argued, has lost out because of: bad governance and political instability and poor infrastructure.

Therefore, what is happening in Kenya’s cotton industry, is a desperate attempt to riving an ailing cotton industry, despite increased input costs and growing international competition. These constraints are being compounded by the more costly processes involved in exporting cotton products overseas. These deficiencies are being tempered by the introduction of complementary manufacturing processes, capable of increasing the manufacturing capacity for cotton bolls.

Clearly, Kenya's ongoing difficulties are due to inherent flaws in its manufacturing and marketing infrastructure, that renders its manufacturing sector and many other sectors in the economy, unattractive to international investors. All of this has a contaminating effect on Kenya's attractiveness as an investment destination.

Source: Economist, May 6th – 12th, 2017. "A cotton boll's journey: From shrub to shirt shelf".

Given this scenario, you must:

- Explain the usefulness of the global, competitiveness index, in assessing Kenya's attractiveness as an investment destination.
- Identify the components that can be improved, in order to enhance Kenya's attractiveness as a destination for foreign direct investment (FDI).
- Evaluate the importance of Kenya's potential competitiveness, as a means of enhancing its productivity, as a cotton producing country.

We will discuss this on the discussion forum.

LEARNING UNIT 7: FOREIGN MARKET ENTRY STRATEGIES AND ALLIANCES

7.1 AIM

The purpose of this learning unit is to:

- Introduce you to the meaning and practicalities of expansion strategies.
- Arm you with sufficient material so that you can defend the rationale for foreign market expansion.
- Sensitise you to the different phases of foreign market expansions.
- Enable you to unpack the different types of strategies adopted by MNCs who are venturing abroad. This will expose you to the practicalities of expansion strategies.
- Decompose and discuss the different levels of involvement in offshore markets, enabling you to understand how MNCs' relate to offshore investments.
- Enable you, at a broader level, to differentiate between the different types of strategies employed in international business.

7.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Explain the meaning of expansion strategies for foreign markets.
- Identify and discuss the rationale for foreign market expansion.
- Criticise the various phases of foreign market expansions.
- Enunciate the different types of foreign market expansion strategies, adopted by MNCs.
- Differentiate between the different levels of involvement in offshore markets.
- Rationalise the different types of strategies employed in international business.

7.3 RATIONALISING FOREIGN MARKET EXPANSION STRATEGIES

Section 7.2 seeks to rationalise the expansion strategies discussed in this chapter. These strategies hinge on the locational advantages that their implementation depends upon. They seek to utilise specific locational advantages in off-shore locations that warrant attention. Moreover, the choice of expansion strategies depends on a number of factors. These include: corporate foreign policy, strategy and structure of the industry, which influences the response patterns of an MNC insofar as pressure for expansion overseas is concerned.

Pivotal to the formulation and implementation of expansion strategies is the target market the MNC is aiming to penetrate. The size of this market will determine an MNCs' commitment to such a foreign market. The emphasis is on the immediate relevance of a market to the MNC.

7.4 REASONS FOR OFFSHORE EXPANSION

As per Section 7.3 MNCs' venture abroad for a variety of reasons. These can be decomposed as:

- International enhancement.
- Industry expansion opportunities.
- Comparative pressures in the domestic market.
- So as to neutralise competition through first-mover advantages. This needs to be evaluated in terms of costs, benefits and risks, which is a pivotal exercise when it comes to contemplating moving into emerging markets.
- To strengthen international supply chain networks.
- To enhance the profit motive of MNCs, due to saturation in the domestic market.
- To counter international moves by MNC's rivals thereby improving their global presence.

All of this requires a particular strategic orientation.

7.5 PHASES OF BUSINESS COMMITMENT

An MNC's entrée to the foreign market arena, is invariably proceeded by a progression through distinct phases of commitment to such a prospective expansion. Section 7.4 of this chapter sets out these phases.

The theoretical underpinnings of such a progressive move, lies in the rationale of the product life cycle, which emphasised that most products are, ostensibly, made for the domestic market. The assumption is that the firm will only internationalises, when the product becomes well known and customer demand for this product, overseas, has been ascertained. Other theoretical models that are advanced are based on proposals by Andersen and by a group of academics at Uppsala, in

Sweden, which has now become known as the Uppsala stage of international business commitment, as explained in the introduction of section 7.5 of this chapter.

Therefore, the respective stages of business commitment include:

- Intermittent export, as proposed in 7.4.1 of this chapter 7. It refers to intermittent exporting to offshore markets, but on an irregular basis.
- Exporting through independent agents. The growing demand for the product, prompts MNCs to start soliciting support from independent agents. This is aimed at supporting the overseas market through a greater degree of commitment.
- Creation of an overseas distribution and sales subsidiary, this is often the result of establishing an overseas independent agent. This subsidiary is fully controlled by the MNC, in the foreign market.
- Establishing an outright production facility overseas, this is usually the final stage in the process of establishing an overseas presence. It is usually an irreversible process. This is the consummation of the MNC's strategic intent, to undertake cross-border investments.

7.6 INTERNATIONAL EXPANSION STRATEGIES.

Such a commitment to foreign expansion presupposes the adoption of a particular strategy. These could be:

An Arms-length strategy. This is usually expressed in the adoption of a number of foreign market entry modes.

These include:

- Exporting – this allows for a foreign market entry mode, enabling an MNC to manufacture in the home market, but sell the products abroad. This is indicative of MNCs' who want to limit their overseas commitment, as it continuously strives for scale economies.
- Licensing – this penetration strategy involves the use of overseas operators on the behalf of the licensor. Licensing is subject to numerous conditions. For instance, the licensee must conduct trade on the propriety associated with the licensor including the terms and conditions of the license agreement and the expiry date, of the licensing agreement. Moreover, the licensee pays a fee to licensor that allows for trading according to a known and trusted property/goodwill status, giving licensee easier access to markets. But, the caveat to this is that licensee may illegally dispose of trading secrets.
- Franchising, which is close to licensing, however, licensing has an expiry date built into the agreement which franchising does not.
- Contract manufacturing – which is closely aligned with licensing in terms of which the contractee (principal) agrees to contract manufacturing certain products on behalf on behalf of the contractor. This is a strict, legal contract, binding in law.
- Turnkey projects- which are similar to exports and licensing as well as contract manufacturing. It is used to facilitate the exporting of high-tech equipment, machines and systems. The modus operandi is based on the "built and deliver" principle. The product is manufactured in the home country where technology is assembled for operation. This strategy usually benefits the contractor but denies the host country the capacity to develop such technology.

- Service-sector outsourcing, services are contracted out that are part of an MNCs' core operations. It is particularly popular in the case of ICT services, which are outsourced to specialists in the field. For example, the outsourcing of software development to India.
- Collaborative arrangements – including:
  - Strategic alliances, through forging alliances with competitors in the same industry. This is usually used in industries with high-cost drivers. Joint ventures would fall into this category as well. JVs have certain preconditions built into the agreement, namely, how profits will be shared, and how skills and knowledge will be harnessed, so as to so as not to give away trade secrets.
  - Mergers and acquisitions aimed at acquiring and controlling shares in existing businesses or simply merging on an equal footing with foreign firms. Acquiring a firm would allow for a revamp of administrative structures and systems of the firm so acquired. But, mergers depend on the host partners for support.
  - Wholly-owned subsidiaries are usually regarded as greenfield investments enabling MNCs to create a foreign subsidiary from scratch. The investing firm can build its own, unique, operating system(structure) according to its own requirements, while being able to infuse its own culture.

Table 7.1 in chapter 7 of the textbook, contains a summary of these entry modes, with their corresponding advantages and short-comings.
The culmination of international expansion strategies is summarised in section 7.6 of the chapter. Figure 7.1 illustrates the FOUR available strategies available to offshore investors. They are premised on the frequency of cost reductions and local responsiveness occurring in MNCs' business plans. Some MNCs face pressures to reduce costs rather than customising their products to suit local tastes. Others have to succumb to both types of pressure.
Consequently, these strategies are presented as follows: multinational, global, international and transnational strategies. Figure 7.1 offsets those pressures for cost reduction and local responsiveness, positioning MNCs according to these types of competitive pressures in the global market place. These FOUR strategies are explained in section 7.6 where they are enunciated as: multinational, global, international and transnational strategies.

7.7 CONCLUSION

This learning unit expands on the meaning of expansion strategies in global business. Different strategies are explained, major drivers of global expansion are highlighted, together with the phases they go through.

The FOUR types of generic strategies that underpin the rationale for foreign expansion, are dealt with as well.

ACTIVITY 7.1

STUTTAFORDS: LOST OPPORTUNITIES
South Africa's premier, traditional, retail departmental store now faces the very real threat of being wound-up or liquidated as a going concern. Business rescue plans have failed to reverse this situation.
This is the result despite rigorous attempts by shareholders to salvage the business and their respective investments. This demise raises questions as to whether Stuttafords could not

have avoided this situation, inter alia, by considering the prospect of international strategies, given possible growth prospects overseas. Although critics doubt this could have saved the business, others believe it was worth a try.

Given this situation you are required to respond to the following:

- Could the adoption of a foreign expansion strategy have been of any help to Stuttafords?
- Where would they have to positioned themselves in the different phases of business commitment, in order to consider an international strategy?
- What global, generic strategy, could they have adopted to pursue such an international expansion?

We will discuss this on the discussion forum.

LEARNING UNIT 8: EXPANSION STRATEGIES IN EMERGING MARKETS

8.1 AIM

The purpose of this learning unit is to describe foreign expansion and to highlight the strategic advantages derived by organisations as they expand regionally and within the African continent. The presence of Africa-originated MNCs within the continent are also looked at.

8.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Understanding Various Criteria Used in Classifying Economies

- Explain the Justification for Classifying Economies According to their Level of Development
- Explain the Meaning of Expansion into Foreign Markets
- Identify the Main Drivers of Expansion Decision Across Regions
- Explain the Dynamics of MNCs Behaviour in African Markets
- Understand the Case of Emerging Markets (Asia and Africa)
- Explain the Expansion Decisions by Africa-originated MNCs
- Identify Prospects and Challenges of Home-grown MNCs in Africa

8.3 CLASSIFICATION OF EMERGING MARKETS

Section 2 of chapter 8 of the textbook explains that markets are largely classified based on established characteristics. The two largely adopted classifications of markets according to their level of development or industrialisation comes from the International Monetary Fund (IMF) and the World Bank (WB). Economies are usually categorised into advanced (industrialised) economies, emerging markets, developing economies and underdeveloped economies. These classifications are based on a country's performance regarding:

- Per capita income level (as illustrated in Table 1);
- Export diversification;
- Integration into the global financial market.

These concepts are explored further in Section 2 of chapter 8 of the textbook.

8.4 EMERGING MARKETS IN AFRICA

According to the 2016 World Economic Outlook of the IMF, all countries on the African continent are either emerging or underdeveloped. The report suggests that none of the countries on the continent is sufficiently developed enough to meet the criteria necessary for emancipation into advanced economy. Section 3 of chapter 8 of the textbook explains why the per capita income level is not entirely accurate in classifying emerging markets.

Furthermore, Table 2 in Section 3 of chapter 8, presents an example of why export diversification is flawed in categorising economies. Likewise, using the measure of integration into the global financial markets is also flawed as explained in Section 3 of chapter 8.

8.5 MULTINATIONAL CORPORATIONS AND AFRICA-ORIGINATED MNCs

Several developing countries have benefitted extensively from hosting multinational corporations that originated from Western Europe and North America as discussed in Section 3 of chapter 8.

As economic growth is largely influenced by capital stock and output, the benefits derivable from foreign direct investment by developing countries are significant. This is depicted in Table 3 in Section 4 of chapter 8.

8.6 DETERMINANTS OF EXPANSION DECISIONS BY MNCs in AFRICA

As explained in Section 5 of chapter 8 of the textbook, expansion decisions of multinational corporations are based on commercial motives. These are categorised as market opportunities, resources and other location-specific advantages, as well as efficiency-seeking or process efficiency motives.

8.7 MOTIVATIONS FOR MNCs EXPANSION IN AFRICA

It is important to realise that the drivers of investment to various locations differ. Section 6 of chapter 8 of the textbook discusses these different drivers such as resources, efficient financial services, media, information and telecommunication technology and the consumer market.

8.8 CHALLENGES FACING MNCs IN AFRICA

Section 7 of chapter 8 highlights some of the challenges faced by MNCs on the African continent. These include the safety and security of investors, business related crimes and murder.

8.9 INTRICACIES OF INSTITUTIONAL WEAKNESSES IN AFRICAN COUNTRIES

Institutional failure stems from a lack of understanding and practical application of the democratic system and principles. Section 8 of chapter 8 discusses how institutional weaknesses have affected African countries.

8.10 NEW THINKING ON MNCs ACTIVITIES IN AFRICA

Section 9 of chapter 8 of the textbook, indicates that the flow of FDI into developing countries has grown over the past few decades. This is mainly due to an increase in MNCs that originate from developing economies as explained in Section 9 of chapter 8.

8.11 CONCLUSION

This learning unit looked at various criteria used by the leading global institutions in classifying economies according to their level of development. These criteria include the GDP per capita the level of industrialisation in the country. Then major countries on the continent and their unique characteristics that qualify them as emerging markets were discussed.

The determinants of expansion strategies of MNCs into Africa, such as market opportunities, resources or other location specific advantages, and process efficiency were highlighted. The motivating factors that attract MNCs to African countries and the challenges that face MNCs operations in Africa were discussed.

ACTIVITY 8.1

- Explain the various criteria that can be used to classify an economy.
- Critically discuss the determinants of expansion strategies by MNCs into Africa.

We will discuss this on the discussion forum.

LEARNING UNIT 9: GLOBAL OPERATIONS AND SUPPLY CHAIN MANAGEMENT

9.1 AIM

The purpose of this learning unit is to emphasise the importance of a solid global supply chain process in global business management.

9.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Explain the concept of operations and supply chain management
- Describe the historical development of operations and supply chain management

- Discuss how global operations and supply chain processes are managed
- Describe how products and services are designed
- Discuss the manufacturing systems in an operations and supply chain context
- Explain global sourcing, logistics and transport managementDiscuss current issues in operations and supply chain management

9.3 OPERATIONS AND SUPPLY CHAIN MANAGEMENT DEFINED

Operations and supply chain management involves a systematic way of looking at organisational processes with a focus on process excellence and from both intra-organisational and inter-organisational perspectives. Section 2 of chapter 9 of the textbook offers further definitions of operations and supply chain management. A distinction is also made between supply chain management and operations management. Table 9.1 in Section 2 of this chapter provides examples of operation processes.

9.4 HISTORICAL DEVELOPMENT OF OPERATIONS AND SUPPLY CHAIN MANAGEMENT

Section 9. 3 of chapter 9 provides an account of the historical developments of operations and supply chain management. This section of chapter 9 also discusses the major developments in operations and supply chain management. These include the Ford assembly lines in 1910, the introduction of the electronic database interchange (EDI), the developments in the 1980s, the FedEx tracking systems in 1985, and lean manufacturing systems in the 1990s.

9.5 MANAGING GLOBAL OPERATIONS AND SUPPLY CHAIN PROCESSES

Global firms are faced with several challenges with regard to managing global operations and supply chain processes. These include achieving the desired levels of customer service, quality, cash, cost responsiveness and innovation standards. These challenges are outlined in section 4 of chapter 9 of the textbook.

9.6 PRODUCTS AND SERVICES ARE DESIGN

Operations and supply chain managers have an indirect responsibility to provide information and advice upon which the success of a product or service will depend. All products and services have three aspects: a concept, a package and a process. These concepts are elaborated on in Section 5 of chapter 9 of the textbook.

9.7 MANUFACTURING SYSTEMS IN OPERATIONS AND SUPPLY CHAIN MANAGEMENT

Manufacturing systems in operations and supply chain management are influenced by manufacturing processes and customer requirements. Section 9.6.1 of chapter 9 of the textbook provides a definition of a manufacturing process.

There are four common types of manufacturing structures in a manufacturing environment: the job shop process, the batch process, the line flow process and continuous improvement. Further discussions on each type are provided in Section 9.6.1. Furthermore, Figure 9.3 depicts the relationship between layout structures on a product-process matrix.

Section 9.6.2 of the textbook discusses four manufacturing strategies. These are make-to-stock; make-to-order; configure-to-order and engineer-to-orderThese strategies are summarised in Table 9.2 in Section 9.6.2. of the textbook.

It should also be highlighted that Table 9.3 in Section 9.6.2, provides a summary of the characteristics or manufacturing processes. These processes are outlined in Section 9.6.2 of the textbook.

9.8 GLOBAL SOURCING, LOGISTICS AND TRANSPORT MANAGEMENT

Due to globalisation and inexpensive communications technology, organisations are no longer constrained by the capabilities they own. It is essential to optimise global capabilities and this can be achieved through global sourcing, logistics and transport management. These concepts are outlined in Section 7 of chapter 9 of the textbook.

9.9 GLOBAL OPERATIONS AND SUPPLY CHAIN MANAGEMENT ISSUES

Some of the current issues in the field of operations and supply chain management are: coordinating supply chain relationships; optimising the supply chain; enhancing co-production of goods and services; managing customer touch points; awareness of operations as a significant competitive weapon; complex interconnected supply chains and building efficient global supply chains. These issues are highlighted in Section 8 of chapter 9 of the textbook.

9.10 CONCLUSION

This learning unit has focused on the importance of global operations and supply chain management. The costs, complexity and risks associated with going global need to be managed so that the firm can stay competitive.

This learning unit has also discussed the historical development of supply chain management; provided a description of how global operations and supply chain processes are managed;and touched on product and systems design; manufacturing systems; global sourcing; logistics and transport management and issues in global operations and supply chain management. Lastly, the choice and impact of the manufacturing strategy were highlighted.

ACTIVITY 9.1

- Critically discuss how global operations and supply chain processes are managed.
- Elaborate on the various manufacturing systems that can be employed in operations and supply chain management.
- Explain what is meant by the concepts *global sourcing*, *logistics* and *transport management*

We will discuss this on the discussion forum.

LEARNING UNIT 10: GLOBAL MARKETING STRATEGIES

10.1 AIM

The purpose of this learning unit is to:

- Examine the issues that need to be considered before deciding to go global

- Discuss strategic decisions relating to how best to deal with the challenges of going global
- Explore the management of marketing strategy

10.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Discuss each of the steps involved in making the decision to go global
- Explain what is meant by “born global” firms
- Outline the process of going global
- Explain the impact and importance of the global environment on global strategy
- Discuss standardised and adaptation approaches to product, promotion, pricing and distribution decisions
- Understand the opportunities offered by the web to help firms go global
- Explain the task of managing a firm’s international activities

10.3 THE DECISION TO GO GLOBAL

Section 10.2 seeks to rationalise the decision to go global as discussed in this chapter. The decision not to go global is just as important as deciding to go global. The reality is that entering into global trade can be a tough, expensive and daunting task and few companies succeed. Significant resources such as money, time, human resources and effort are required in the process of entering global trade.

The decision to enter into global trade needs to be part of the firm’s overall strategic vision. Figure1 in Section 2 of chapter 10 illustrates the six steps of which the process of going global is comprised. The illustration is followed by a discussion of the are: strategic vision, global readiness audit, top management commitment, allocation of interim resources, buy-in, Strategic Business Unit (SBU), globalisation plan and budget.

10.4 BORN-GLOBAL FIRMS

Often, companies are created for one purpose only and that is to compete in global markets. This is made possible by the internet, affordability and access to technology, easier communication, reduced barriers to trade, the global movement of skills. Section 2 of chapter 10 of the textbook provides further examples.

10.5 STRATEGIC MARKETING DECISIONS IN GOING GLOBAL

Section 3 of chapter 10 outlines the six strategic decisions a firm has to consider when deciding to enter the global marketplace. These six strategic decisions are: the firm’s approach to overcoming environmental barriers, undertaking market research, making a country/market choice, deciding on an entry method, segmenting markets, targeting specific markets and positioning the product within the selected segment and then adapting the marketing mix for that segment specifically. They are illustrated in figure 2, in Section 3 of the textbook.

10.6 ONLINE OPTIONS IN GLOBAL TRADE

Section 4 of this chapter discusses how the internet and the World Wide Web (www) have presented many new opportunities to global firms. Examples of these are discussed further in Section 4 of chapter 10 of the textbook.

10.7 MANAGING THE GLOBAL MARKETING EFFORT

The global firm needs to set global marketing goals, based both on its overall business goals and on the firm's broad marketing goals. Global marketing strategies then need to be formulated and translated into operational activities and tactics. It is also important that these global marketing strategies are closely interlinked with the firm's broader business mission and marketing strategy. These global marketing strategies need to be implemented and controlled to ensure that the strategies decided upon achieve the goals set. The firm's day-to-day global activities also need to be managed. These concepts are elaborated on in Section 5 of chapter 10 of the textbook.

10.8 CONCLUSION

This learning unit has elaborated on how important the decision to enter the global marketplace is. It has discussed a number of additional strategic marketing decisions that relate to how the organisation should best deal with the challenges of going global and has looked at ways to succeed in extremely competitive global markets.

The role of the web in facilitating the globalisation process has also been outlined. Finally, the management of the firm's global marketing activities was highlighted.

ACTIVITY 10.1

- Critically discuss six steps that comprise the process of entering global trade.
- Evaluate each of the six strategic decisions that need to be made when a firm decides to enter the global marketplace.

We will discuss this on the discussion forum.

LEARNING UNIT 11: INTERNATIONAL HUMAN RESOURCE MANAGEMENT

11.1 AIM

The purpose of this learning unit is to highlight that human resource issues need to be addressed to gain competitive advantage in a global organisation.

11.2 LEARNING OUTCOMES

After you have studied this learning unit, you should be able to:

- Define international human resource management
- Elaborate on the different categories of international employees
- Discuss the levels of global participation
- Discuss the global issues that need to be considered in international human resource management
- Elaborate on the functions of human resource management
- Discuss cross cultural training and development for international employees
- Expand on labour relations and international employees
- Discuss the return of international employees to their home country
- Discuss the future of global assignments

11.3 WHAT IS INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Section 2 of chapter 11 of the textbook, presents a definition of international human resource management.

11.4 DIFFERENT CATEGORIES OF INTERNATIONAL EMPLOYEES

As discussed in Section 3 of chapter 11 of the textbook, international employees can be placed into different categories.
These are categories are:

- Expatriate
- Parent-country national
- Host-country national
- Third-country national

11.5 LEVELS OF GLOBAL PARTICIPATION

Section 4 of chapter 11 of the textbook, describes the various levels on which a global corporation can be involved in other countries.
These levels are:

- Parent country – the country in which a company's corporate headquarters is located
- Host country – the country in which the parent country organisation seeks to locate or has already located a facility
- Third country – a country other than a parent or host country. A company may or may not have a facility in the country.

All of these issues are discussed in greater detail in Section 4 of this chapter of the textbook.

11.6 GLOBAL ISSUES THAT NEED TO BE CONSIDERED IN INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Section 5 of chapter 11 of the textbook, highlights several issues that need to be taken into consideration in the management of international human resources.

These issues include:

- Changes around the world such as general agreement on trade and tariffs, growth of particular economies, dominant economies, free trade agreements, economic unions
- National culture of countries
- Education and skill levels of the human resources of a country
- The political-legal system of a country
- The economic system of a country

All of these issues are discussed in greater detail in Section 5 of this chapter of the textbook.

11.7 HUMAN RESOURCE MANAGEMENT FUNCTIONS

Section 6 of chapter 11 of the textbook presents details on the functions of human resource management within a global firm.

These functions are:

- human resource planning (Section 6.1)
- staffing of international employees (Section 6.2)
- compensation of international employees (Section 6.3)

Furthermore, Section 6.3. of chapter 11 of the textbook identifies and discusses a range of problems that expatriates may be confronted with.

11.8 CROSS CULTURAL TRAINING AND DEVELOPMENT FOR INTERNATIONAL EMPLOYEES

Section 7 of chapter 11 of the textbook, expands on the important role of expatriate cross cultural training (CCT) in the successful implementation of international business assignments and the development of international managers.

As provided in Section 7 of chapter 11 of the textbook, CCT can be employ various techniques. These techniques are:

- Attribution training
- Cultural awareness training
- Interaction training
- Language training
- Educational training
- Experimental training

11.9 MANAGING THE PERFORMANCE OF INTERNATIONAL EMPLOYEES

Section 8 of chapter 11 of the textbook provides a detailed discussion on how the performance of international employees should be managed within a global firm.

11.10 LABOUR RELATIONS AND INTERNATIONAL EMPLOYEES

A detailed discourse on labour relations and international employees is provided in Section 9 of chapter 11 of the textbook.

11.11 THE RETURN OF INTERNATIONAL EMPLOYEES TO THEIR HOME COUNTRY

The problem of how to deal with expatriates returning to their home countries after spending some time abroad is interrogated in detail in Section 10 of chapter 11 of the textbook.

11.12 THE FUTURE OF GLOBAL BUSINESS ASSIGNMENTS

Section 11 of chapter 11 of the textbook explains that there is limited evidence of a decline in the use of long term assignments but a growing trend of different types of international assignments.

These types of assignments include:

- Short-term international assignments
- Frequent flyer assignments
- Commuter and rotational assignments
- Virtual Teams

11.13 CONCLUSION

This learning unit dealt with international human resource management. First, a definition of international human resource management was provided. The different categories of international employees were discussed. Next the levels of global participation and the global issues and their impact on international human resource management were considered. This was followed by details on the functions of human resource management.

Next a discussion on cross cultural training and development for international employees was provided. Thereafter labour relations and international employees, the return of international employees to their home country and the future of global assignments were expanded on.

From the above discussion, it is clear that human resource managers need to play an even more strategic role with the necessary policies and processes in place if they are too successfully manage the diverse forms of international human resources.

ACTIVITY 11.1

- Fully discuss the various categories international employees can be placed into.
- Explain what cross cultural training and development for international employees entails.

We will discuss this on the discussion forum.

IN CLOSING

We wish you success in your studies.

Your lecturers for MNB3702
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