



Tutorial Letter 202/1/2018

Principles of Global Business

MNB 3701

Semester 1

Department of Business Management

IMPORTANT INFORMATION

Please register on myUnisa, activate your myLife e-mail address and make sure that you have regular access to the myUnisa module website - MNB3701-2018-S1, as well as your group website.
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Note: This is an online module and therefore, necessary study materials are available on myUnisa platform. However, in order to support you in your learning process, you will also receive some study material in printed format.

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1. INTRODUCTION

This tutorial letter seeks to provide guidelines on how you were expected to answer the essay-type questions that is contained in assignment 02 as documented in Tutorial Letter 101. In this assignment, there are three essay-type questions and a few other sub-questions. As indicated in the Tutorial Letters, question 1 contains three sub-questions that totalled 25 marks; question 2 contains 2 sub-questions amounting to 20 marks and question 3 contains three sub-questions that amount to 25 marks. These questions are designed particularly to cover a wide range of the curriculum in addendum to the scope covered by the multiple choice questions assignment (assignment 03).

As a part of your examination preparation, you are urged to study the guidelines provided in this Tutorial Letter in tandem with the references made to the prescribed book. More importantly, kindly note that the responses contained in this Tutorial Letter are merely suggestive of the most appropriate approach in responding to the questions. Under no circumstance are you expected to see the proposition as academic prescription. In addendum to this material, you are urged to engage the teaching team and your classmates academically and stimulate robust discussion on the suggestions provided.

2. COMMENTS ON ASSIGNMENT 02

These questions have been designed to give you maximum exposure to the material contained in the prescribed textbook. In so doing, you are required to cover a significant portion of the syllabus of the module in order to have been able to complete the assignment successfully. These questions must, therefore, be treated as a tool to enhance thorough preparation for the forthcoming semester examination. The structure of this assignment is a fair reflection of what to expect in the examination. This does not suggest that the set of questions contained in this assignment will be repeated in the examination, but rather to

give you some indication of how the examination questions will be structured.

The answers provided in this tutorial letter are suggestive of an appropriate approach to be adopted in responding to the questions posed in the assignment. In addition, we attempt to cite the appropriate sections of the prescribed book that reinforces the approach taken in responding to the questions raised in the assignment. This is done specifically not only to justify our approach, but more importantly to provide the practical approach to understanding the materials presented in the prescribed book.

3. SOLUTIONS TO ASSIGNMENT 02: Questions 1 – 3

Question 1

1.1 Distinguish between the various types of globalisation (5 marks).

Response:

The assignment requires you to identify and briefly explain the various types of globalisation. The material suitable to answer this question can be found on page 7 of the prescribed book, under the caption: “Types and Forms of Globalisation”. The section begins by reiterating the fact that globalisation means different things to different people, which makes it challenging to specifically categorise globalisation. However, attempt was made to narrow down the focus to the intricacies of interests and effects of globalisation, namely the production activities and consumption functions – globalisation of production and globalisation of markets. At this juncture, please remember the weight of marks allocated to this question (5 marks). As such, your response should be brief.

To start with, globalisation of production entails the freedom enjoyed by MNCs to situate their production facilities in any location (across the world) that meets their strategic investment interest. By globalisation of production,

we mean the unrestricted leverage accorded MNCs as a result of increasing integration of systems and people, to move freely into any geographical location that offers them the best location specific advantages. These locations are potentially capable of advancing production and cost efficiency, and ultimately, profit maximisation. Notable example is the location of Sysco Systems, an Indian high-tech MNC, in Silicon Valley (California); location of ArcelorMitta, an Indian owned steel manufacturer in Luxembourg. Further examples of location specific advantages can be found in our societies like the location of BMW assembly plant in Rosslyn (Gauteng) and Toyota in East London. On the other hand, globalisation of markets merely allows producers like most MNCs that locate in China, to produce their goods in their home country and look for markets across the global geography. This is mainly made possible because of increasingly lowering import restrictions and weakened application of instruments of trade restriction.

1.2 Fully explain what the World Bank's "Worldwide Governance Indicators" refer to (12 marks).

Response:

The response to this question can be gleaned from materials contained on pages 25 to 26 of the prescribed book (chapter two). The prescribed book discusses a number of measurable indicators of governance, essentially its functionality and efficiency. As one of the institutional instruments/barometers adopted by the World Bank to gauge institutional efficiency, it has been very popular in acceptance and utilisation. The fact that this survey covers more than 215 economies today, is an indication of its wide-ranging effects on how countries are perceived and ultimately, their attractiveness to inflow of foreign investment determined. The major yardsticks used by the survey revolves around voice and accountability, political stability, the effectiveness of political governance, quality of the regulatory instruments, respect for the rule of law and ability of government to control and stem graft.

As suggested in the response to question 1.1, it is important to look carefully at the mark allocation. To score a reasonable mark, it is important to present a respectable amount of information and practical examples. For instance, each of the indicators has to be discussed and relevant examples have to be cited in each of the cases, in order to strengthen your argument and to convince the marker that you really understand the concepts being investigated in the assignment. I will however, propose a synopsis of each of the identified measurable indicators of WGI as contained in the prescribed book.

To start with, voice and accountability simply captures the extent to which the regulatory instruments of a country supports the fundamental human rights of freedom of speech. It is largely expected that an efficient political system should support freedom of speech, which is the main instrument used to critique political leadership and to hold them accountable without recourse to any form of intimidation or maltreatment. For example, freedom of speech is almost non-existent in most Asian countries. There is various documented evidence to suggest that people are arrested and abused if they speak truth to power! This was also observed in Zimbabwe and a host of other African countries over the past decades.

However, South Africa enjoys a great deal of voice, and political leadership are generally held accountable for their roles, activities and authority. Political stability simply focuses on peaceful transfer of power from one democratic leader to another. This has been elusive to many African countries for a very long time. In conventional African system, powers are either seized from democratically elected leader by military juntas or by rebels. In recent years, there has been reasonable easy and peaceful transfer of power in most of African countries. The case of Liberia, Sierra Leone, Nigeria, Botswana, Zimbabwe and a host of others easily come to mind.

The indicator that measures government effectiveness simply capture the extent to which a government is considered functionality and responsiveness

to the yearnings and aspirations of the people, and living up to the expectations of the general global apparatus. Every effective government is expected to easily maintain law and order, maintain peaceful coexistence and ensure socioeconomic prosperity of a country and its people. This is mainly achieved through strong and effective regulatory framework. It is expected that the rules and regulations must be strong enough to enable an effective and efficient governance. Further to this argument, respect for the rule of law is cardinal to ensure not only effective governance but also to strengthen freedom of speech and political stability. Any government that does not respect the rule of law may ultimately become autocratic and draconic. This said, a democratic political system that respects the rule of law and has effective and efficient institutional quality would be able to control corruption and behave responsibly in the best interest of the entire economy.

1.3 Discuss what is meant by the concept “justice theories” as a theory of business ethics (8 marks).

Response:

This topic is treated in chapter four, spanning pages 77 till 79 in the prescribed book. The main component of this theory is “distributive justice”, which includes an advocacy for justice that is underpinned by fairness. According to this theory, a decision is considered “just” if it places more consideration on the effects of the decision on a wider percentage of the population or community rather than merely considering the effects of the decision on owners of capital or other set of sectional stakeholders. In essence, the theory presupposes that the overarching interest of the multitude (the less privileged people) would supersede that of the minority as a baseline standard of ethical judgement.

Again, kindly pay attention to the mark allocation (8 marks) in order to gauge the amount of information required to earn maximum marks possible. It is important to note that this theory in a way, may perpetrate or further socio-political and economic inequality as long as justifiable evidence or argument

can be presented on the need to keep wages low to employ more labour, or to deny less-privileged access to universal basic education in order to provide healthcare. As suggested by the author, the interest of multitude is the interest of all! In practice, this is not particularly true, essentially in the world of business. As we are aware, labour would demand more wages and good working conditions, while suppliers would demand immediate settlement of invoices. However, the owners of capital are too powerful to comprise profit maximisation and growth of earnings per share. The question that then arises is, in whose interest is the “just righteousness”?

[Total: 25 marks]

Question 2

2.1 Provide 5 examples of how technologies and innovation are influencing the business world (10 marks).

Response:

The main material that encapsulates the basics of this question can be found on pages 90 and 91 (chapter 5) of the prescribed book. In this chapter, the author looks in detail, into the strategic importance of innovation and technology to the dominant form and types of business that dominate our contemporary world, and how businesses in general are conducted. The author simply defines technology as the use of scientific and new knowledge to solve practical human problems. Experiences in contemporary business world suggests that very innovative people and businesses are more technologically advanced and a lot wealthier than their counterparts. For instance, advanced economies are fondly regarded as “technologically advanced/sophisticated” economies and their accumulation of wealth is superior to those of developing or underdeveloped economies.

I must point out that these economies are more prosperous simply because they export technologically advanced products and services to most part of the world. Examples include the superiority of the United States and Germany in semiconductor, nuclear systems, nanotechnology, and robotics.

Japanese also feature prominently in this regard and the global economic relevance of these countries is imposing. Again, remember that the question carries 10 marks. You may then need to look at a few of the information contained on pages 91 to 112 to strengthen your argument or proposition. It is particularly suggested that you attempt the self-evaluation questions contained on page 112.

2.2 Innovation is not the only driver of competitiveness. Discuss 5 other drivers of competitiveness. (5 marks)

Response:

To start with, remember that this question only attracts 5 marks. As such, I would suggest that you merely highlight each of the identified drivers of competitiveness. You may cite a few practical examples to further buttress your point.

The material for this question can be found on pages 103 to 104 (chapter 5) of the prescribed book. According to the author, five other drivers of competitiveness are identified as the use of information technology to achieve operational efficiency and eventually, cost reduction; identification of neglected market segment (market segmentation) to be served and served better than competitors; structural industry integration to reap industry specific cooperation advantages; reaping advantages of conglomerate localisation, such as the innovation hub in Germany and Silicon Valley in California. The author mentioned offshore location of operational facility in the form of greenfield investment to reap location specific advantages. As you may have observed, each of these approaches are closely tallied to the major global business competitiveness strategies, namely product differentiation strategies, cost leadership and market segmentation.

2.3 Discuss the need for a global information system (5 marks).

Response:

Again, this question carries only 5 marks. Some level of brevity and concise response is required. The requisite information to successfully respond to this question could be found on page 111 (Chapter 5) on the prescribed book. This section of the chapter began with the citation from a leading masterpiece in global information system (global marketing decision support system) – Phillip Kotler. According to the author, this system, that is, global information system, forms a cardinal of the extant corporate information management system. In express terms, global information systems enable a firm to collect information about the market and their competitors in order to ensure efficient corporate knowledge base. All these are essential to enable a firm design and adopt a superior competitive strategy that is capable of outperforming their rivals in the global marketplace.

[Total: 20 marks]

Question 3

3.1 Explain fully what “transfer pricing” entails (5 marks).

Response:

Yet again, this question carries 5 marks. You are therefore urged to be brief but catchy in your response to the question. Material to successfully complete this assignment can be found on pages 164 to 166 (Chapter 8) of the prescribed book. Simply put, transfer pricing means the prices attached to input resources shared by and within the network of a specific corporation. For instance, if BMW (Germany) supplies one of its offshore subsidiaries (e.g. BMW South Africa) input resources like car engines, gear boxes and other electrical gadgets, the corporate headquarters would attach specific price tags to each of the items supplied and they will be debited as part of operating costs in South Africa. While this practice is generally not immoral and are considered a common business practice, its praxis has drawn

increasing global condemnation mainly because the costs are always padded by MNCs to fraudulently manipulate operating costs in the offshore markets and thereby lower amount of money declared as operating profit (tax evasion). The praxis also vitiates ethics of good conduct in global business considerate.

3.2 Critically discuss the three types of foreign exchange exposure that a Multinational Corporation (MNC) can encounter in the foreign exchange market (9 marks).

Response:

Material needed to successfully complete your response to this question can be found on pages 136 to 139 (Chapter 6) as well as pages 174 to 175 (chapter 8) of the prescribed book but in varying contexts. In specific reference to this question, the material presented on pages 136 to 139 (chapter 6) is more relevant and appropriate because the latter deals with capital budgeting in specific. A similar question to this was raised in the preparatory question, and the response provided to that question is provided here again.

Exposures are generally regarded as measures of foreign exchange risks that managers of multinational organisations have to contend with and manage continuously. Three basic exposures have been identified namely, transaction, translation and economic exposures.

Transaction exposure measures the degree to which the value of anticipated future cash transactions can be affected by exchange rate fluctuations. More specifically, it measures the potential gains or losses on the future settlement of a company's outstanding financial obligations that are denominated in a foreign currency. These financial obligations include account receivables and transactional debts.

Translation exposure measures the degree to which the consolidated financial statement of a multinational enterprise is susceptible to exchange

rate fluctuations. This is sometimes referred to as accounting exposure. This kind of exposure arises because the parent company must consolidate the financial statement of all its foreign subsidiaries into a single corporate financial statement. Given that the financial statements of foreign subsidiaries are prepared using the host country currency denominations, the need to 'translate' these financial statements into the home country's currency denomination hereby arises. The process of 'translating' the financial statements from one currency to another brings about losses or gains depending on the effects of fluctuation on either of these currencies.

Economic exposure measures the degree to which a firm's present value of future cash flows can be influenced by exchange rate fluctuations. In essence, the present value of a firm's cash flows can be affected by an unexpected change in exchange rates. It is noteworthy that economic exposures could delve a devastating blow to a firm's operational success; far more compared to either transaction or translation exposures. This is because it is more long-term orientated and any meaningful swing in exchange rates could adversely affect the firm's cash flows. A major problem that is unique to economic exposure is that the cause or potential causes of either beneficial or adverse future trends are normally not/ rarely readily apparent before the event unfolds.

3.3 Contrast forward exchange contracts with foreign currency options. Provide examples to substantiate your answers (6 marks).

Response:

Please, remember that this question only carries 6 marks. Before we look at the contrasting elements between these financial market instruments, we first look at each of these instruments. Forward exchange contract is discussed extensively on page 139. In that page, we indicate that this instrument allows a company to set the exchange rates at which it will buy or sell a given quantity of foreign currency in the future (on either a fixed date or during a fixed period of time). The forward exchange contract approach allows firms to pay or settle a payment at a pre-agreed exchange rates in the

future. On the other hand, and on the same page of the book, foreign currency options are presented as an approach that enables a multinational corporation to purchase or sell foreign currency under an agreement that allows for the right but not the obligation to undertake the transaction at an agreed future date. In this kind of arrangement, firms agree in principle to execute the purchase or sales of foreign currency at a future date *ONLY* in good faith.

In concluding this question, it is important to note that currency options constitute a contract granting the buyer the right but not the obligation to buy or sell a given amount of foreign exchange at a fixed price per unit for a specified time period. This option provides more flexibility than forward foreign exchange contracts.

3.4 Discuss the role of the capital market in an economy (5 marks).

Response:

This is another question that requires relatively short response, because it carries 5 marks. To start with, the material required to respond adequately to this question can be found on pages 146 to 147 (chapter 7) of the prescribed book, but more specifically on page 147. According to the book, capital market is found to provide alternative source of huge sum of funds to the government over a long period of time and at a cheaper rate as compared to the conventional sources of capital. The market also serves as a source of investible capital that complements existing and inadequate financial capability of the state. More importantly, capital market (specifically, the stock and bond markets), provide the domestic and international investors the opportunity to generate investable funds through a pool of household savings and surplus unappropriated funds. You may use practical examples to further strengthen your argument.

[Total: 25 marks]

TOTAL MARKS FOR ASSIGNMENT 02 [70 MARKS]

4. CONCLUSION

This tutorial letter has sought to provide expansive answers to each of the essay-type questions raised in this assignment. In the tutorial letter, attempts were made to provide suggestive approaches to responding to the questions raised. In addition, we provide you with necessary page numbers and chapters of the prescribed book where useful materials on the responses provided could be sourced. This presupposes that you should be able to link the correct answers with the specific chapters in the prescribed book.

As part of your preparation for the examination, you are encouraged to study these answers very carefully, and, to consult the relevant chapters in the textbook, so as to ensure that you fully understand the rationale for each answer supplied. Should you have any difficulties or queries relating to the content of this assignment, please do consult your module leader.

We wish you well with your studies and preparation for the forthcoming examination.

Your lecturer in “Principles of Global Management”