MNI3701

GLOBAL BUSINESS ENVIRONMENT

Exam Pack

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GLOBAL BUSINESS: MNI3701

POSSIBLE EXAM QUESTIONS AND SOLUTIONS

Chapters 1 – 3

Discuss the drivers of globalisation. (pgs. 7 -11)

Globalisation is the growing interdependence of countries worldwide through the increasing volume and variety of cross border transactions in goods and services, as well as international capital flows

- **Changes in political environments**
  -Can be credited with two developments namely: Creation of global economic/trade regulatory bodies and the collapse of communism
  -*Creation of economic/trade regulatory* bodies included General Agreement on Tariffs and Trade (GATT) in 1947-served as a medium through which international trade negotiations and arrangements were conducted and the World Trade Organization (WTO) in 1995- aids international trade and safeguards the rights and privileges of entrepreneurship, innovation and invention
  -*Collapse of communism* allowed the spread of capitalism and the trade liberalization across the globe

- **Changes in the technology environment**
  -*email and videoconferencing* has made its easier for multinational enterprises to communicate, transmit and share large information and allows for discussion in a virtual environment
  -*The Internet and the World Wide Web (WWW*) provide enterprises the opportunity to monitor and respond to competition and provide consumers with products at reduced prices.
  -Company *intranets and extranets* enable for fast distribution of large volume of information throughout the organization

- **Changes in the transportation, innovations**
  -air and speed rail are some of the modern advances in the field of transportation.

Fully discuss the various international trade theories. (pgs18 - 22)

- **Mercantilism**
  -this theory is premised on export promotion at the expense of importation.
  -It describes the use of the states power and resources to build up industry, to increase the surplus stocks of exports over imports, and to accumulate stocks of precious metals. (16th and 18th, France, Europe)
  -aim of the strategy was to ensure the state's security and prosperity

- **Absolute advantage**
  -This is premised on Adams Smiths publication; "The Wealth of Nations" (1776). --Smith argued that for countries to have absolute advantage they had have division of labour
  -Meaning each country should specialize in the production of one product for which it is uniquely suited.
  -countries could produce more products in total and trade in the goods that were cheaper than those produced locally
  -India vs Philippines, India has AA because of labour

- **Comparative advantage**
  -This is premised on David Ricardo's publication: "Principles of Political Economy" (1817). He advanced the argument that a country should specialize in the production of those goods that it produces most efficiently, but import those goods it produces least efficiently
  - This theory suggests that consumers in all nations can consume more if there are no trade restrictions (promotes free trade)
  -India has CA in IT sector and Philippines in call center because of easier communication with American

- **Heckscher-Ohlin factor proportions theory**
  -the theory builds on Comparative advantage, it concludes that a country should export products that use its relatively abundant (and cheap) factors intensively and import products that use its relatively scarce factors intensively
  -

- **Leantief paradox (1954)**

-this theory maintains that a country like the USA should be an exporter of capital-intensive goods because of its abundance in capital. However it was found that USA's exports were less capital intensive than the country's imports. This contradiction (contradicting **Heckscher-Ohlin theory**) became known as the **Leontief Paradox**

- **Product life cycle theory**
  -large proportion of the world's new products have been developed and sold in the USA
  -Demand for USA products grows over time , so USA multinationals will establish operations and facilities in those countries with most demand.
  -as market in the USA and other advanced countries matures and price becomes the main competitor, it will enable foreign producers to export their products to the USA

- **New trade theory**
  -suggests that *economies of scale* in production may not always be attained within a country's borders, but that it could be attained across borders.
  -the theory questions the law of diminishing marginal returns to specialization
  -emphasizes that the competitive manufacture and sale of certain goods, for economies of scale are not achievable, can only be realized if government support-in the form subsidies is forthcoming

- **National competitive advantage**
  -This theory was developed and advanced by Michael Porter through his publication "The Competitive Advantage of Nations"
  -He maintains that there are four attributes of a nation that shape the competitiveness of the environment in which organizations do business
  -These are ***1)-Factor conditions*** (relates to a nations' position with regard to production factors such as skilled labour and developed infrastructure that enable firms to compete in an industry)
  -***2- Demand conditions***- relate to the degree of healthy competition the firm must face in its local market, these conditions promote innovation, product development and competitiveness in domestic and international markets
  -***3-Related and supporting industries***-refer to the presence or absence of supplier and related industries that are locally and globally competitive (supply chain network)
  -***4- Firms strategy, structure and rivalry***- relates to the conditions in the home industry that either hinder or aid the firm's ability to create, organize and manage the nature of domestic and international rivalry (a firms's strategic management)
  -He further adds the role the governments and chance events as factors that could affect nation competitive advantage (trade policies)

-South Africa we have Competitive Advantage because of our natural resources- minerals, grape to make wine, fruit to make fruit juice

Suppose South African Breweries (SAB) decides to take advantage of trading relationships between South Africa and Iran and plans to expand its business to Iran. As an international strategist, how would you advise SAB, using the PESTEL model, to successfully penetrate the Iranian market? (pgs28 - 43)

- **Political-** there are different political systems in different countries therefore a MNE must monitor the political climate of the countries in which it conducts its business. They must be concerned with the political constraints which could either encourage or discourage foreign investment and trade
  -*Political risk* entails the impact of undesirable political changes on an MNEs foreign operations and decision-making process
  -There are two extremes of *Political ideologies*: Democracy (direct involvement of nation's citizens in the political decision making process affecting the country, practiced on a representative basis) and Totalitarianism (the monopolization of political power by one party, group or individual)
  -The degree of State intervention is important to foreign investors as the State determines the nature of the economic system operative in a country, which has implications for economic development, production, distribution consumption of goods and services

- **Economic environment-**A healthy, growing economy is a prerequisite for successful business.
  -Factors include economic growth, interest rates, the exchange rate and the inflation rate

- **Social-**relates to the demand and tastes related to broad socio-cultural characteristics of the population.
  -Factors include population growth, age distribution and attitudes towards work, religion and language

- **Technological –** Technology is a specific kind of knowledge about how to create and use material objects therefore the technology environment and the knowledge economy are inextricably linked

-Knowledge and technology confer a national competitive advantage, by driving economies of scale and for greater utilization of capital equipment
-*Types of technology include*: Hard technology (machinery, equipment), soft technology (management know-how, finance) and High technology (capital intensive)
-The transfer of technology is essential for attaining a high level of industrial capacity and competitiveness, due to MNEs investing abroad to expand production, marketing and research activities

- **Environmental-** Sustainable development refers to progress that meets the needs of the present without compromising the ability of future generations to meet their own needs.
  -Concerns with regard to climate change have led to an increasing array of laws and incentive structures that affect the way in which companies operate

- **Legal**- the legal system of a country refers to the rules and laws that regulate behavior, along with the process by which the laws are enforced and through which redress for grievances is obtained
  -*Domestic law* governs commercial activities in a specific country
  -*International law* defines the set of laws governing relationships between countries or internationally-based legal persons, through sources like treaties and conventions, customs and controlling of seas
  -***Different legal system include*****:** Common Law (past practices), English law (courts), Islamic Law (), European Law, Indigenous legal Law (chieftaincy)
  -Legal contract's purpose is to stipulate the respective rights and obligations of the parties to the agreement in order to reduce possible disputes arising between parties. (e.g exporting agreements)

List and discuss the types, effects and benefits of economic integration (pgs. 58 - 60)

Economic integration is the grouping countries by agreement or treaty on regional basis to form a trade block

- **Types of economic integration**

1. **Global economic integration:** is facilitated by the rules and regulations of global institutions such as the WTO and IMF, they promote global trade and investment through treaties
2. **Regional economic integration:** which exists among countries located in the same region (like SADC)
3. **Bilateral trade relations:** entails a trade agreement between two countries. The aim is to facilitate preferential treatment between the two signatories to the agreement
4. **Free trade**: entails regional economic grouping of countries with which tariff and non-tariff barriers are generally abolished between nation-states

- **Effects of economic integration**

Absolute advantage
-This is premised on Adams Smiths publication; "The Wealth of Nations". Smith argued that for countries to have absolute advantage they had have division of labour
-Meaning each country should specialize in the production of one product for which it is uniquely suited.

Comparative advantage
-This is premised on David Ricardo's publication: "Principles of Political Economy". He advanced the argument that a country should specialize in the production of those goods that it produces most efficiently, but import those goods it produces least efficiently
- This theory suggests that consumers in all nations can consume more if there are no trade restrictions (promotes free trade)

- **Benefits of economic integration**

1) Static or short term effects (shift of production)
-*Trade creation* occurs when production shifts to a more efficient member country from inefficient domestic or outside country. A shift in domestic consumption from a high-cost domestic source to a lower-cost partner because of abolished of tariffs
-*Trade diversion* occurs when production shifts to inefficient member countries from more efficient outsiders. A shift in domestic consumption from low-cost world source to a higher-cost partner source as a result of the partner country and the erection of erection of trade barriers *(UK imported lamb from New Zealand before it joined the EU, after it joined, tariffs made it more expensive to import lamb from New Zealand, so France became majority lamb exporter to the UK)*

2) **Dynamic or long-term effects-**Member nations could achieve an increase in efficiency and economic growth by:
-Increased competition among member nations that produce similar goods and services
-exploitation of economies of scale (improves production capacity)
-improved market size (purchasing power of consumers)as a result of a reduction in the overall cost of living that arises through efficiency in the production process and lower production costs
-possibly attracting foreign direct investment from outside member countries.

Fully describe the major trade blocs. (pgs. 60 - 84)

1. **The European Union (EU)**

   -The EU must be understood be considering the European Free Trade agreement, which provides for the elimination of trade barriers and controls that could impede trade between member countries
   -establishment of the euro zone in 1999 was aimed at providing currency stability in the euro zone and at facilitating monetary transactions within and between euro zone countries.

2. **North American Free Trade Agreement (NAFTA)**
   -This free trade agreement represents a joint arrangement between the USA, Canada and Mexico. It aims at removing most trade and investment barriers between member countries

3. **MERCOSUR (Southern Common Market)**
   -Its is the largest trade bloc in Latin America, its aims to achieve reductions in tariffs and quotas between member countries (Brazil, Uruguay, Argentina and Paraguay)

4. **Caribbean Community Common market (CARICOM)**
   -This comprises of numerous Caribbean countries including countries such as the Bahamas, Jamaica and British Virgin Islands.

5. **The Association of South Eastern Asian Nations (ASEAN)**
   -Established in 1967 by founding member countries: Thailand, Singapore, Malaysia, Philippines and Indonesia.

-through elimination of regional tariffs it aims at increasing competitiveness of manufacturing sector and investors could enjoy economies of scale in production

6. **Cairns group**
   -This group comprises agricultural exporting countries with a commitment to reforming agricultural trade. Includes countries from Latin America, Africa and Asia-Pacific

7. **Gulf Cooperation Council (GCC)**
   -This bloc consists of six member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arabs Emirates (UAE). This group is an economic and political policy coordination forum for its members**.**

8. **Africa, Caribbean and Pacific group (ACP)**
   -This group comprises of 79 members states spanning three continents.
   -Initially established to create a unified, negotiating body of members who have aid, trade and development relationships with the EU.
   -Today, the ACP is formally linked to the EU by convention agreements, facilitating tariff-free access to EU markets for the majority of the ACP member's exports. With this agreement ACP countries also qualify for concession loans should their profits fall

9. **Common Market of East and Southern Africa (COMESA)**
   -It consists of 21 countries including Angola, Burundi, Ethiopia and Egypt. It's the largest regional economic community in Africa
   -COMESA evolved from a preferential trade area to a common market to East and Southern Africa, this transformation culminated in the largest regional economic community in Africa. However some of the challenges for the bloc include civil wars and destabilization in Zimbabwe

10. **Southern Africa Development Community (SADC)**
    -It was created to foster closer cooperation among the government and people of Southern Africa like South Africa, Botswana, Zambia and Tanzania.
    - Further, the objective is to create a southern African common market. This economic community is dedicated to the ideas of free trade , free movement of people, democracy and human rights

Explain what free trade agreements are and possible implications for South African businesses (pgs. 85 - 91).

-Free trade is premised on the theory of international comparative advantage. Free trade arrangements are encapsulated in the Free Trade agreements
-In considering the implications of FTA, it is important to note how globalization affects less developed countries

Advantages of FTAs

- The competition that accompanies globalization provides an incentive for local employers in developing countries to improve their practices, salaries and working conditions
- Workers rights are respected and promoted due to customer pressure
- FTAs exploit a country's comparative advantage, accommodate specialization and division of labour, expand the size of export markets, and promote efficiency and competition within the free trade area

Disadvantages of FTAs

- Fears of jobs lose in home country to more efficient producers in the other member countries

Chapters 4 – 6

Fully differentiate between a market, command and mixed economy (pgs 96 – 102).

A Market economy

-is an economic system in which economic decisions and the pricing of goods and services are guided solely by the combined interactions of a country's citizen and businesses, with little if any government intervention
-economic decisions and pricing of goods is determined by market forces such supply and demand
-Implicit in this system is the private ownership of factors of production.
-Market economy implies a large degree of economic freedom, which is defined as the absence of government coercion or constraint on the production, distribution or consumption of goods, in other words people are free to work, produce, consume and invest in the ways they feel are most productive
-Consistent with the cultural values of individualism and the political ideology of democracy
-Examples of countries include USA and Canada

A Command economy

-an economic system in which the government owns a nation's land, productive facilities and other economic resources and also plans most of the country's economic activities
-Decision on goods and services produced and selling prices are all determined by the government
-It is consistent with the cultural values of collectivism and the political ideology of totalitarianism
-Example of countries include Russia

A Mixed economy

-This system advocates the more equitable distribution of economic resources between private and government participants in the economy.
-It implies government control of certain sectors of the economy that it considers important to the national interest such as health, energy and security while other sectors are left to the private sector
-Examples of countries using this system include South Africa and Brazil

What distinguishing qualities should South Africa have in order to be considered to lie somewhere in between the developed and the less developed economies? (pgs. 108 -109) (May 2104 exam question B1.2)

Developed countries-countries with developed economies largely correspond with high income, countries like USA, UK and France would be characterised by:

- Political stability
- A highly educated and literate population
- High levels of innovative and entrepreneurial activity
- High levels of industrial and information technology
- High levels of industrialization
- Well-developed infrastructure , transportation, communication and utilities

Less developed countries –largely relate to countries with low income, countries could be characterised by:

- Political instability and often anarchy (inefficient governments)
- Low level of economic growth and very low standards of living
- Underdeveloped financial services sector
- Low levels of industrial and information technology
- Poor or underdeveloped infrastructure
- Shortage of investment capital

Developing countries -Countries that lie somewhere between developed and less developed. Characterised by:

- Relative political stability
- Improving educational systems, literacy rates and work skills levels
- Relatively efficient technological systems
- Less dependence on agricultural and mining with an expanding industrial sector
- Rapidly increasing financial services sectors
- Improved social conditions and a higher quality of life than before

Elaborate on the macroeconomic issues international business may be confronted with (pgs. 110 – 123)

1. **Economic growth**

-Entails the increase in an economy's capacity to produce goods and services over a long period of time. Implies rising levels of out puts over time, produced by means of the economy's available resources.
-GDP is an important way to measure the total production of goods and services of a specific period.
-If a country has a high economic growth rate and levels of economic activity as measured by per capita GDP and GNP/GNI meaning there are high income levels and potential demand for products and services, companies would want to expand their activities to such countries

2. **Inflation**

-It's defined as the continuing general increase in the prices of goods and services over time, thereby affecting the general political and economic confidence in a country. It impacts on CPI, interest rates and exchange rates
-Monitoring and predicting a country's inflation rate is essential for the purpose of international investment decisions
-Two generally accepted causes of inflation are based on demand-pull and cost pull argument for inflation is based
-*Demand-pull* argument, excess demand in an economy which may be the result of inexpensive borrowing, tax cuts or both, encourages producers to increase prices. This then leds to demands for higher wages by workers striving to maintain their standard of living
-*Cost-push* argument is argued that excessive production costs drive up prices, these cost like labour costs are passed on to customers in the form of higher prices (wage-price inflationary spiral)
-Inflation rate in measured by means of indices such as the consumer price index (CPI) and production price index (PPI)
-*Consumer Price Index* is a series of figures indicating how the average price level of all those goods and services bought by typical consumer or household changes over time.
Production Price Index, indicates percentage changes over time in the average level of prices of all goods produced excluding services., the price used in calculations is thus the price at which the product is sold for the first time

-Its important for companies to assess how inflation is measured in terms of the economic policies including monetary and fiscal policies of those countries target for international involvement

3. Balance of Payments (BOP)

-BOP is defined as a national accounting system that records all payments to entities in other countries and all receipts coming into the nation. It depicts the total transactions that are carried out between the residents of a country and rest of the world during a given period (Income Statement of a country)
-Companies could use BOP statistic to identify attractive markets for the company's products and services, warns international companies of policy changes that could affect a country's business climate and companies could know the relative costs of domestic production and the global competiveness of the manufacturing sector
-BOP is divided into the *current account* (trade in goods and service and income from assets abroad) and the *financial account* (all translations in real assets or financial assets like investment in shares)

4. External debt

-Entails the amount of money obtained from foreign public-or-private-sector banks. Its typically measured by the total monetary amount of debt and the debt as a percentage of GDP
-International business managers and investors should monitor the extent of external debt in those countries with which they do business. This should be part of assessing the potential benefits, costs and risks of international business involvement in specific countries on a continuous basis.

5. Privatisation

-Can be defined as the selling of government-owned economic resources to private operations. Privatising usually takes place in the context of economic transformation; aimed at improving economic efficiency by giving new private owners a powerful incentive in their quest for increased profits and productivity.
-There are two main drivers of privatisation: *change in political ideology and economic pressure*
- Change in political ideology such as changing from Socialism to Capitalism where government have business interests in certain sectors

-Economic pressure can be pressures for local responsiveness and cost reduction that confront businesses, as a result of globalisation that makes it difficult for governments to continue sustaining the (less) competiveness of state-owned enterprises (SOEs)
-Benefits of privatisation include: improving enterprise efficiency, developing a competitive industry that service consumers well, achieving effective corporate governance and broadening and deepening capital markets

6. **Innovation and entrepreneurship**

-It is widely accepted that innovation and entrepreneurship are the drivers of economic growth in a country. Innovation entails the new developments in products, services, processes, business practices and strategies,
-The political economy and economic system in a country largely determine the extent of entrepreneurial orientation in that country, including the social structure.
- International companies have to be aware of all this to make decisions expansion of their international activities

Fully discuss the elements of culture (pgs. 133 -149).

1. **Political philosophy**

-It influences the values, norms and beliefs of a society, it can be evaluated according to two dimensions: the degree to which they emphasise *collectivism* (collective goals of a nation, extended families) as opposed to *individualism* (individual freedom, self expression, and achievement) and the degree to which they are democratic (government elected by the people) or totalitarian ((one person or one party government with absolute power)
-Implications for international business are that business managers must deal with varying degrees of intervention and political risk in certain countries
-Business decisions include: whether or not to invest in a certain country and weather to import from or export to, weather government is a regulator, participator or enhancer of foreign business involvement

2. **Economic philosophy**

-The political ideology largely influences the type of economic system that exists in a foreign country, the prevailing economic and also legal system will in turn determine the potential benefits, costs and risks of business with or investments in that country

-Potential benefits are determined by the country's market size, current wealth (purchasing power) and future economic growth prospects
-Potential costs of doing business in a foreign country tends to increase where infrastructure is inadequate, high corruption and expensive regulations
-Political risks are characterised by political instability, economic mismanagement and deficient legal protection
-Economic systems that can exist are: a market economy, command economy or a mixed economy

3. **Social structure**

-Every society is made up of individuals, families and groups. International businesses need to be aware that their hiring and appointment practices needs to accommodate local host-country social behaviour in different cultural setting, understand extended family relations and its strong obligations, understand that basic consumption patterns of extended families differ from those in other countries and lastly how work teams could affect mobility, loyalty and dynamics
-*Social stratification* refer to the social classes in a certain country according to birth, occupation, education and income
-*Social mobility* refers to the relative ease of which individuals can move upward out of the stata in which they were born into
-Implications for international businesses include: in societies with relatively open class systems, the impact of class is limited resulting in improved working and personal relationships and in societies largely characterised by class systems, differences between management (upper and middle class) and workforce (working class) could result in hostility, conflict and strikes

4. **Religion and ethical systems**

-Religion is a system of shared beliefs and ritual that are concerned with the realm of the sacred. Ethical system refers a set of moral principles or values that serve to guide and shape behaviour
-Religion generally influence business by: in some cultures , religion places constraints on gender issues such as limiting job and career opportunities for women, influences dietary habits and consumption patterns, religion forms part of the political and economic decisions and major holidays are often linked to a religious system
-Implications of Christianity include the rise of individualism; free market capitalism and entrepreneurship, Islam- profits earned in fair business are justified but not be from

exploitation. Hinduism-individuals should be judged by their spiritual rather than their material achievements as is the case with Buddhism

5. **Language and Communication**

-Understanding of different languages between cultures is important in international business operations and in international business negotiations, marketing and advertising.
- Language involves both spoken and unspoken communication. Verbal and written communication, e.g. Japanese regard saying “no” inappropriate because of its collectivist culture. On the other hand Westerners are irritated by the reluctance to say ”no”, regard it as evasive and would prefer outright answer to assess their situation right away.
-Non-verbal communication includes hand gestures, facial expressions, posture, silence or interpersonal distance. E.g.in USA people discussing business at a party will typically stand about 50cm from each other, while distance in Saudi Arabia is typically 25cm

6. **Education**

-Both formal and informal education play major role in sharing and passing on culture from one generation to the next. For international business knowledge on about the extent of education in other countries is important for at least two reasons:
-Firstly, the general level of education will largely reflect the knowledge, intellectual capacity and sophistication of a society which could influence the type of product to be marketed successfully
-Secondly, general education levels in a society reflect the availability, skills and capabilities of human resources

What are the implications of culture in the workplace? (pgs151 – 157)

a) **Hall’s low-context high-context approach**

-*Low context culture* the speaker’s words clearly communicate the message to the listener. The words spoken precisely convey the speaker’s intentions
-In *high context cultures* the context in which a conversation takes place is important, confirming that the words actually spoken are just as important as non-verbal communication

-Implications for international businesses include: high-context cultures value long term relationships and regard trust as the sufficient grounds to conduct negotiations while low context culture places more emphasis on specific terms of agreements, advertising in high context cultures like Japan is more emotion-oriented while that in Germany a low context culture is more factual

b) Ronen and Shenkar's cultural cluster

-These researchers framed a number of questions and documented the corresponding responses from respondents in different countries. The questions related to: work goals, job satisfaction, management stle, work roles and inter-personal relations
-The outcome of the analyses of these responses confirm that international managers should expect few cultural differences, when moving between countries

c) Hofstede's cultural dimension

-During his employment at IBM, Geert Hofstede studied how culture relates to values in the workplace. He highlighted four dimensions that he claimed summarised different cultures, these include power distance, uncertainty avoidance, individualism vs collectivism and masculinity vs femininity
-Implications for International Management

- In countries with high individualism, performance appraisal systems would work best if directed towards rewarding the individual rather than the group.
- In cultures with low individualism (high collectivism), group-oriented reward systems would be more appropriate.
- In societies where uncertainty avoidance is high, long-term planning, preparing for contingencies and ensuring security should be emphasised.
- In low uncertainty avoidance situations, short-term planning and flexibility would be highly motivational, while job security, for example, would be less of an issue than in high uncertainty avoidance cultures.
- Where power distance tends to be high, decisions tend to be centralised, organisational mobility low, organisational structures tall and there is a preference for direction from superiors.

d) Trompenaar's cultural parameters

- Universalism vs Particularism
  Socialism vs Personal Obligations

- Collectivism vs Individualism
  Group vs Personal Goals
- Neutral vs Emotional Goals
  Showing emotions in Business Relations
- Specific vs Diffuse Relationships
  Degree of involvement in Personal Relationships between Subordinates and Superiors
- Achievement vs Ascription
  The basis of determining status
- Sequential vs Synchronic
  Attitude toward Time
- Inner-directed vs Outer-directed
  Control vs Density

-Implications of Cultural Parameters

- Universal cultures, for example, focus more on rules and procedures than on relationships, whereas the opposite is true of particularist cultures.
- Collectivist cultures emphasise 'we' rather than 'I' or 'me' as in individualist cultures.
- Neutral relationship cultures tend to suppress delight, anger or intense emotion in the workplace since such behaviour is deemed unprofessional. Affective cultures, however, express emotions openly.

What are the four important implications of culture for international management? (pgs. 157 – 159)

1. **Culture and competitive advantage**
   -The firm that manages its risks and costs (classes, religion beliefs, labour etc) related to cultural differences between countries better than its competitors should have a competitive advantage over its rivals in the global marketplace
   -For international management, high skills levels in the workforce are of extreme importance for performance and attaining competitive advantages
   - Countries with sound education systems, an adequate workforce, absesnce of disruptive labour practices, an ethic of hard work and free market orientation would be a preferred destinations for international business

2. Culture and business ethics
   -"Whose ethinical systems do you use in international business" a firm would ask itself, usual response is firms shouls adopt the customs of the host country
   -International firms should can be guided the Unirvisal Declaration of Human Rights of the United Nations

-Thomas Donalson suggests firms should be guided three principles: respect for core human values, respect for local tradition and the belief that context matters when deciding what is right and wrong

3. Cross-cultural literacy

   -Doing business in different cultures requires an intimate knowledge of such cultures and the ability to adapt and conform to the value systems and norms of the culture concerned
   -In can include consideration of issues such as: leadership/management styles, teams, labour relations, negotiation strategies, etc
   - Ways of enhancing cross-cultural literacy (geocentric approach) can be: develop a cadre of cosmopolitan executives, multicultural teams and selectively transfer home-country executives to foreign locations at regular intervals

4. Culture and entrepreneurial orientation

-Based on Hofstede's cultural dimensions, he found that a culture that is low on power distance, weak in uncertainty avoidance, individualistic and achievement oriented would encourage a strong entrepreneurial orientation.

Fully discuss the functioning; structure and participants in the foreign exchange market (Forex) (pgs. 169 – 171)

Key functions of foreign markets

- The transfer of purchasing power of one currency to another
- The provision of credit to individuals and multinational firms tha are distributed across the globe
- The minimisation of foreign exchange risk relating to cross-border trade and investments

Structure of foreign exchange market

-The *__wholesale or interbank market__* that constitutes an informal network of hundreds of banks and brokerages dealing among each other and with multinational companies
-The *__retail or client market__* that caters primarily for the foreign exchange needs of individuals

It can be further subdivided into the spot exchange market and the forward exchange market
-*__Spot exchange market:__* transactions are executed immediately at the prevailing market rate, with settlement (payment and delivery of currency) within two business days
-*__Forward exchange market:__* exchange rate and delivery date are agreed to today, with settlement and delivery of foreign currency taking place at a specified future date

Five categories of participants are involved at both the interbank and the client levels, and in the spot and forward foreign exchange markets. They are:

- Bank and non-bank foreign exchange dealers
- Individuals and firms conducting cross-border trade and investment transactions
- Speculators and arbitrageurs
- Central banks and treasury departments
- Foreign exchange brokers

__Chapters 7 – 9__

Fully discuss the reasons and implications of trade barriers. Provide examples (pgs. 187 -190).

Political economy imply that governments can employ protectionist measures to regulate the quality and quantity of goods and services that are traded between the country and the outside markets.

This is done mainly to:

1. **Protect local jobs**
   -domestic markets are shielded from foreign competition to booster employment opportunities
   -governments erect trade barriers to discourage the importation of goods and services that are produced domestically
   -they also erect barriers to discourage not only mergers and acquisitions, but also direct foreign investment because of the possibility of jib shedding

2. **Import substitution**

-The more a manufacturing activities take place in a country, the more efficiently is wealth distributed among economic agents (labour and investors)
-Also domestic products are considered cheaper than imports, further an increase in market size affects output indirectly as other sectors of the economy demand more input material to feed the production demand

3. **Protection of infant industries**
   -Its important to protect young industries or economic sectors that are just starting out and are too immature to compete against established rivals to ensure a nations building and attainment of economic competence

4. **Reduction of reliance on foreign suppliers**
   -The more an economy relies on foreign suppliers for critical goods and services, the more vulnerable the economy becomes to the suppliers influence.

5. **Attraction of local and foreign investment**

-governments are generally willing to give concessions to investors to facilitate the local production of goods and services that are of strategic importance to the economy (imports). Foreign direct investment is also attracted into industries where the countries lack production capability and competence

6. **Reduction in balance of trade payments or deficits**

   -Governments employ instruments of trade policies to achieve trade equilibrium. Where the trade balance is in deficit, tariffs are used to discourage imports, while at the same time promoting exports

7. **Promotion of exports**
   -Countries must develop their industrialisation sectors, which culminate to export promotion. Government may apply subsidies to stimulate exportation

8. **Political objectives or retaliation**
   -Governments may use instruments of trade policy to advance their political agendas. They may be used as sanctions against countries with poor human rights records, sweatshops, child labour practices, etc. These instruments may also be used for retaliation

9. **Protection of national sovereignty**
   -in international law, a country is regarded as a sovereign state (independent and free from external control). Government will therefore protect its territories by carefully choosing their trade partners and by limiting the kind of products or services that can be left in the hands of foreign investors

10. **Antidumping remedies**
    -Tariff barriers maybe erected against any foreign firm, sector or industry that exports and sells its product in the overseas market at a price lower than the production cost in the home market. This measure is intended to raise the importation costs, and ultimately the selling price of the product

Implications

- Trade barriers frequently tend to be *arbitrary and discriminatory*; they tend be applied subjectively. Their application is mainly political motives rather than an economic rationale. They are applied discriminatory to discourage trade with specific countries or geographical areas, this may breed counter tariffs (tariffs beget tariffs) e.g. USA vs Germany courier services
- The imposition of trade barriers presupposes *special training support and administration.* Employees involved in the administration of tariffs and other measures require specialised training
- The impact of trade barriers usually fans out to other areas in a country's economy, *leading to micro-economic problems.* e.g. a country facing inflation may find imports expensive and local manufacture not capable of meeting local demands
- Trade barriers have consequences such as *leading to establishment of special interest groups and privileges*. Tariff barriers often result in preferential treatment being granted to some trading partners at the expense of other trading partners
- The imposition of trade barriers *increases government intervention in trade and economic matters.* The government not only regulates the business environment but the household consumption patterns as well

What do the terms "instruments of trade policy" and "dumping" refer to? How are these best employed? Provide examples (pgs. 190 – 193).

Trade barriers are adopted to discourage the free flow of goods, input materials and services across international borders. There are two categories of barriers: tariffs and no-tariff barriers (administrative in nature). The Instruments of trade are:

a) **Tariffs- also called specific tariff, is** a tax levied on goods, input materials and services imported into a country, this levy is attached to the total quantity of items imported at a specific rate per unit in consignment. E.g. A specific tariff of R20 on every unit of 30 litre freezers will amount to R4000 for 200 units imported

• ***Ad valorem tariffs-***is based on a percentage of the value of the imported item in the destination country. E.g. an ad valorem tariff of R250 would be payable for 100 Gucci handbags of which each unit is valued at R25 and carries a 10% duty

• ***Export tariffs-*** are payable on goods and services that leave the borders of a country for another country. It's meant to discourage exports and increase government revenue in areas where the country has an absolute or very comparative advantage in the production of such goods or services

• ***Transit tariffs-***is a special duty that is paid on goods and services that pass through a country to a final destination.

b) **Subsidies-**are financial payments made by the government to domestic manufactures or service providers to reduce the burden of manufacturing or operating costs with the aim of reducing the consumer price. The most common forms of subsidies are cash grants, low interest loans, tax breaks and government equity participation in the ownership and capital structure of the firm. Subsidies are meant to achieve two objectives:

• ***Discourage foreign imports***

-governments use subsidies to lower the production costs of domestic manufactures or service providers to discourage importation, by lowering the production cost of local producers, their selling price becomes cheaper than those of imports. This measure is applied to products that are strategically critical to the government or of national interest. E.g. Agricultural subsidies used by the European Union member states to lower the production costs of agricultural produce, thereby making it impossible for the developing world to compete against the EU farmers.

• ***Gaining export markets***

-governments encourage exports because they boost the trade balance of the country with the outside world.

-The main argument against subsidies is that they help featherbed inefficient domestic producers at the expense of more efficient foreign producers (countries becomes less competitive because that sell to foreign countries in low prices)

3. Quotas- it's a non tariff barrier, it restricts amount of goods and services that can be imported into a country over an accounting period. The application of quotas on a product imply that domestic production increases to cater for the shortfall in imports. Although government will lose revenue on tariffs, but it gains revenue on excise duties

Different quotas include the following:

• ***Import quotas*** – restricts quantity of imports into a country. This restriction is mainly applied by prescribing an import licence as a perquisite for importing specific items

• ***Voluntary export restraint* -** imposed on quantity of goods exported from the country. Used by the exporting country at the special request of the importing country to avoid a trade dispute

• ***Local content requirements* –** this is a requirement to manufactures that a certain input materials must be sourced domestically. Meant to increase the local manufacturing capacity of component parts at the expense of mere assembling

• ***"Buy national" restrictions*** – applied to limit consumption of imported good to promote local manufactures and improve local brand loyalty among customers E.g. USA and Europe

• ***Technical barriers*** – are used to discourage imports where the application of tariffs and other non tariff barriers are unpopular. A country may be wary of adopting tariff barriers if the application of such a restriction is going to trigger retaliation, the country may then use technical barriers to frustrate importation. E.g. import clearance, understaffed import entry points

Dumping

-defined as selling goods in a foreign market at below their cost of production or as selling goods in a foreign market at below their "fair" market value

-is seen as a process by means of which the exporting country offload its excess domestic product to foreign markets (importing countries). This strategy is employed by the exporting country to unleash competitive pressure that may drive out domestic competitors in the importing country, thereby leaving the foreign market at the mercy of predatory exporters

There are two measures that can be taken to address dumping

- ***Antidumping policies***- is designed to redress the unfair trade practice of dumping, thereby protecting trade practice of dumping, thereby protecting domestic producers against unfair competition. E.g. a domestic company can go to trade ministry or to WTO for assistance. DTI antidumping laws

- ***Countervailing duties***-is a special duty that is levied against a foreign firm that is found guilty of dumping

Topic 6: Chapter 8: Foreign direct investment and capital markets

Define FDI and different forms of FDI (pgs. 200-202).

-FDI is a capital market transaction that permits a foreign economic agent (individual, a firm or government) to acquire a significant interest or controlling stake in the ownership of a domestic firm
-Simply put, foreign direct investment refers to firms investing directly in facilities to produce or market a product in a foreign country.
-"significant or controlling ownership entitlement" is defined as an economic agent \'s equity ownership of a firm that is worth at least 10% of the firms total value
-International portfolio investment is when a foreign investor's equity ownership stake in a firms less than 10% of the firm total value

Different forms of FDIs are:

- *Acquisition* –when a foreign investor buys shares in a domestic enterprise that entitle the investor to a controlling ownership stake in the local firm
- *Joint venture/Merger*-when a foreign firm teams up with a local or another foreign firm to create a new enterprise that produces and sells its products from domestic base

- *Greenfield investment*-involves a firm , government unit or a group of individual investors raise funds to start a new production and distribution activity/business in a foreign location

Enumerate (spell out/list) the advantages of FDI (pgs. 200-201).

a. Uses capital markets in a way that does not destabilise the domestic capital market
b. Sensitises foreign investors to the needs and aspirations of the domestic communities where the firms are located and they are thus more socially responsible investors
c. Provides a foreign firm seeking to internationalise its operations beyond licensing and exporting. Foreign firm becomes a multinational enterprise (MNE)
d. MNEs serve as important means for transferring new production technologies that are not yet available in domestic markets, thus enhancing the productivity of local firms (spill over effects)
e. Local firms and governments that are keen to take advantages of these potential spills over effects would increase the training and education of human capital and improve infrastructure. This type of domestic preparation for receiving FDI is termed the building of absorptive capacity
f. FDI is a viable economic growth mechanism for governments constrained by a lack of domestic resource capacity

Elaborate on the theories of FDI-embodied MNEs (pgs. 202-208).

1. ***International trade and finance theories***

a. Trade in goods and services

- The theory of absolute advantage , theory of comparative advantage and the theory of relative differences in factor endowment are useful in explaining why nations trade
- According to Adam Smith free trade is essential if the wealth of a country is to increase, with free trade a country should export those commodities it can produce at a lower cost and import those commodities produced at a higher cost compared with other nations (absolute advantage)
- David Ricardo emphasis the issue of efficiency where a country should consider the opportunity cost involved in trade decisions, trade is determined by comparative advantage. In this theory labour is the only relevant factor of production and therefore no possibility for FDI

- Hecksher-Ohlin further explained the trade in context of differences in factor endowments. In this model countries specialise in and export those goods that intensively use the most abundant factor of production and import those goods that use their scarce factors of productions

b. International capital movements

- The prevailing explanation of international capital movements during this period is the neoclassical arbitrage theory of portfolio investment. The development of this theory follows works of Paul Samuelson and Robert Mundell
- Mundells work explains foreign investment in its portfolio form as opposed to the direct form, the theory is based on the assumption of perfect competition. Since there are no transitions costs investors are able to take their savings where returns are highest and hence maximise profits
- John Dumming noted that this theory fails to different between FDI and foreign portfolio investment. Its uses a narrow definition of foreign investment that it only finance capital and in turn neglect other aspects of foreign investment like technology, access to markets and entrepreneurship

2. Industrial organisation theories

a. International operations of MNEs

- Stephen Hymer took the theory of FDI out of the international trade and finance into the industrial organisation theory by developing what has been called structural market imperfect theory (MNE as an institution for international production than for international trade)
- He noted that firms have ownership specific advantages in the form of non-financial and intangible assets like patents, technology, economies of scale and brand
- In this case the main motivation for FDI by MNEs is that they want to retain control of these assets

b. The product life cycle theory

- This theory pertains to the timing of investments by the MNE. The life cycle patterns of the MNE's main products determine foreign investment.
- The product life cycle involves three stages:
    - Stage 1: an innovating country uses its technological edge to produces new products that give it an export advantage

- Stage 2: Due to increased competition production moves to lower income countries the cost of labour is lower and therefore manufacturing there is sensible
- Stage 3: The product is standardised and moves into mature stage which induces exports

c. *Transaction cost economics*

-The transaction or internalisation theory also call natural market imperfection theory states that MNEs exist in order to organise interdependencies between subsidiaries in different countries
-Due to the market imperfections firms incur transaction costs which they escape by using internal markets
- MNEs internalise production in a bid to prevent technological spill over to other firms, so as to maintain their competitive advantage. This preference accounts for MNEs decisions on whether to invest abroad or not, given the risk of host-country form copying its technological know-how and applications

d. The electic paradigm

-This an intregrated framework developed by John Dunning, the industrial economic theory is captured by focus on ownership factors (O), international trade theory by location factors (L) and the internalisation theory (I) by market failure factors (*the ownership-location-internalisation {OLI}framework)*
-Ownership advantages (why firms go abroad) include size, monopoly power, economies of scale, ect
- Location advantages (why firms choose a specific country to produce in) include distribution, transport cost and government intervention
- Internalisation responds to how or by which route

e. *The investment development path theory*

- This theory predicts U-shape relationship between a country's level of economic development and net outward flows to FDI
- The U-shape relationship is borne out by empirical evidence in support of distinct international trends in FDI flows

f. *New trade theory*

-This theory seeks to rationalise why some countries choose foreign production rather than exports. It advocates the use of the proximity-concentration trade off.
-This involves a cost-benefit analysis of FDI which hinges on actual costs

Explain the following in detail: technology transfer; absorptive capacity and economic growth aspects of FDI (pgs. 208 – 213).

Technology transfer

-involves the transfer of skills and products derived from the core competencies of MNE which are then transmitted to foreign markets, where theMNEs conduct their international operations
-The oligopoly theory further analyses the process of technology spill over from MNEs to domestic firms in host countries.
- There are two basic forms in which technology can be transferred: technology embodied in physical assets such as tools, equipment and blueprints, second way is through methods of organisation, quality control and other manufacturing procedures

Absorptive capacity

-Absorptive capacity at the firm level: a firm operating close to the technology leader is said to have high absorptive capacity and would be more capable of appropriating the incoming technology than a firm further away from the frontier firm
-Absorptive capacity at country level: within a country it can be measured as the distance of a firm from the technology frontier firm in the relevant industry and in the country. Indicators include per capita income, trade openness, efficiency of technology use

Economic growth theories/aspects

-Robert Solow growth model analyse that growth is explained by capital accumulation and technological progress, however the challenge for the model was further understanding of technology and knowledge
-Kenneth Arrow pointed out that increasing returns occur because of the discovery of new knowledge that occurs as investment and production take place, and further others have

shown that the successful application of MNEs stock of knowledge is key to the economic growth of host countries

List and discuss the various government incentives for attracting FDI. Examples (pgs. 213-216). (Assignment 02, question 1). (Oct 2014 exam)

-Encouraging inward FDIs is often facilitated through the use of incentives. These are offered to foreign firms to invest in their countries
-The most common incentives are tax concessions, low interest rates and grants and subsidies
-There are two main types of investment incentives: Financial incentives and Fiscal incentives.
-Financial incentives are common in developed economies; these take a form of grants or loans to assist the investor in the acquisition of capital assets. In other cases they take form of the provision of infrastructure or the training of workers by the host government
-Fiscal incentives such as tax holidays are more favoured by developing countries where limited funds are available for financial incentives

TOPIC 7: LEADERSHIP AND MANAGEMENT
CHAPTER 9: INTERNATIONAL MANAGEMENT AND LEADERSHIP

A traditional mind set vs. a global mind set (pgs. 228-229) (pgs. 239–240) (pgs. 242 -246).

Traditional managerial mind set often inhibit attempts at achieving global success. Such traditional mindset are characterised by:

- Being internally focused
- Essentially being orientated to and satisfied with the domestic market and its needs
- An attitude implying that what is different is dangerous
- Being disinterested in other markets and cultures as well as insensitive to business opportunities in foreign markets
- The absence of any effort to cultivate or understand foreign clients, competitors or markets
- Assuming an in hospitable attitude to any foreign element in the domestic market
- A reliance on government and other collective representations to protect itself and markets from foreign competition through trade barriers and laws

- A willingness to limit foreign advertising, producing or distribution
- Usually associated with international managers

Global mind set leaders are characterised as:

- Based on the heightened awareness (knowledge) and enhanced abilities (skills) relative to the challenges of the global business environment
- Holds a multiple cultural perspective and creates an international web of relationship with suppliers, distributors, competitors and customers
- Characterised by openness and an ability to recognise complex interconnections
- Usually associated with international leader

Key issues that directly impact on MNEs in the international business environment (pgs. 232 – 234)

a. The changing nature of the international business environment, including major demographic shifts, increasing urbanisation, increases poverty and unemployment
b. Changing consumer behaviour reflecting increasing demands in products and services they wish to buy
c. Advances in information communication technology and the progressive development in industries like bio-fuels
d. Trade liberalisation, deregulation, liberalisation of financial institutions and markets, privatisation
e. The advent of emerging markets and emerging “new economies” being the result of the impact of new technologies as reflected in the rise of e-business
f. The increasing of regional economic integration and formulation of trade blocs like BRICS
g. Unpredictable environmental disturbances
h. Changing political systems
i. The increasing consolidation of business through mergers and acquisitions
j. The need to scan the competitive environment continuously and to search systematically for business opportunities

Character traits of international managers (pg. 237)

- Inherent, appropriate knowledge, skills and experience to deal with high levels of complexity and ambiguity
- Conceptual (cognitive) ability to deal with the macro-issues peculiar to global management
- An understanding of realistic timeframes for the implementation of global strategies
- The ability to develop and implement effective human and organizational networks together with and appreciation of the time and resources needed
- A perception of global needs and products to satisfy those needs in the context of a market-driven, comprehensive and integrated globalization process
- A predisposition for building globally distributed teams whose members will interact electronically across boundaries

Issues that managers could face in diversified MNEs. How do managers cope with these issues (pgs. 237-238)?

- The need to consolidate large, international acquisitions
- The demand of instituting performance management, accountability and corporate governance measures in the context of globalised production and marketing
- The challenge of managing and maintaining a global supply-chain capability
- The challenge of developing country specific strategies that reflect a peculiar constraints of specific countries
- Pressures to forge collaborative arrangements and to capitalize on the benefits flowing from well managed strategic alliances
- The pressures of balancing the need for global integration and local responsiveness.

To manage these issues, managers must:

- Develop a global mindset, to be able to use global strategic skills and motivate and reward subordinates
- Manage organizational transformation in terms of managing change and transition
- Be able to manage cultural diversity in terms of being able to handle cross cultural management issues because they understand specific cultures and the differences between them
- Be able to design and manage flexible organizational structures and to work in teams
- Excel t cross cultural communication

- Be able and prepare to learn and transfer knowledge within an organization
- Be able and prepared to manage uncertainty and resolve disputes
- Be able to negotiate cross-culturally

Critically differentiate between the types of leadership

Charismatic Leaders are:

• dominant and self-confident
• convinced of their moral righteousness of their belief
• able to arouse a sense of excitement and adventure of subordinates

Transformational leaders

• motivate their followers by inspiring them
• offer challenges and encourage individual development
• consider individual as important contributors to the workplace
• believe in achievement of higher collective purpose, mission and vision.

Transactional leaders:

• use their legitimate reward and coercive powers to give commands and exchange rewards for services rendered.
• reward subordinates for their work performance
• view financial success as the key performance indicator that deserve rewards
• reciprocate negotiations between leaders and their subordinates and mutual exchange relationships between them

CHAPTER 10: GLOBAL COMPETITIVE AND COLLABORATIVE STRATEGIES AND STRUCTURES

Fully discuss “Global competitive advantage” and applicable factors and sources, including the role the goals of an MNE play. Examples? (pgs. 252 - 254)

1. **Location economies**

- These are economies that arise from performing a value creation activity in the optimal location for that activity, where that international destination might be

2. **Economies of scale, scope and experience**

- This refers to systematic reductions in production costs that have been observed to occur over the life of a product. Empirical evidence suggests that a product's production costs decline by a certain amount,, each time cumulative output doubles. Cumulative output being over time and not output in any one period, such as a year

3. **Capacity/ability**

- Globalisation allows MNEs to leverage core competencies to increase financial returns. A core competence refers to skills within the MNE that competitors cannot easily match or imitate

4. **Leveraging subsidiary skills**

- Local subsidiaries typically have skills which can be leveraged by MNEs, contemplating international expansion. These skills could augment efforts to enter foreign markets and to establish production/marketing facilities foreign locals thereby creating value

5. **Government incentives**

- Incentives may either be designed to attract foreign investment or to boost manufacturing/exporting to other countries. Such incentive can help lower an MNEs cost of operating, thereby enhancing their competiveness. Government incentives include: tax holidays, investment incentives and cheap loans all of which can reduce an MNEs operating costs

Goals of an MNE

- The firm must achieve efficiency in its current activities
- It must manage the risk it assumes in carrying out these activities
- It must develop internal learning capabilities to be able to innovate and adapt to future changes.

There are 10 different types of foreign market entry modes. Critically evaluate all of them. (Advantages; disadvantages; KSFs; when most appropriate; examples of each) (pgs. 262 – 269) (May 2014 exam)

1. Exporting: selling of products produced locally to other countries.

Advantages:

• increased production in home country results in higher domestic employment, and

• export sales generate valuable foreign exchange.

Disadvantages

• High transaction cost;

• Trade barriers to imports in the foreign country; and

• Problems with foreign marketing agents.

2. Turnkey projects: use of foreign experts in countries that restricts foreign direct investment.

Advantage:

Less risky than conventional FDI, especially in political unstable countries.

Disadvantages:

-Limited duration with no permanent market presence

-Firm may create a future competitor as knowledge is transferred in the process

3. Licensing: an agreement where a licensor grants the rights to intangible property to a licensee (foreign firm).

4. Franchising: almost similar to licensing

Advantage:

-Franchisor includes low development costs as franchisee bears the costs and risks of opening up a market.

Disadvantages:

-the maintenance of the standard and quality control of distant foreign operations

-Strategic coordination is often difficult

5. Contract manufacturing: taking advantage of location economies by gaining access to cheap labour in overseas markets.

Advantages: Contract manufacturing requires little capital investment

Disadvantage: It may be difficult to control management practices, reliability and quality of supply

- Control of intellectual capital may dissipate

6. Service sector outsourcing: availability of highly skilled workers at comparatively low wages

7. Management Contracts: foreign company is given right to run a company from day-to-day with no decision regarding ownership, financing or strategic changes

Advantages: low risk entry strategy

Disadvantages: likely to be short-lived if it doesn't lead to a more permanent arrangement

8. Joint ventures: establishing a new venture with a new identity jointly owned by two or more partners.

Advantages: permanent arrangement with equity holdings by all partners.

Disadvantages: very difficult to coordinate global operations.

9. Wholly owned subsidiaries: the firm that owns more than 50% of the shares and effectively has management control of a foreign subsidiary.

Advantages: - the firm retains effective control over its core capabilities and its revenues

- It retains effective control over its operations

Disadvantages: - it is most costly

- risk of loss is significant
- integration of different cultures create potential problems

10. Strategic alliances: collaborative agreements between two firms, often same industry but no necessarily same countries.

Advantages: - allow firms to benefit from a local partners' knowledge of country conditions

- allow partners to share risks and costs associated with research and development

Disadvantages: - firms may relinquish control over their technology

- may not have sufficient control over subsidiaries which operate under alliance agreement
- may also be incompatible management styles
- organisational cultures and control systems may lead to conflicts

Elaborate on the term "National competitive advantage" as it is applied in International Business including all the relevant its determinants. Examples? (pgs. 255 – 256)

Natioanl competitive advantage entails-

-Successful firms that innovate and continually improve their processes and international product and service offerings
-Successful nations create an environment that allow their MNEs to flourish, through creating laws and policies, which is called Home-base advantage
- National competitive advantage is determined in combination by four broad attributes namely factor condition, demand conditions, related and supporting industries and firm strategies, structures and rivalry in the domestic environment in which firms compete (Porter's diamond of national competitive advantage)

a. **Factor endowments/conditions**

-Basic factor endowments comprise natural resources, climate conditions and basic skills in the workforce. Advanced factor endowments include high-level skills in the labour force, infrastructure and advanced technologies.
-Example: African countries are rich in basic factor endowments such as minerals but lack advanced factor endowments such as high order R&D skills

b. **Demand conditions**

-National competitive advantage is also strengthened by strong local demand for industries goods and services
-These conditions provide the primary drivers for innovation. Quality improvement and competitiveness in the domestic market and also allows firms to expand competitively into international markets

c. **Related and supporting industries**

-The presence of related and supporting industries that are internationally competitive can help firms to attain increased competitive advantage through innovation and quality improvement.
-These are service industries usually located near producers and can provide inputs at lower costs

-Examples: The S. African wine industry is located mainly in the Western Cape, where most of the producers and distributors are situated along with their suppliers of services, consumables, and complementary products and services

d. **Firm strategy, structure and rivalry**

-Porter's research confirmed that nations tend to do well in those industries characterised by intense rivalry where management practices and strategies are closely aligned to the industry's sources of competitive advantage

e. **Government and chance events**

-The role of government and chance events as attributes could affect national competitive advantage, either by enhancing or restricting international business

-While chance events like earthquakes and tsunamis could have disastrous effects on business (Japan in 2011)

Discuss the various types of foreign exchange risk. (Question B3.3. May 2014 exam and B2.2. in October 2014 exam) (pgs. 311-314)

1. **Translation exposure (Accounting exposure)**

-arises because a parent company must consolidate the financial statements of all its foreign subsidiarias into the parent company statement. The financial statements of the subsidiries are usaully prepared in terms of the foreign currency of the host country and mustbe translated or restaed in home currency terms

-The fluctuation of the excahnge rate can produce either an accounting gain or a loss relative to the translation of the prior period.

2. **Transaction exposure**

-Whenever a MNEs cash flow resulting from its international transactions is affected by changes in exchange rates, the MNe is said to be exposed to transaction risk or exposure

- These foreign exchange entitlements and obligations are susceptible to eventual value uncertainty due to fluctuation in exchange rates of the currencies in which these receivables and liabilities are denominated. This kind of uncertainty affetcs the original cashflows agreed to when thetransactions occurred

3. **Economic exposure**

-The extent to which achange in the bilateral exchange rate between two currencies of an MNEs dealings affects the present value of expected future cash flows to the MNe is termed the economic exposure or risk
-Economic exposure differs from transaction and translation exposure in two important respects:

- Economic exposure is a subjective concept that is not easily identified or measured
- Second, because of its long-term implications compared to those of transaction and translation exposures, recognising and dealing with economic exposure is by far more imporatnt than dealing with the other two

******MORE POSSIBLE EXAM QUESTIONS******

Four possible international strategies are available to a multinational enterprise (MNE). These are international, multi-domestic, global and transnational strategies. Discuss the key characteristics; advantages; disadvantages; key organizing principles; types of industries of each strategy. Also include when each is most appropriate (pgs. 256 – 262) (Assignment 02, question 3). (Oct 2014 exam)

Refer to Table 10.1. TB pg 261

What does a global manufacturing strategy imply (pgs 283 – 284

Critically discuss the various factors that need to be considered when deciding on where to manufacture products internationally (pgs 285 -291).

If you were a global supply chain manager, how would you define and manage the supply chain ? Key activities to support the structure? How would you explain supplier networks, outsouring, inventory management, foeign trade zones, transportation and supply chain technology? (291 – 299).

Describe Africa’s economic performance in detail (pgs. 349 – 350)

Critically evaluate Africa’s socipolitical and institutional performance. (pgs. 350 – 356)

Discuss the impact of technology on Africa’s prospects. (pgs.357 -359)

How could one best describe Africa’s position in the global economy? (pgs. 359 -362)

Describe the business environment in Africa. (TB pg365-369/SG pg 182)

*********ALL THE BEST WITH YOU EXAMS*********