International Business
Unit 4
Organisational Structure for International Business Operations

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Contents

- Key issues involved in making international production, finance, marketing and human resource decisions
- International Business Negotiations
- Strategic Alliances
- Role of IT in International business; International business and ecological considerations

INTRODUCTION

- Global Production strategies
- Production can be integrated globally, while the marketing is Multi-domestic, reflecting cultural and consumer preferences differences. The goal is therefore to better answer the needs of every market.
- Logistics activities are highly important as production and distribution capabilities need to be effectively reconciled. 3

- Four major location strategies for Global Production Networks can be identified:
- 1. Centralized global production
- 2. Regional production
- 3. Regional specialization
- 4. Vertical transnational integration

INTRODUCTION

- Strategic issues
- In operations management, an MNC needs to make decisions on several strategic issues, more important of them are:
- 1. International sourcing and vertical integration
- 2. Standardization of production facilities
- 3. International facilities location
- 4. Contract manufacturing
- 5. Strategic role of foreign plants
- 6. Supply chain management
- 7. Managing service operations
- 8. International quality standard

INTERNATIONAL LOCATION DECISIONS

- Identification of motivations of firms that seek to manufacture across the borders.
- Identifying the most difficult problem in making an international location decision
- Explanatory on the importance of sub-factors and the sectors, types of business or countries in which they are most relevant
- location of manufacturing plant in different geographical areas
- location of parent company like United States, United Kingdom, Western Europe and Japan from experts' points of view.
- Type of business i.e. Automotive/Motor Vehicles, Electronic
- Nature of firm i.e. world-class manufacturing, large company and medium-sized company by identifying the top four important factors from experts' points of view.


Technology factors
Country Factors
Product factors
Facilities Location
Organizational issues
Govt. Policies

SCALE OF OPERATIONS

- Economies of scale can be classified into two main types:
- 1. Internal – arising from within the company; and
- 2. External – arising from extraneous factors such as industry size.

- Economies of Scale and International Trade Although economists wrote about these effects long ago, models of trade developed after the 1980s introduced economies of scale in creative new ways and became known as the “New Trade Theory.

Make or buy decision

- Definition: The act of choosing between manufacturing a product in-house or purchasing it from an external supplier.
- In a make- or-buy decision, the two most important factors to consider are
- 1. Cost and
- 2. Availability of production capacity.
- An enterprise may decide to purchase the product rather than producing it, if is cheaper to buy than make or if it does not have sufficient production capacity to produce it in-house

- The Advantages of Make
- Lower costs
- Facilitating specialized investments
- Proprietary product technology protection
- Improved scheduling

- The Advantages of Buy
- Strategic flexibility
- Lower costs
- Offsets
- Trade-offs
- Strategic alliances with suppliers

INTERNATIONAL MARKETING STRATEGY

- International marketing involves the marketing of goods and services outside the organization`s home country. Multinational marketing is a complex form of international marketing that engages an organization in marketing operations in many countries. Global marketing refers to marketing activities coordinated and integrated across multiple markets.
- A firm`s overseas involvement may fall into one of several categories:
- 1. Domestic
- 2. Regional exporter
- 3. Exporter
- 4. International
- 5. International to global
- 6. Global

- Various challenges in global marketing
- Accepting the Inevitable
- Technical Challenges
- Promotional Challenges

International Exchange Rate Risk: Economic Exposure

- In the present era of increasing globalization and heightened currency volatility, changes in exchange rates have a substantial influence on companies' operations and profitability.
- Exchange rate volatility affects not just multinationals and large corporations, but it also affects small and medium-sized enterprises, including those who only operate in their home country.
- While understanding and managing exchange rate risk is a subject of obvious importance to business owners, investors should also be familiar with it because of the huge impact it can have on their holdings.

What Is Economic Exposure?

- Companies are exposed to three types of risk caused by currency volatility:
- *Transaction exposure.* This arises from the effect that exchange rate fluctuations have on a company's obligations to make or receive payments denominated in foreign currency. This type of exposure is short-term to medium-term in nature.
- *Translation exposure.* This exposure arises from the effect of currency fluctuations on a company's consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term.
- *Economic (or operating) exposure.* This is lesser-known than the previous two but is a significant risk nevertheless. It is caused by the effect of *unexpected* currency fluctuations on a company's future cash flows and market value and is long-term in nature. The impact can be substantial, as unanticipated exchange rate changes can greatly affect a company's competitive position, even if it does not operate or sell overseas. For example, a U.S. furniture manufacturer who only sells locally still has to contend with imports from Asia and Europe, which may get cheaper and thus more competitive if the dollar strengthens markedly.

DEALING WITH EXCHANGE RATE RISK

- If your business exports or imports goods or services, you need to consider how you will protect yourself against changes in the exchange rate
- 1. Foreign currency issues when importing or exporting
- 2. Identifying foreign exchange risks
- 3. If you trade in foreign currency
- 4. If company trade in sterling
- 5. Company could be affected even if you don't trade overseas

International Business Negotiations: Definition and Process

- Generally, the process of negotiation consists of three different negotiation stages including the pre-, actual negotiation, and post- stages (Ghauri 1996:7). The effective flow of the negotiation process can determine the success of a negotiation.
- The pre-negotiation stage, which involves the preparation and planning, is the most important step in negotiation (Ghauri 1996:14). It sets the foundation for the process negotiating (Lewicki et al. 1994). It consists of interactions, such as building trust and relationships, and the task-related behaviors which focus on the preferences related to various alternatives (Graham & Sano 1989, Simintiras & Thomas 1998). In brief, the first stage of negotiation emphasizes getting to know each other, identifying the issues, and preparing for the negotiation process.
- The negotiation stage involves a face-to-face interaction, methods of persuasion, and the use of tactics. At this stage negotiators explore the differences in preferences and expectations related to developing an agreement.
- The post-negotiation stage relates to concessions, compromises, evaluating the agreement, and following-up.

International Business Negotiations: Definition and Process

- An international business negotiation is defined as the deliberate interaction of two or more social units (at least one of them a business entity), originating from different nations, that are attempting to define or redefine their interdependence in a business matter.
- This includes company-company, company-government, and solely interpersonal interactions over business matters such as sales, licensing, joint ventures, and acquisitions

INTRODUCTION

- Strategic alliances are cooperative arrangements between organizations belonging to same country or different parts of the world or different ends of the supply chain which are more than the deal. These alliances represent connection between otherwise independent organizations that can take many forms and contain the potential for additional collaboration.
- They are, in fact, mutual agreements to continue to get together to avail of streams of opportunities.
- Although a strategic alliance is most commonly described as a partnership or a joint venture, the term could cover a broad spectrum of business relationships that may include anything from simple cost sharing arrangements to a fully integrated merger of two companies.
- Sometimes, a strategic alliance can represent an effort to “roll up” a number of separate business entities into a single legal entity having integrated management, economies of scale and other characteristics that translate into more economic clout.
- The principal goal of strategic alliance is to minimize risk while maximizing leverage and profits and for that purpose to find where one or the other company has limitations. In a successful alliance, partners gain access to specific strengths such as sale of technology, finance, distribution, etc. that they do not possess themselves.

Fundamental Features of Strategic Alliances:

- 1. A strategic alliance is a unique one-to-one relationship between two or more companies working on a project designed to generate a profit neither partner could achieve of its own. Alliance partners keep ownership of their own business, and do not lose their identity while contributing capital, expertise and other tradable to the mutual venture.
- 2. An alliance is a specific type of partnering arrangement where organizations come together to form a new joint venture for manufacturing, marketing and distribution, design collaboration, technology license and research and development.
- It is essentially a partnership in which one can combine efforts in projects ranging from getting a better price for supplies by buying a bulk together, for building a product together with each of the firms providing a part of its production.
- The alliance is said to be specific also because it is forged to serve a specific goal, i.e., product development, market development, market penetration or for diversification or setting up a new field for achieving a common objective

3. Each strategic alliance may be formed by several companies collaborating to create a new “Go to Market” product and/or service. Ideally this new product and/or service will bring a unique value proposition in the market niche and/or segment as agreed upon by the collaborating parties. There must be a value proposition that will be identified with each of the partners and also identified for the market place (i.e., end user customers)

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- 4. Strategic alliances are wider in scope spanning from an informal business relationship based on a simple contract such as network, subcontracting, licensing and franchising to formalized inter-organizational relationships such as Joint venture agreements as also a fully integrated merger of two companies
- 5. The hallmark of a strategic alliance is the quest for mutual benefit the belief that by working together to address a market need the combined offering will be more potent/valuable/successful than the contributors could deliver by themselves or through less penetrating relationship. It is a common place for the boundaries between the operations of strategic alliance partners to become blurred as activities are integrated into a focused delivery capability.
- 6. The overriding element of a strong partnership lies in mutual respect for each company in organization. This includes strong executive commitment to one another, trust in each other’s capabilities and the willingness to work together closely on multiple fronts.
- 7. As with mutual respect, flexibility in establishing and operating any partnering arrangement is of paramount importance. Project members give full authority to act on their own initiative without having to refer back for approval.

- **Understanding Alliances:** Alliances are also one of the important ways to grow in the present business scenario but have certain distinctive characteristics. Before adopting any of form of growth strategy it is necessary to understand the special features of each form of strategic alliance:
- **Mergers:** A merger refers to the coming together of two or more companies to form a new entity or one or more entities merging into other entity. Thus there is equal control over the combined entity & no one company dominates the other. Usually, the management of both companies shares the control of the resultant company and names of both companies are retained for the resulting companies.
- There are many high profile examples of mergers – AOL Time Warner, GlaxoSmithKline (the second largest pharmaceutical company in the world after Pfizer), Hero Honda (the leading motorcycle brand in India), Sony Ericsson (the third largest manufacturer of mobile phones in the world) and many others.
- In each of these cases, names and management of both companies were retained in order to leverage the equity of both brand names. Thus mergers result into a new organization from two or more organizations of more or less equal stature and where all resources are pooled.

- **Acquisitions:** Acquisitions, on the other hand, refer to processes in which one company buys the other company. In such a situation the buying company absorbs the bought company into the existing company. Acquisitions can be carried out either to eliminate competition by absorbing the competing company or to expand the corporate portfolio by retaining the acquired company as an independent entity under the overall corporate management.
- **Joint Ventures:** It refers to a legal entity that is formed between two or more parties to undertake an economic activity together. In the Joint Venture, the parties agree to create, for a definite period, a new entity and new assets by contributing equity. They then share in the revenues, expenses, and assets and “control” of the enterprise. Joint Ventures are also driven by business, taxation, and political objectives. Joint Ventures are very feasible in an environment where parent-subsidiary relationships are not encouraged because of (a) national objectives (b) parental control of funds and (c) disallow competition.

	Alliance			Purchase	
	Non equity Alliance	Equity Alliance	Joint Venture	Merger	Acquisition
Risk	Shared			Total (by owner)	
Duration	Medium to long term			Permanent	
Legal Status	No legal entity is formed		New legal entity formed	Legal status of old entities changed	
Impact on Finance	No impact	Only sharing of expenses	May or may not be impacted	Done to capture synergies & therefore direct impact	
Impact on lenders	No impact	Marginal Impact	Not substantial	Positive or negative	
Management	Professional	Party with high stake	Equally	100% of acquirer	

Role of IT in International business

- Information technology has changed how businesses around the world communicate, hire employees, conduct foreign trade, market their products, perform research and manage global supply chains. It has particularly opened up opportunities for businesses of all sizes to expand the reach of their products and services, choose the best suppliers from around the globe and take advantage of advanced manufacturing solutions.
- **Communication Across Borders**
- Businesses and customers around the world can now **communicate easily regardless of location** thanks to the use of technologies such as online chat, email, texting, social media, videoconferencing and Voice over Internet Protocol.
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Role of IT in International business

- **Global Human Resources**
- Technologies like **cloud computing and web conferencing** make it possible to hire employees who live in other countries. As a result, companies have more options for finding key talent and saving money since they won't need to build a physical office for these remote employees.
- International employees hired directly can often do their work from home as long as they have a connection to the internet. Companies also have the option to hire remote staff through outsourcing centers that provide a workspace and the common equipment needed.
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Role of IT in International business

- **Advancements in Manufacturing**
- Developments such as **3D printing and robotics** have transformed how companies around the world manufacture products. These technologies make it easier to produce products quickly with fewer mistakes so that global businesses can meet customer demand as well as potentially save money. In the case of robotics, this technology can help produce products as complex as vehicles and gadgets alongside human workers. You can expect advancements in artificial intelligence to lead to even higher efficiency and quality when it comes to 3D printing and robotics-aided manufacturing.
- Manufacturing technologies can also influence business decisions about whether to produce products in house or overseas. For example, the need for less labor and the improved capacity with these technologies might encourage a U.S. company to stop producing overseas if it looks more financially feasible.

Role of IT in International business

- **Supply Chain Management**
- The use of sophisticated supply chain management software has made it easier to manage a global supply chain rather than just source products and supplies domestically. Companies may do this to take advantage of lower costs and improved efficiency as well as to have more variety in what they can purchase from international companies.
- Supply chain management software can help companies **strategically source their goods internationally** for the best value and view real-time inventory reports. Such software also integrates with e-commerce platforms so that global customers' orders get fulfilled seamlessly using the most efficient route and postal service.
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Role of IT in International business

- **E-commerce and Digital Payment Systems**
- Thanks to e-commerce, small businesses can now more easily do business with customers and other companies around the world. Rather than having to set up multiple shops for customers to visit, you can take orders from around the world by easily **setting up an online store** that customers can visit through their web browser or a mobile app. At the same time, you can use e-commerce to order supplies and inventory from overseas where you might save money.
- Along with using regular payment systems, businesses can now use technologies like PayPal, Alipay and cryptocurrency platforms. These systems make it easier to handle transactions in different currencies and allow customers and companies to make and receive payments right from their phones or computers.
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Role of IT in International business

- **Information Technology and International Marketing**
- The importance of information technology and international marketing is seen in how the internet allows companies to reach customers in any country. Rather than relying on costly print, TV and radio advertising, businesses can pay for cheaper online ads through global search engines, get listed in global business directories and advertise on social media sites. They can even hire **remote marketing specialists** in the targeted locale.
- Companies can also use tools like **customer relationship management software** to customize their marketing campaigns to fit each market's culture and customer preferences. This software helps with tracking marketing analytics to understand customers' impressions of products and services, and it can also streamline communications with global customers through automated emails and response tracking.