MGT 3209

INTERNATIONAL MANAGEMENT

Fall 2014

Lecture 6

Globalization and Localization

Monday, October 13, 2014

FORCES FOR GLOBAL INTEGRATION

- Economies of Scale
- Economies of Scope
- Factor Costs
- Free Trade
- Global Competitors

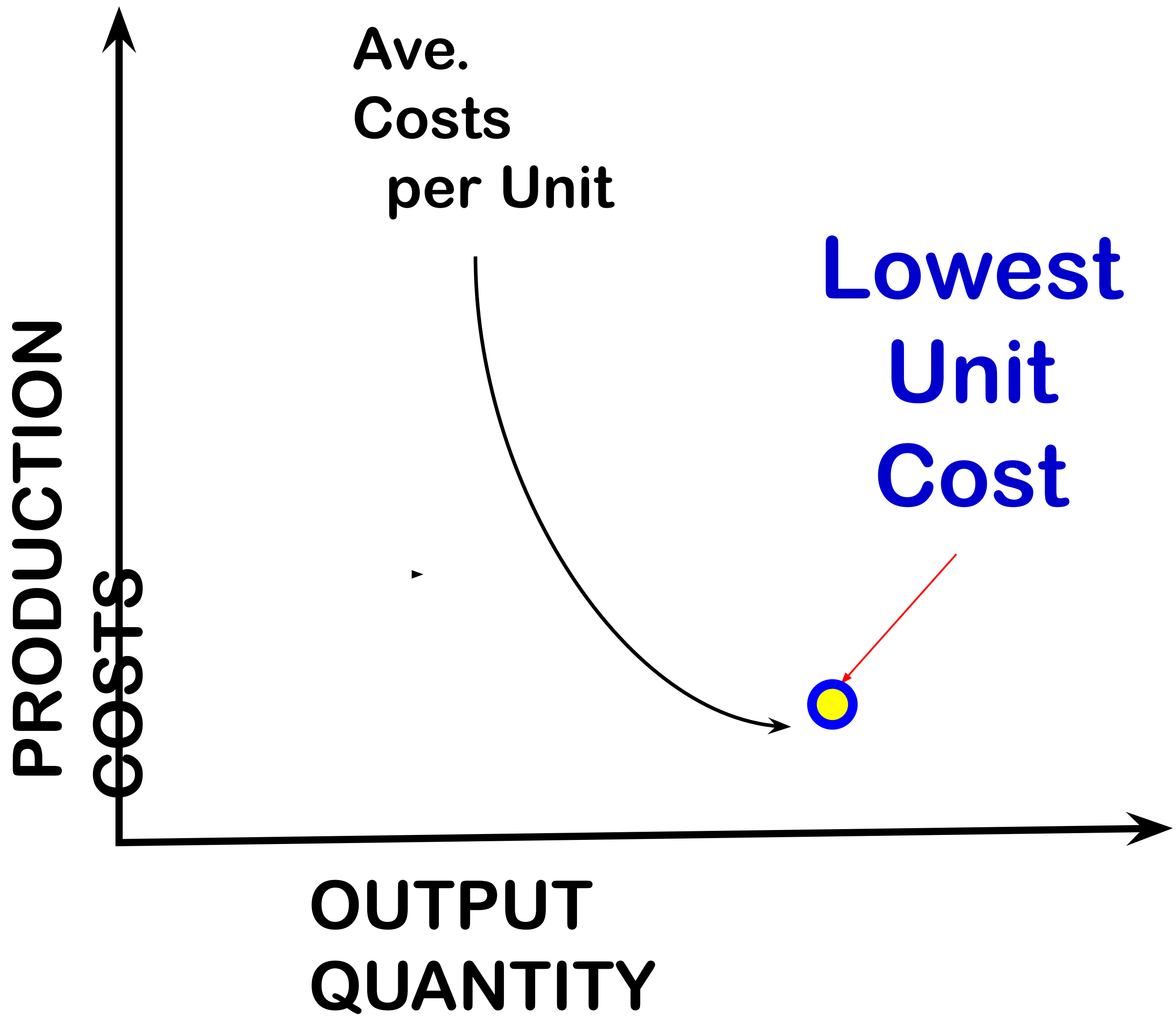
Economies of Scale

When economies of scale are so large that the most efficient volume of production is greater than the total demand for a product, sales can sometimes be increased by expanding into foreign markets.

Economies of Scale

Scale economies (economies of scale) are cost savings that result from lowering the cost of making one unit of product, by varying the total quantity produced.

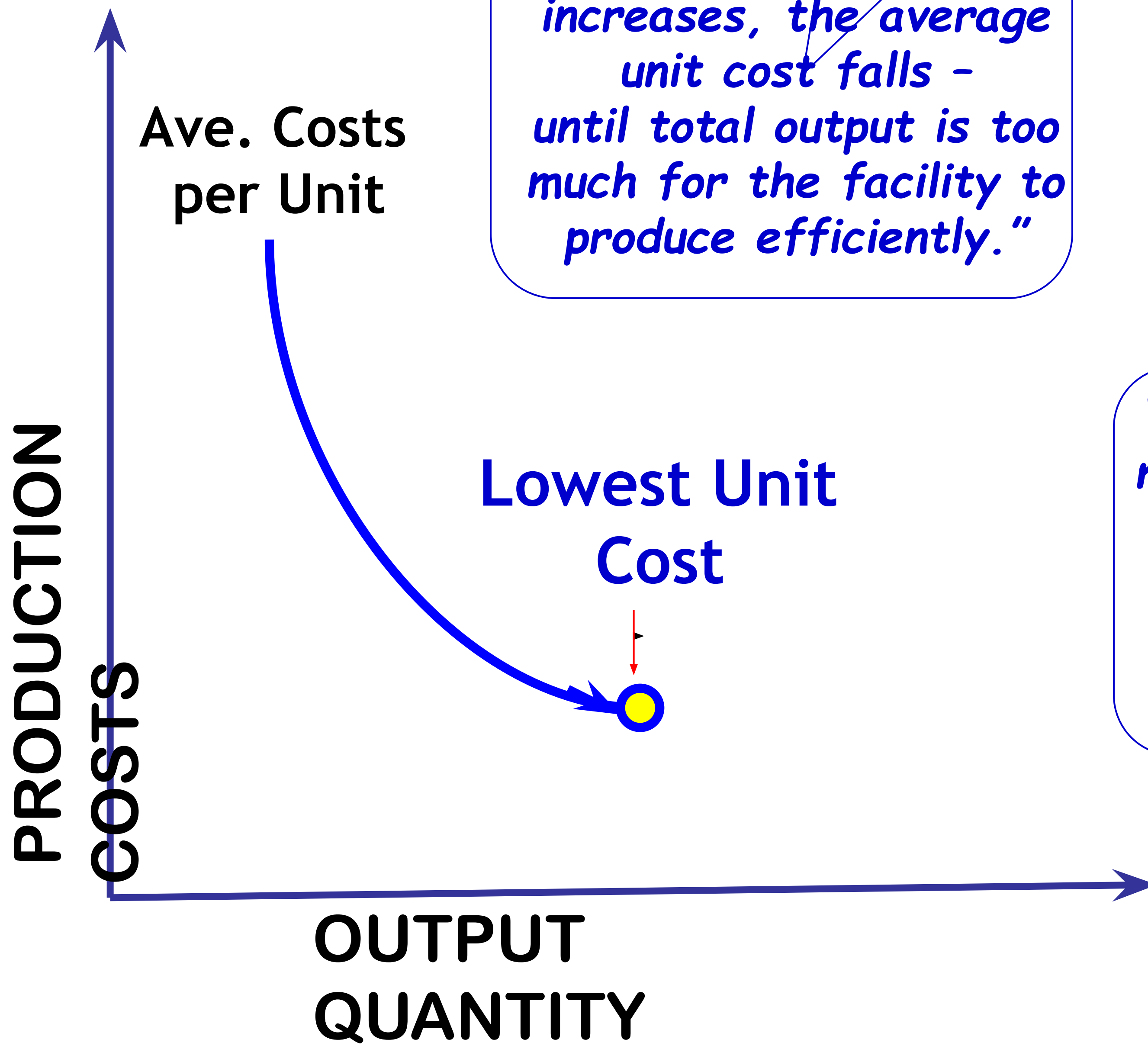
Production efficiency is highest at the minimum efficient scale/volume of production. This is where average unit costs fall to their lowest point.


Ave.
Costs
per Unit
Lowest
Unit
Cost
PRODUCTION
COSTS
OUTPUT
QUANTITY

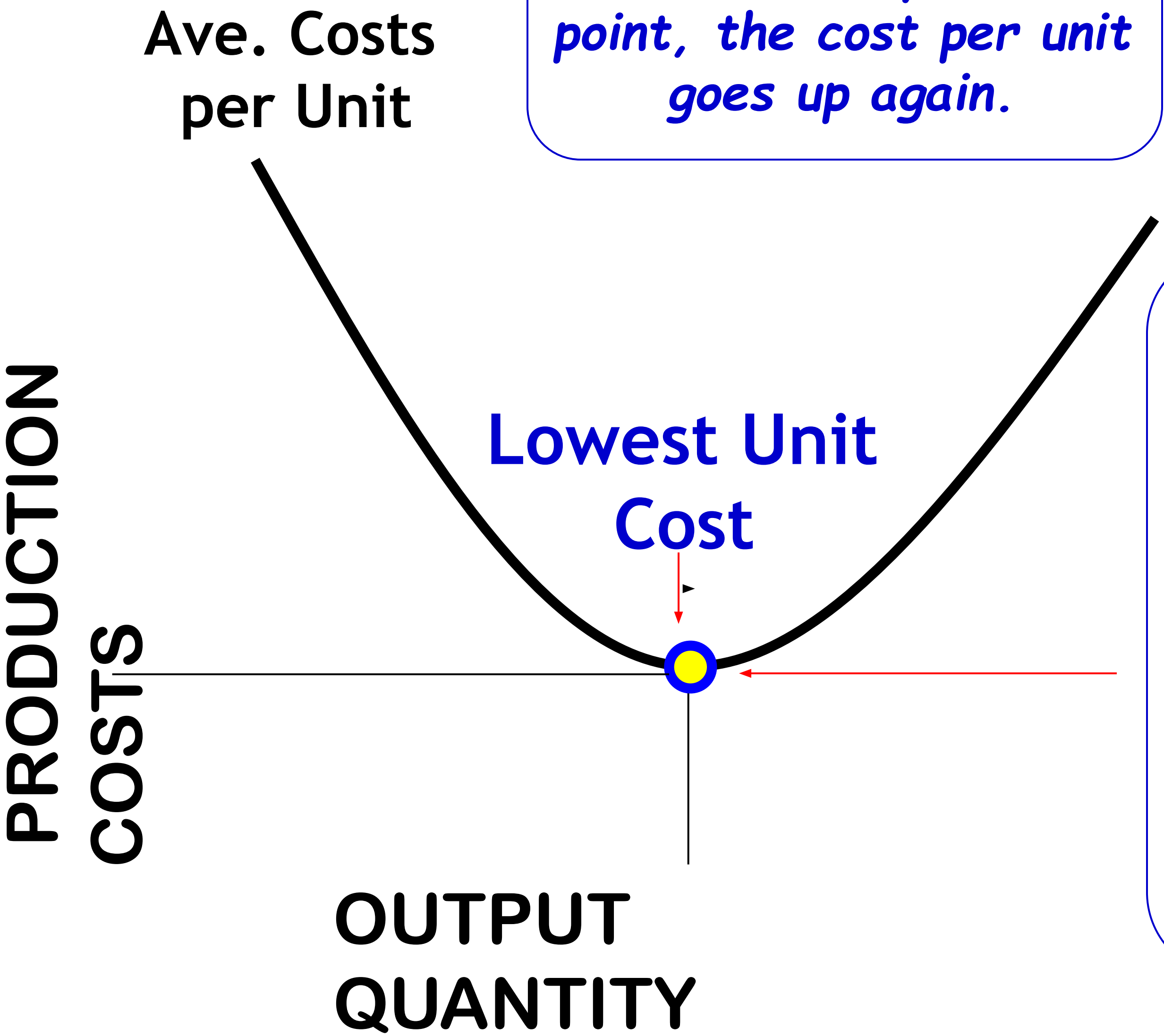
Economist

"As production output increases, the average unit cost falls – until total output is too much for the facility to produce efficiently."

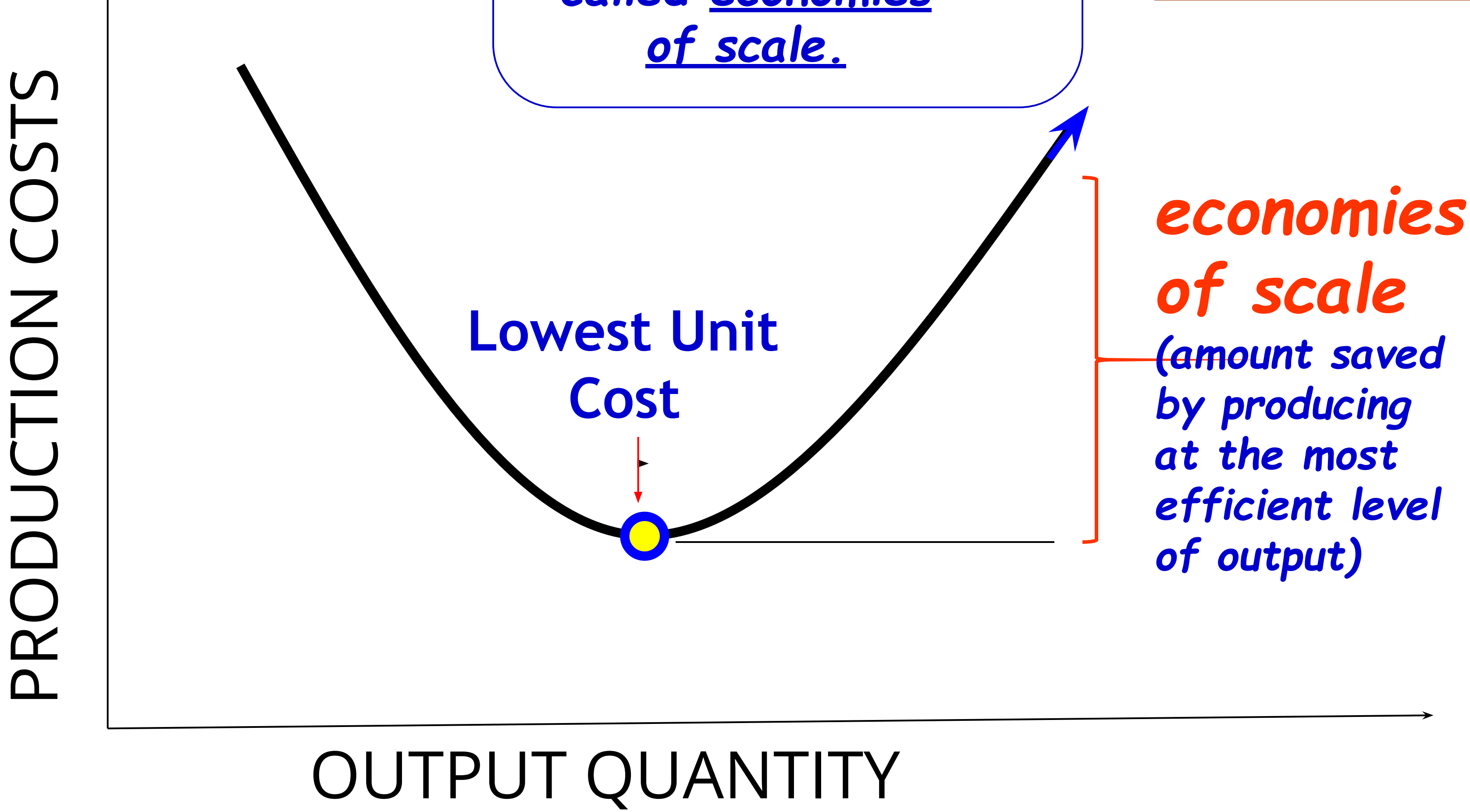
"Production is most efficient when the average unit cost is at its lowest point.



If production continues to increase beyond that point, the cost per unit goes up again.



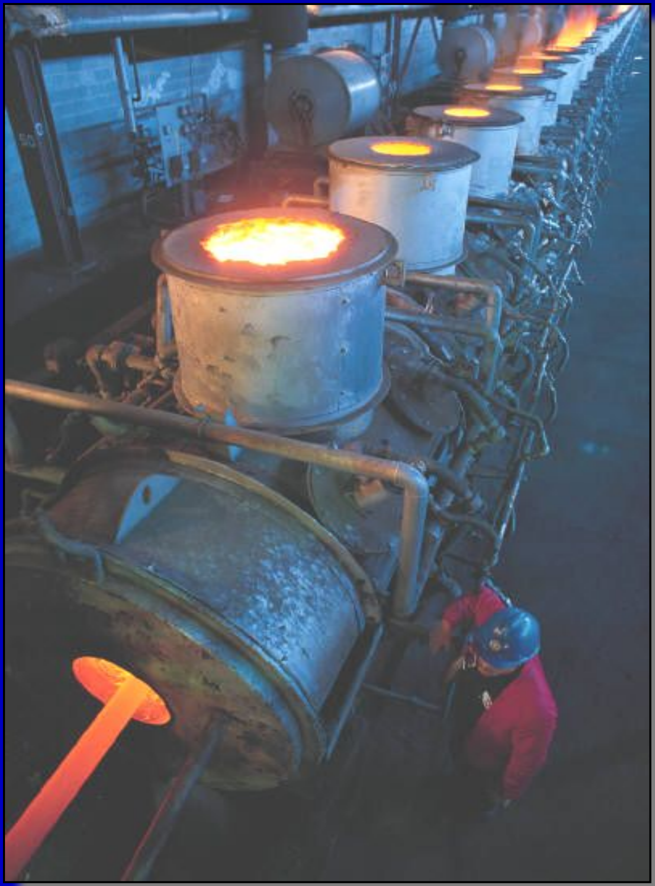
The optimal output level represents the lowest unit costs. This is the <u>minimum efficient scale</u> i.e. the smallest quantity that can be produced efficiently)


Cost savings obtained by maximizing efficiency are called economies of scale.
Lowest Unit Cost
economies of scale
(amount saved by producing at the most efficient level of output)
PRODUCTION COSTS
OUTPUT QUANTITY

Conditions that Favor Concentrating Production in Fewer Locations

- High fixed costs relative to total costs
- High minimum efficient scale of production
- Flexible manufacturing is not available

Industries with LARGE Economies of Scale



STEEL

AUTOMOBILES

Conditions that Favor Spreading Production Across More Locations

- Low fixed costs relative to total costs
- Low minimum efficient scale of production
- Flexible manufacturing is available

Economies of Scope

Improved global communication and transportation create opportunities for companies to capitalize on their strengths by increasing the scope or range of their operations.

Economies of Scope

- Geographic Scope
- Product Market Scope
- Vertical Integration Scope

中国银行(香港)
BANK OF CHINA (HONG KONG)

Definition:

ECONOMIES OF SCOPE

These are the cost savings that result from combining various activities in one firm, instead of in several different organizations.

Factor Costs

Gaining access to low-cost resources (land, labor, raw materials, capital) is another important reason to enter foreign markets.

“many companies found that, once educated, the cheap labor rapidly became expensive…

the typical life cycle of a country as a source of cheap labor for an industry is now only about five years.”

Free Trade Agreements

- GATT
- NAFTA
- EU
- WTOa

Forces for global integration reinforce each other

- Technological innovation
- Economic rationalization
- Product standardization
- Converging consumer preferences

FORCES FOR LOCALIZATION

Cultural Differences

Government Demands

Company Preferences

Conflicting cultural characteristcs and conflicting expectations and priorities between home country and host country governments force companies to become more sensitive to foreign environments.

Cultural Differences

- Work values (Hofstede)
- Consumption patterns

Country Preferences

- Host countries often see the MNE as a source of capital, technology, & skills to support national priorities.

- These include regional development, employment, import substitution, and exporting.

Company Preferences

- access to resources & markets in other countries
- opportunity to integrate its marketing & operations across national borders
- the right to coordinate & control its activities across national borders

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INTERNATIONAL MANAGEMENT

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Lecture 7

International Joint Ventures (IJVs)

Monday, October 20, 2014

This chapter deals with three topics:

- Reasons for investing in IJVs
- Partner selection
- Practical issues in making IJVs work

Shared Interests of the Partners

Increase market power by combining resources
Share costs of investment and production
Gain economies of scale
Cooperate to avoid expensive competing

Contributions of the Foreign Partner

International know-how
Access to international connections
International reputation
International product markets
International labor markets
International finance
International technologies
Other international resources
International distribution

Contributions of the Local Partner

Access to local connection
Government contacts
Local reputation
Government regulations
Local culture
Local product services
Local labor markets
Other local resources
Local distribution

Trust and Mistrust

Contractual details
Priorities in planning
Implementation strategy
Management style, structure, systems
Communication systems within the IJV with parents, between parents, with environment
Criteria for evaluating IJV development and performance
Other

• Cultural mindset

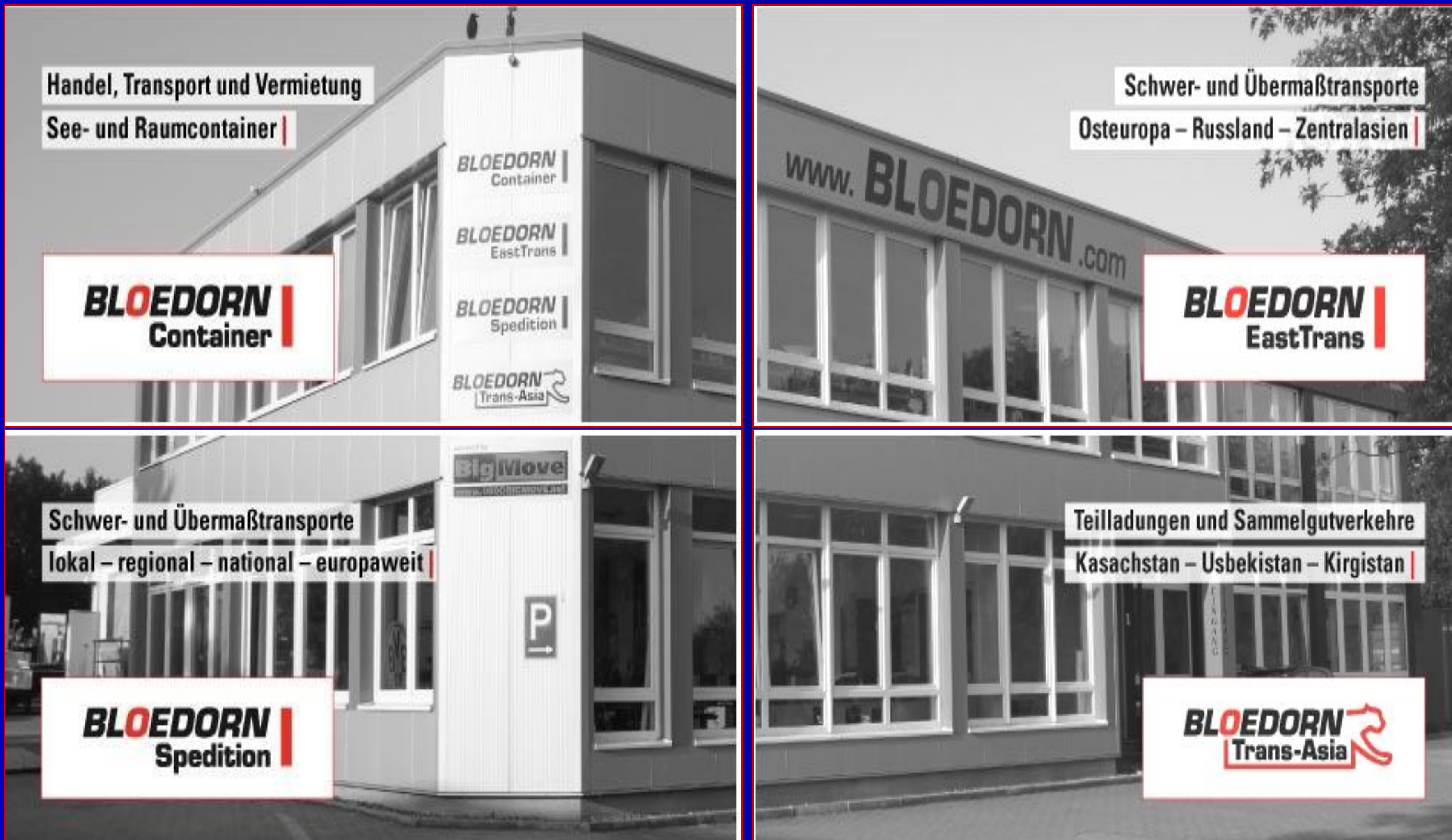
BigMove is a joint venture of well known heavy haulage companies that joined forces to offer a total package for every customer.

Partners in the BigMove JV are: Bloedorn, Geser, Giebel, Gutmann, Hämmerle, Hegmann Transit, Pallmann, Schmallenbach, Seeland, Wagner and Wallek.

The BigMove Group is a Joint Venture alliance of eleven medium-sized special transport companies that was founded in 2004.

The BigMove network is represented with branch offices in Switzerland, Austria, France and Germany.

BLOEDORN SHIPPING COMPANY



Member of the BigMove Group
Handles Shipping to Kazakhstan

The Snow Leopards

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INTERNATIONAL MANAGEMENT

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Lecture 8

Headquarters & Subsidiaries

Mead & Andrews, International Management, 4th ed., Chapter 18, "Risk and Control: Headquarters and Subsidiary"

CENTRALIZATION AT COCA-COLA

"Coca-Cola is still a highly centralized company…

All important strategic decisions are [made at] headquarters in the [U.S.].

Regional and national subsidiaries are managed by staff appointed by headquarters

they adjust headquarters strategy to their particular circumstances only when absolutely necessary."

Source: Mead & Andrews (2009) p. 307

Cont.

“There is a good reason for this degree of centralization.

The company is selling a **global product**, a **unique soft drink** and the **universal cultural values** associated with that drink.

It cannot risk confusing the market by local managers developing products that appeal only to local tastes.”

Source: Mead & Andrews (2009) p. 307

Key Considerations in Relationships Between HQs & Subsidiaries

RISK

Factors that increase management risk for the firm

CONTROL

Measures to protect the firm against management risk

TYPES OF RISK

Competitive Risk
Economic Risk
Political Risk
Technology Risk
Cultural Risk

TYPES OF CONTROL

Managerial Control
Technology Control
Budget Control

Coca-Cola Ichimligi Uzbekiston

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INTERNATIONAL MANAGEMENT

Fall 2014

Lecture 9

Staffing for Control

Mead & Andrews, International Management, 4th ed., Chapter 20, “Controlling by Staffing”

Monday, November 3, 2014

LABOR POOLS

Staff from different labor pools typically have different interests, reflecting their ties to particular organizations and cultures.

Professional, hierarchical, and cultural factors complicate the situation further.

When staff from different labor pools hold conflicting organizational loyalties and cultural ties, the overall level of misunderstanding and conflict in the organization rises.

Groups from labor pools with very different organizational loyalties may cause contradictions in:

- **Relations among groups**
- **Relations with management**
- **Interpretation of goals**
- **Expectations about outcomes**
- **Perceptions of management**
- **Work norms**
- **Organizational culture**

There is generally less risk of misunderstanding when all staff in the IJV or subsidiary are from the same labor pool.

BUREAUCRATIC CONTROL

The purpose of bureaucratic control is to develop <u>impersonal bureaucratic efficiency</u>.

HQ can strengthen bureaucratic control over the Subsidiary by enforcing impersonal rules for activities such as:

- **Selection**
- **Recruitment**
- **Training**
- **Rewards**
- **Individual behavior**
- **Individual productivity**

Bureaucratic control over individual behavior relies on:

- **monitoring activities**
- **evaluating activities**
- **regulations and rules**
- **instructions and manuals**
- **training**

Bureaucratic control can also be carried out by monitoring Subsidiary activities through output control, e.g.

- developing reporting and monitoring systems for providing Subsidiary reports to Hqs
- assessing subsidiary performance using reported data

CULTURAL CONTROL

The purpose of cultural control is to develop loyalty to the company and to headquarters.

Cultural control is created by means of implicit norms that persuade members to make a moral commitment to the company.

Cultural control actively integrates newcomers into the shared culture by structuring personal interactions with established members of the organization.

Cultural control techniques include:

- Many expatriates as role models
- Employee socialization programs
- Visits between Subsidiary and HQ
- Company seminars
- Social events

"Organizational culture … defines specific patterns of behavior, including rituals, rules and identity within a professional environment."

"Culture specifically is a means of controlling behavior."

"Company leaders develop cultural controls to create social norms and a sense of shared values within the organization."

by Sophie Cross, Demand Media

http://smallbusiness.chron.com/examples-cultural-controls-organizational-structure-13425.html

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INTERNATIONAL MANAGEMENT

Fall 2014

Lecture 10

Ethics and Corporate Responsibility

Mead & Andrews, International Management, 4th ed.
Chapter 24, "Ethics and Corporate Responsibility"

Monday November 10, 2014

BUSINESS ETHICS

- Conditions under which ethical concerns are significant
- Complications in business ethics

Conditions under which ethical concerns are significant:

- in the workplace
- in the marketplace

Complications in business ethics:

- professional factors
- hierarchical factors
- cultural factors

Two Aspects of Ethics

- CONDUCT of behavior according to moral principles
- EVALUATION of behavior according to moral principles

Is there a place for ethics in business?

Two Opposing Views

A firm's only responsibility is to make profits for its stockholders within the law

↔

Ethics can increase profit if a firm always follows its own ethical code

Why has interest in business ethics increased so much?

- It’s easier to investigate and report unethical and corrupt behavior
- There’s more awareness of political, social, and economic costs of corruption
- Growing middle class expects more ethical behavior from government and business

- Workforces are increasingly diverse in terms of ethics, especially in multinational firms

- Companies can no longer assume that all their members come from the same concept and experience of ethical values

- Changes in the marketplace show that suppliers as well as customers increasingly prefer to deal with ethical companies

Ethical Codes

- The ethical code of an organization represents what it considers to be ethical and unethical
- An ethical code shows how the members of an organization are expected to behave

Implications for Managers

- Who is responsible for planning the code?
- How is the code communicated to members?
- How is ethical behavior taught to members?
- How is ethical behavior rewarded?
- How is unethical behavior punished?
- How clear or ambiguous is the code?
- How consistently is the code applied?

Understanding Ethics Across Cultures

It is especially difficult to deal with ethics in another culture when we:

- can’t identify the ethical code
- don’t know how it is implemented
- don’t anticipate how it is enforced
- are unaware that it’s different

Ethics of Loyalty

- In individualistic cultures, the individual employee owes loyalty to the company

- In collectivist cultures, the individual employee owes loyalty to the person who helped him or her get the job.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) refers to doing business in a way that supports the interests of **society** and the **natural environment**.

Today, CSR includes safeguarding the welfare of future generations with regard to global warming, clean water, clean air, garbage disposal, and endangered species, etc.