

International Management

PLAN FOR THE DAY

Part 1: What is 'International Business' (IB) and what types of management issues arise?

Part 2: The state of globalization

Part 3: Explaining risks and opportunities: CAGE and the institutional view

Part 4: Intro to national variations in business-government relations (how "institutions" are built)

Part 5: Practical aspects related to the course: assignments, exam etc.

Part 6: Introduction to next class

PART 1:

WHAT IS 'INTERNATIONAL BUSINESS' AND WHAT
DOES IT MEAN FOR MANAGEMENT?

WHAT IS INTERNATIONAL MANAGEMENT?

- Managing an international business: a company that engages in international (cross-border) economic activities, sometimes an “MNE”
- A Multinational Enterprise (MNE) is a firm that uses foreign direct investment (FDI) to establish or purchase income-generating assets abroad
- **IM** is about **managing complexity and uncertainty**:
 - cross-border activity brings new challenges...
 - ...requiring awareness and strategic thinking

THE EVERYDAY REALITY OF IM

TAXES | Updated August 26, 2012, 9:38 p.m. ET

U.S. Firms Move Abroad to Cut Taxes

Despite '04 Law, Companies Reincorporate Overseas, Saving Billions

Article | Stock Quotes | Comments (351)

By JOHN D. MCKINNON and SCOTT THURM

More big U.S. companies are reincorporating abroad despite a 2004 law sought to curb the practice. One big reason: Taxes.

Companies cite various reasons for moving, including expanding their geographic reach. But tax bills remain a primary concern. And U.S. taxes will rise in the future, especially if Washington revamps the law to shrink the federal budget deficit.

"We want to be clear," says David [redacted] for risk manager [redacted] which relocated [redacted]. Aon has told analysts its tax rate, which has risen over time, will be about \$100 million annually.

Since 2009, at least 10 U.S. public companies have moved abroad or announced plans to do so, including six in the Wall Street Journal analysis of company filings and statements from 2004 through 2008.

Journal Community >
Should the federal government lower corporate-tax rates?

Yes
 No

SUBMIT VOTE | **View Results >>**

AUTOS | August 26, 2012, 2:04 a.m. ET

Ford Steers Lincoln to Wealth

Article | Stock Quotes | Comments (6)


By CARLOS TEJADA in Beijing and MIKE RAMSEY in Detroit

Ford Motor Co. **F +0.32%** is setting its sights on the crowded Chinese market for high-end cars.

The Dearborn, Mich., auto maker plans to begin selling Lincoln cars in China in the second half of 2014, initially importing some models, such as roomier back seats and larger wheels. China is the world's largest auto market.

Ford plans to assemble a network of exclusive dealerships to push an image of simplicity it hopes will set it apart from other brands, Volkswagen AG's **VOWX.E -1.26%** and Audi AG's **DAI.XE +0.06%** Mercedes-Benz.

It also hopes to capitalize on what it says is the growing images on local television of U.S. president Barack Obama's historic visit to China in 1972.



Enlarge Image

Carlos Tejada for The Wall Street Journal


TECHNOLOGY | Updated August 25, 2012, 1:41 p.m. ET

Apple Wins Big in Patent Case

Jury Finds Samsung Mobile Devices Infringed Six Apple Patents, Awards \$1.05 Billion in Damages

Article | Video | Interactive Graphics | Stock Quotes | Comments

By JESSICA E. VASCCELLARO



After deliberating for 21 hours, 37 minutes, the jury in the Apple v. Samsung trial awarded Apple \$1.05 billion in damages after Samsung was found to have willfully infringed five of seven Apple patents. Mike Isaac reports on the News Hub. Photo: Reuters.

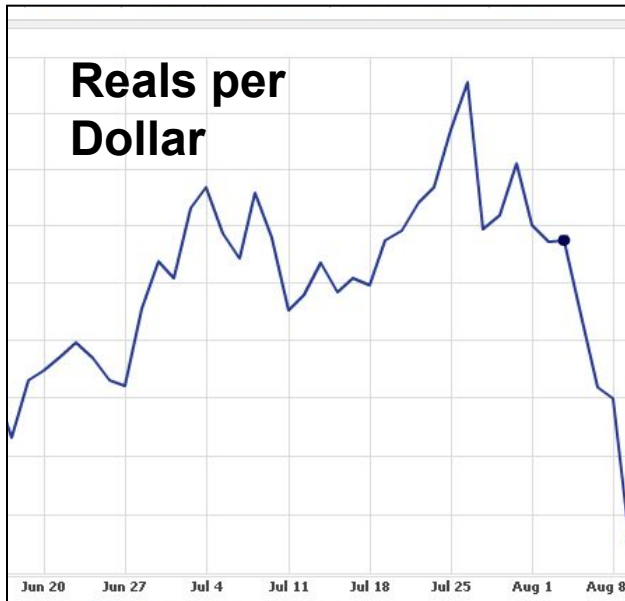
SAN JOSE, Calif. — Nine jurors delivered a sweeping victory to Apple Inc. **AAPL +0.21%** in a high-stakes court battle against Samsung Electronics Co., **005930.SE -1.22%** awarding the Silicon Valley company \$1.05 billion in damages and providing ammunition for more legal attacks on its mobile-device rivals.

Jurors Friday found that Samsung infringed all but one of the seven patents at issue in the case—a patent covering the physical design of the iPad. They found all seven of Apple's patents valid—despite Samsung's attempts to have them thrown out. They also decided Apple didn't violate any of the five patents Samsung asserted in the case.

The damage award is shy of Apple's request for more than \$2.5 billion, but much larger than Samsung's estimates and still ranking among the largest intellectual-property awards on record.

IM MATTERS, PERIOD

Palmolive generates 20% of its revenues in Brazil



1.63

1.53

Apple's Chinese manufacturers import 20% of inputs from Korea



.170

.162

Based on this information alone, which stock looks the most attractive?

THE KINDS OF QUESTIONS YOU CAN ANSWER BY THE END OF THIS COURSE

- How can differences in political systems affect international competition?

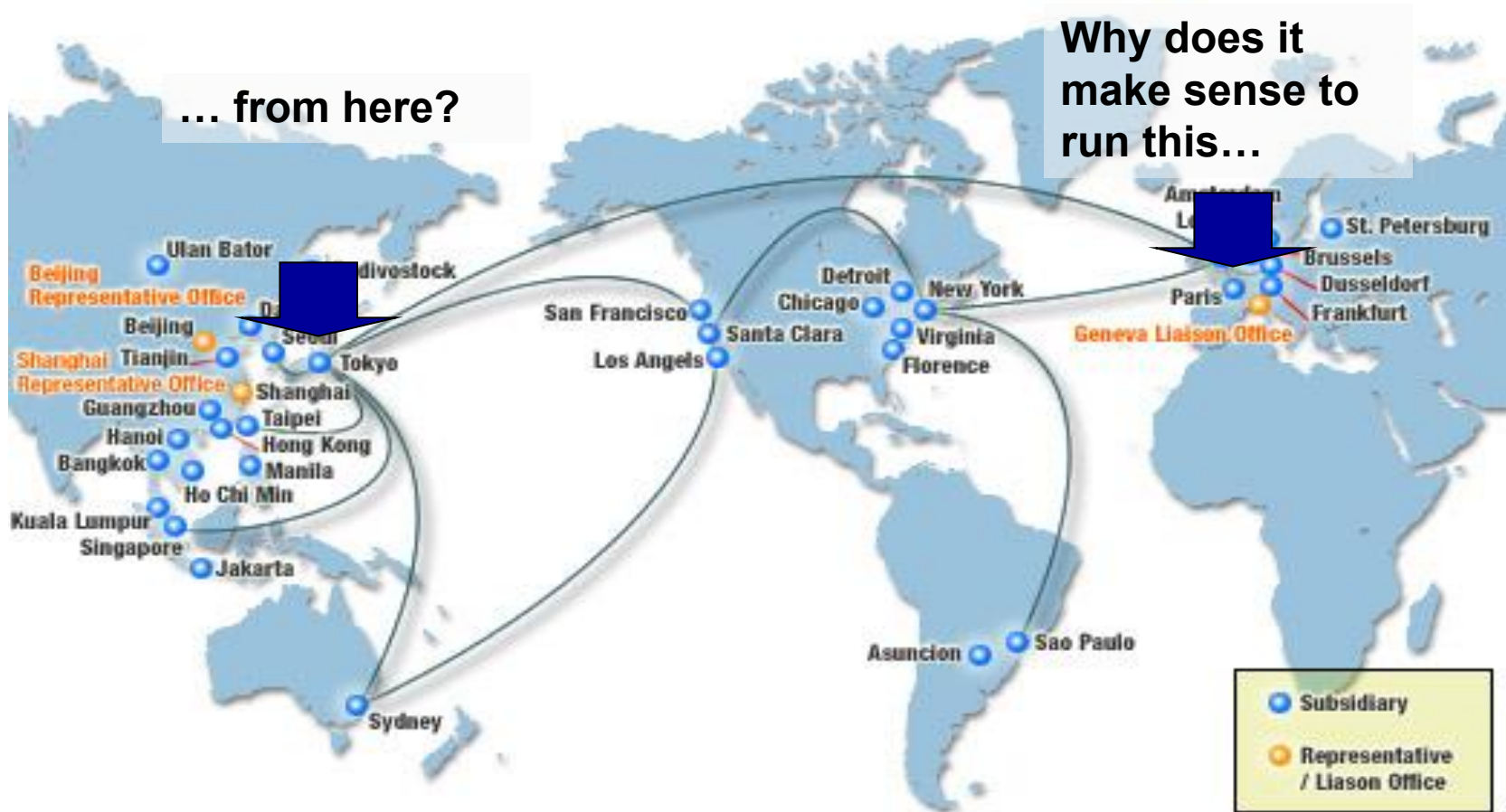


BOMBARDIER



THE KINDS OF QUESTIONS YOU CAN ANSWER BY THE END OF THIS COURSE

- What are multinational enterprises and why do they exist?



THE KINDS OF QUESTIONS YOU CAN ANSWER BY THE END OF THIS COURSE

- Why does Starbucks conduct its international roll-out primarily through joint ventures, when it is famous for maintaining strict control over its intellectual property at home?



ABROAD?



AT HOME?

THEORETICAL UNDERPINNINGS OF IM

- Institutional theory
- Resource Based view (RBV)
- Organizational learning
- Classical & modern trade theories
- Transaction cost / internalization theory

- ...What is “theory” anyway?

SO: HOW AND WHY IS UNDERSTANDING THE GLOBAL BUSINESS ENVIRONMENT IMPORTANT?



IM: ABOUT AWARENESS AND UNDERSTANDING

Ray Vernon, director of the MNE project at Harvard Business School, once wrote:

“[more and more of us] ...have come to recognize that the world of business offers infinite variety. [Yet] most of us continue to see these phenomena as aberrations, traps on the fairway that have no right to be there. Why can't the others, we plaintively ask, play like us? We must stop addressing that as a rhetorical question and begin looking earnestly for the answer.”

IM ISSUES IN THE MEDIA

E.U. Investigates Chinese Solar Panels

By KEITH BRADSHER
Published: September 6, 2012

CHENGDU, CHINA — The [European Union](#) began on Thursday morning its biggest anti-dumping investigation ever in terms of value, a broad inquiry into whether Chinese companies have been exporting [solar power](#) products for less than it costs to make them.

The case covers imports from China worth \$26.5 billion last year, a hefty 6.5 percent of all European imports of Chinese goods.

After exerting heavy diplomatic pressure for the European Union not to start the case, and after veiled threats to retaliate, the initial Chinese response on Thursday was restrained.

Shen Danyang, the Commerce Ministry spokesman, said in a statement that China expressed “deep regret,” adding that the trade action would hurt not only industries in China and the European Union but also global development of clean energy.

The scope of the European investigation is unusually broad, applying to assembled solar panels but also imports of key components like solar wafers. If tariffs are applied, the breadth of the case would make it difficult for Chinese companies from shipping the components to Europe and then into finished panels there.

The anti-dumping case, which follows bankruptcies and factory closures of U.S. solar panel manufacturers, considerably expands a trade barrier that has become one of the biggest sticking points in trade relations between the U.S. and China. The U.S. Commerce Department imposed preliminary tariffs of at least 31 percent on Chinese solar panels, in addition to permanent tariffs of 2.9 percent to 4.73 percent that were imposed in March.



Qantas Airways Ties Up With Emirates

By BETTINA WASSENER
Published: September 6, 2012

HONG KONG — Qantas Airways of Australia said Thursday it had ended a long-running partnership with British Airways was instead teaming up with Emirates of Dubai on European routes in an effort to help turn around its beleaguered international operations.

One of the oldest and most established players in the Asia-Pacific region, Qantas is doing well in Australia itself, where it has a sizeable share of the market. Its international network, by contrast, has continued to lose money despite a string of efforts to revamp the operations.

The 10-year partnership announced Thursday will give passengers flying on Qantas access to more than 70 Emirates destinations in Europe, as well as in Africa and the Middle East, starting from April of next year. Emirates, in turn, will gain connectivity to more than 50 destinations on Qantas' domestic network.

Qantas is hoping that by working with, rather than against, its former competitor, and shifting its hub for European flights to Dubai from Singapore, it will be able to attract more travelers onto European flights.

“With European services transiting through Dubai, Qantas' Asian services will no longer be a subsidiary of the ‘Kangaroo Route’,” said chief executive Alan Joyce, referring to the connection between Britain and Australia. Instead, he added in a statement, “they will be dedicated to connecting Australians with our region, and Asian visitors to Australia.”

“This is the most significant partnership the Qantas Group has ever formed with another airline,” Mr. Joyce said.



PART 2:

THE STATE OF “GLOBALIZATION”

WHAT IS GLOBALIZATION?

Globalization is...

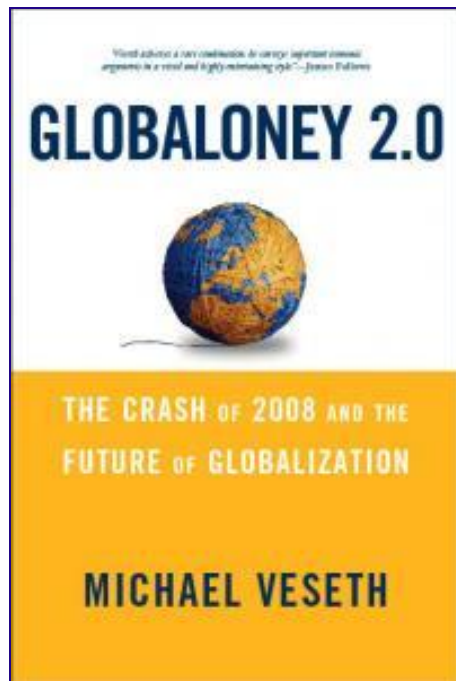
HOW GLOBALIZED ARE WE?

Views differ widely... on opportunities versus risks

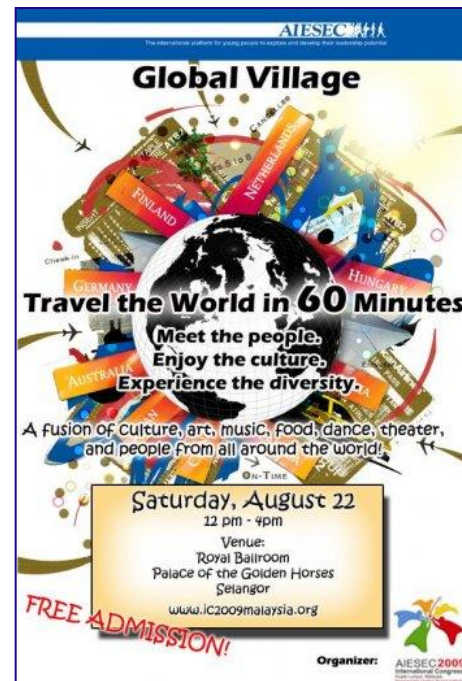


Skeptics

Globalists



?

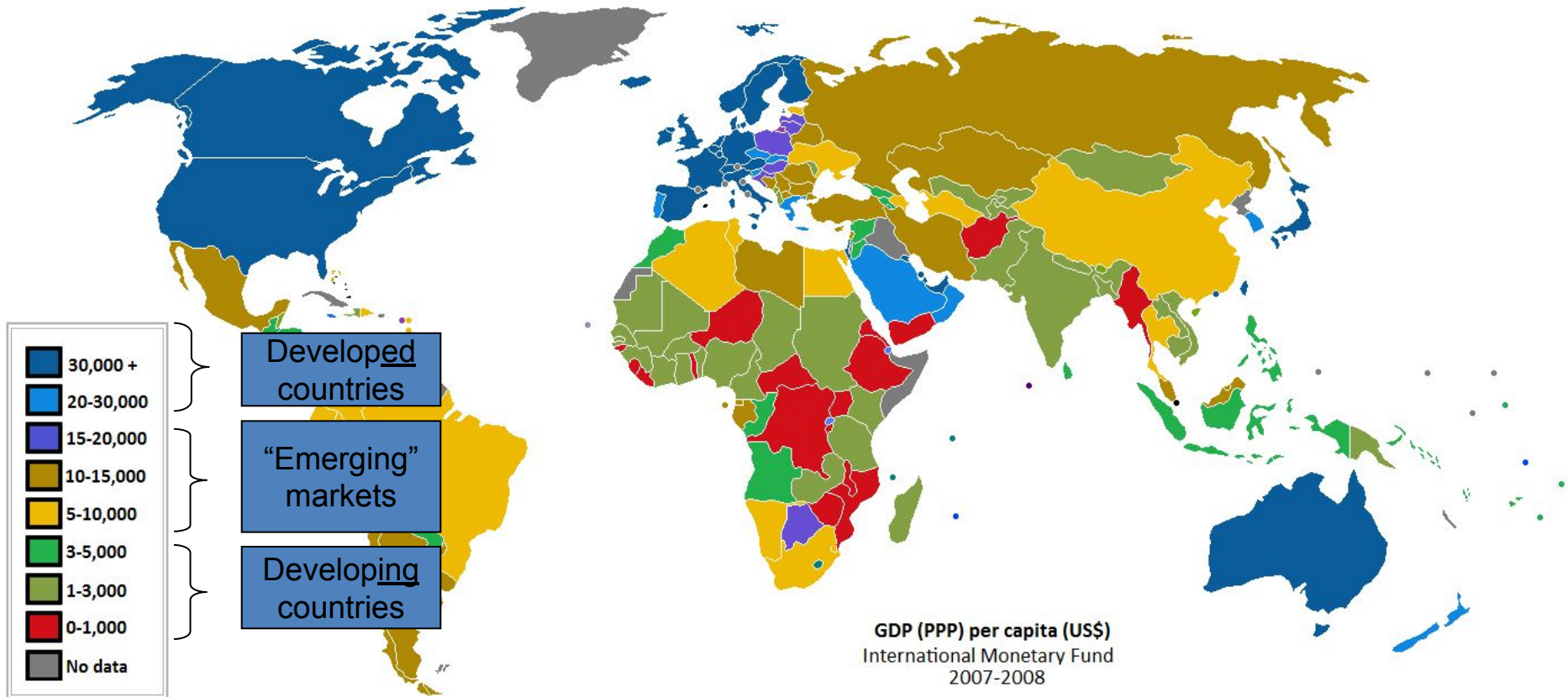


GLOBAL TRADE AND FDI ON THE RISE...

Index change in ratio of world exports of goods and commercial services to GDP, 1980-2010 (2000=100)



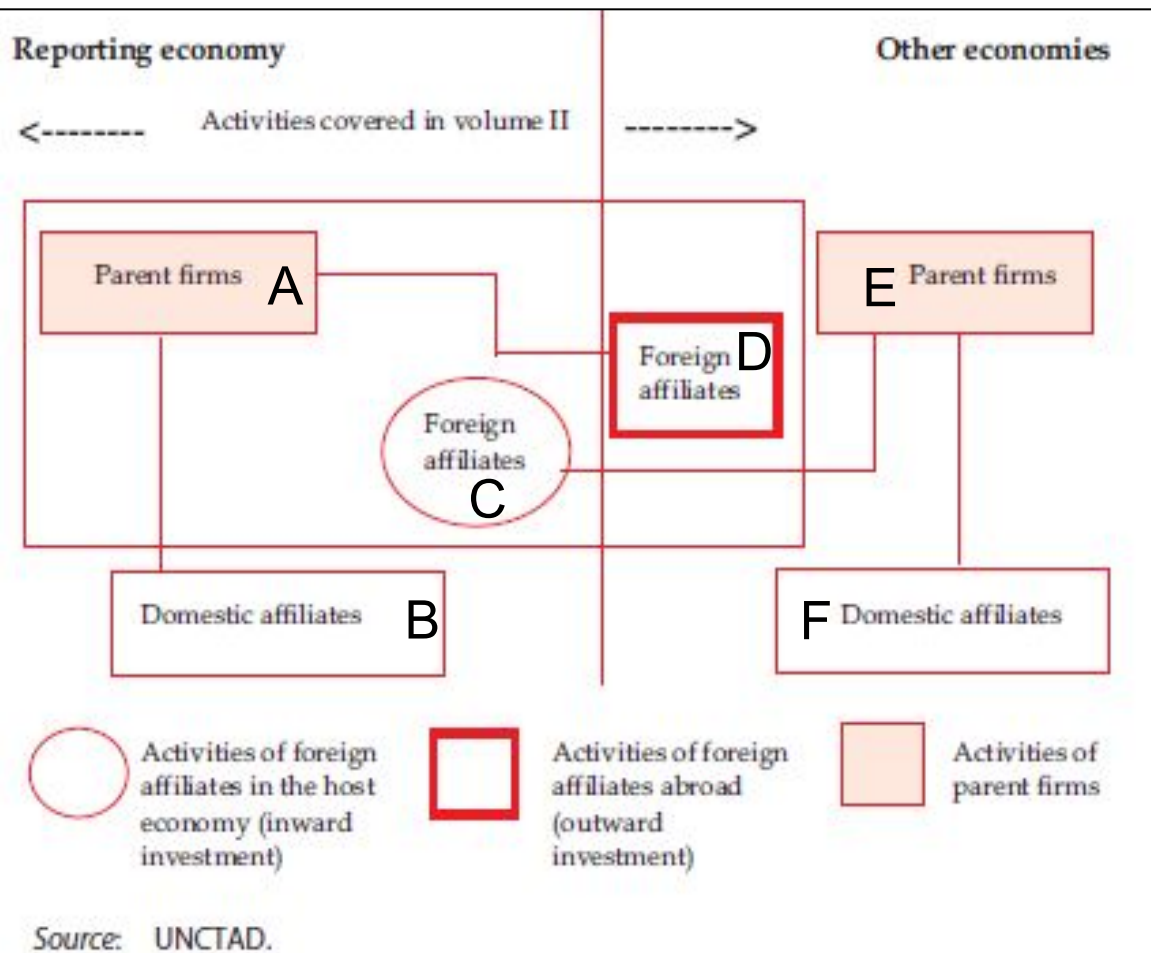
HOW MUCH CONVERGENCE IS THERE?



... AND HOW MUCH INTEGRATION?

- gross domestic product (GDP) - total market value of all final goods and services produced within a country in a given period of time, usually a calendar year
- gross national income (GNI) - the term used by the World Bank and other international organizations to supersede the GNP term. Like GNP, it means GDP plus (net) income from nonresident, domestically-owned assets

WHAT DOES GDP/GNI TELL US ABOUT MNEs?



“Reporting economy” GDP consists of the following:

$$A+B+C$$

To get GNI, swap C for D:

$$A+B+D$$

“Other economies” GDP consists of the following:

$$D+E+F$$

To get GNI, swap D for C:

$$C+E+F$$

=> Difference reflects MNE activity (income generated by FDI)

GDP vs GNI

Q: “Can you see the difference when looking at ‘tax havens’?”

For example:

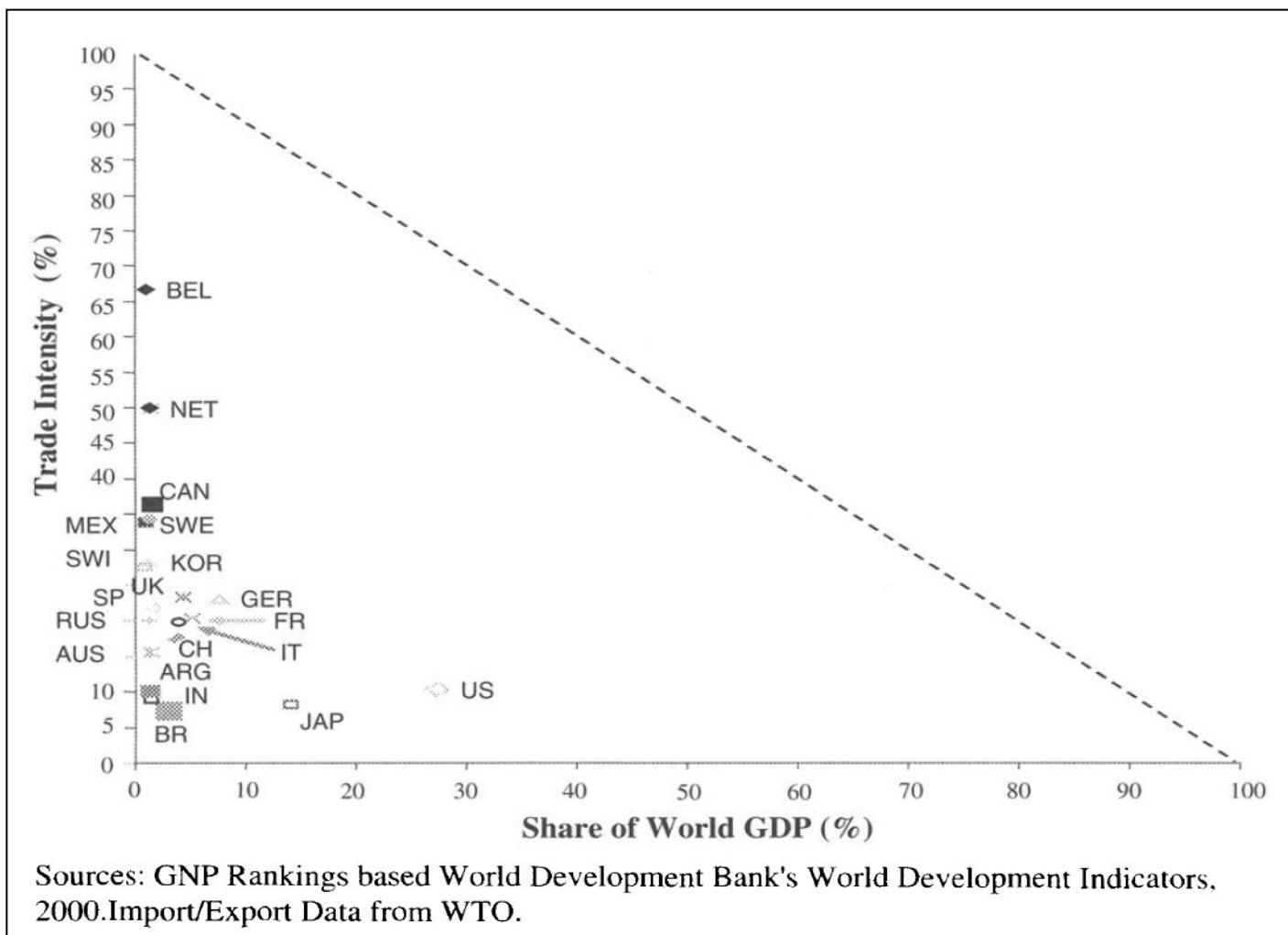
NL: GDP = \$52,699; GNI = \$52,254

BUT:

Cayman Islands: GDP = \$50,716; GNI = \$45,941

Bermuda: GDP = \$99,383; GNI = \$83,659

THINKING ABOUT REALLY FREE TRADE



PART 3:

EXPLAINING RISKS AND OPPORTUNITIES IN THE BUSINESS ENVIRONMENT

SEMIGLOBALIZATION:

After all, it seems that distance still matters:

- Culturally (norms, customs)
- Admistratively (laws, bureaucracy)
- Geographically (the planet is large)
- Economically (different standards of living)

SEMIGLOBALIZATION

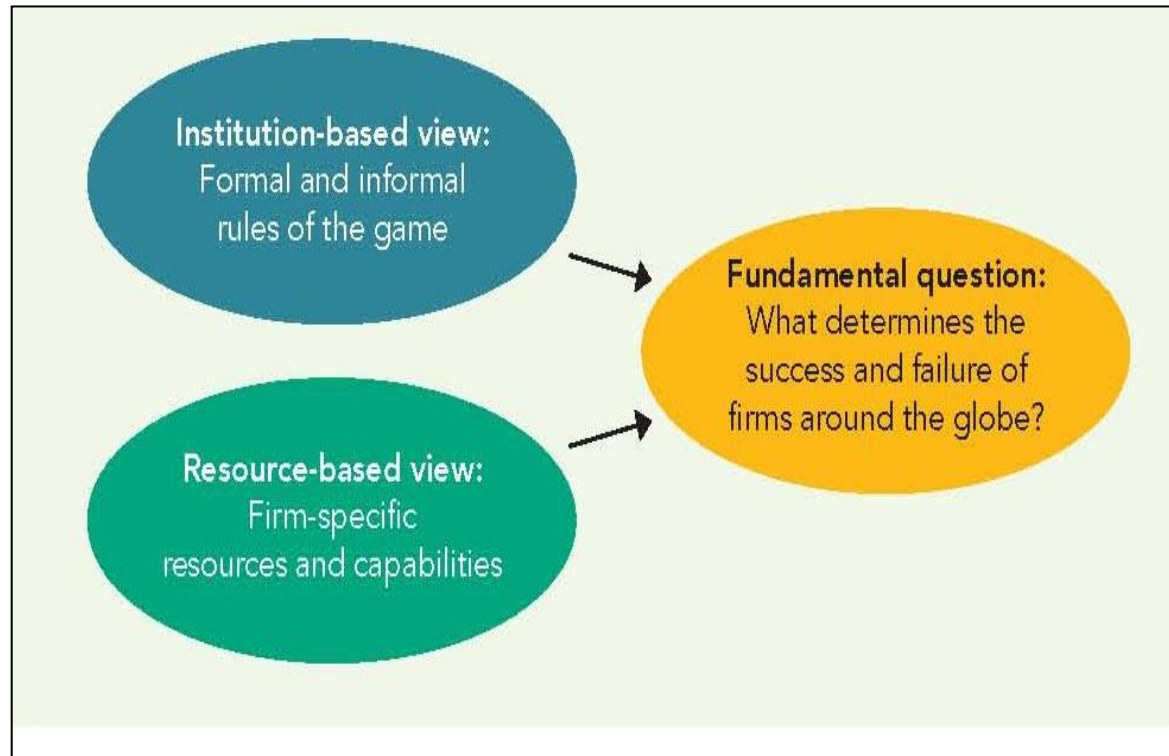
Challenges of international business: CAGE

The CAGE *Distance Framework*

The cultural, administrative, geographic, and economic (CAGE) distance framework helps managers identify and assess the impact of distance on various industries. The upper portion of the table lists the key attributes underlying the four dimensions of distance. The lower portion shows how they affect different products and industries.

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
<i>attributes creating distance</i>	different languages	absence of colonial ties	physical remoteness	differences in consumer incomes
	different ethnicities; lack of connective ethnic or social networks	absence of shared monetary or political association	lack of a common border	differences in costs and quality of: <ul style="list-style-type: none"> • natural resources • financial resources • human resources • infrastructure • intermediate inputs • information or knowledge
	different religions	political hostility	lack of sea or river access	
	different social norms	government policies	size of country	
		institutional weakness	weak transportation or communication links	
		differences in climates		

INSTITUTIONAL THEORY: PART OF INTL MGMT



AN INSTITUTION-BASED VIEW

- Institutions mean RULES, both formal (regulatory environment) and informal (norms & culture)
- Institutions provide incentive structures for behavior (rewards for compliance as well as sanctions for violations)
- Institutions thus reduce uncertainty and opportunism, keeping **transaction costs** low
- Assumes that actors will behave predictably and in a self-interested fashion (=‘rationally’): seek rewards while trying to avoid sanctions

AN INSTITUTION-BASED VIEW

- How does this relate to Intl Mgmt?

When you enter a new environment—either as a manager or as an MNE—you face the disadvantage that comes from not knowing THE RULES

- This is known as the “**Liability of foreignness**”

This disadvantage means higher transaction costs & greater risk of experiencing opportunistic behavior

WHICH OF THESE ARE “INSTITUTIONS”?

- a) The World Bank?
- b) An auction?
- c) Respect for your parents?
- d) Posted speed limits?

IF THESE ARE “INSTITUTIONS”...

- The World Bank
 - An auction
 - Respect for your parents
 - Posted speed limits
-
- 1) What are the rules?
 - 2) What are sanctions & rewards with respect to compliance?

'PILLARS' OF INSTITUTIONS

	Regulative (formal)	Normative (informal)	Cognitive (informal)
<i>Indicators</i>			
<i>Mechanisms</i>			
<i>Legitimacy</i>			

DISTINGUISHING BETWEEN NORMATIVE AND COGNITIVE

- Normative is related to peer pressure / social expectations
 - “You should wash your hands after using the restroom”
 - “You should take off your shoes when entering a home”
 - “You should pass the ball when playing team sports”
- Cognitive is related to deep-seated assumptions and often hard to explain
 - “Winning is the most important thing”
 - “Government intervention is bad”
 - “Polygamy is wrong”

INSTITUTIONS EFFECTIVE WHEN SUPPORTED BOTH FORMALLY & INFORMALLY

- Norms can lead to regulation
 - the Kyoto Protocol => environmental regulation
 - Codes of Conduct => Sarbanes-Oxley
- Cultural values lead to laws
 - Women banned from driving in Saudi Arabia
 - Store closures on Sunday in many countries
- When a rule rests on only one pillar, it is ineffective.
 - Jaywalking: law says not ok, norms say ok
 - Gun possession: law says ok, norms say not ok

PART 4:

INTRO TO FORMAL INSTITUTIONS:
NATIONAL BUSINESS SYSTEMS AND POLITICAL
ADVANTAGE

BUSINESS-GOVERNMENT RELATIONS

- Policy outcomes (formal institutions) reflect political/ economic interests – those of firms, industries, sectors
- National differences in how (economic) interests are represented: associational (pluralist) vs corporatist (Spencer et al., 2005)

Q: How much latitude do (different) governments have to grant long-term political favors?

PART 5:

LEARNING GOALS AND COURSE DESIGN

LEARNING GOALS

1. To be able to think systematically about ways in which countries and regions differ
2. To be able to discuss some of the key ways in which those differences affect businesses operating internationally
3. To establish a link between understanding of practical international management issues and theoretical foundations

IN THE CLASSROOM

1. Lecture to elucidate and expand on concepts from the readings
2. Open, two-way discussion between you and me on some of the 'big picture' topics of IM
3. Short cases and other in-class exercises requiring your thought & input (pair work)
4. Attendance is required

INDIVIDUAL ASSIGNMENTS

- You have 2 assignments that are spread out over the semester
- Their purpose is to help you link IM concepts to practice
- These assignments are **INDIVIDUAL**

READING ARTICLES

- Articles are selected based on topic and broad theoretical relevance
- Most articles review important theoretical perspectives that have been used to understand a particular phenomenon
- Make notes in which you capture the essence of these arguments: what does the theory say about X and why?

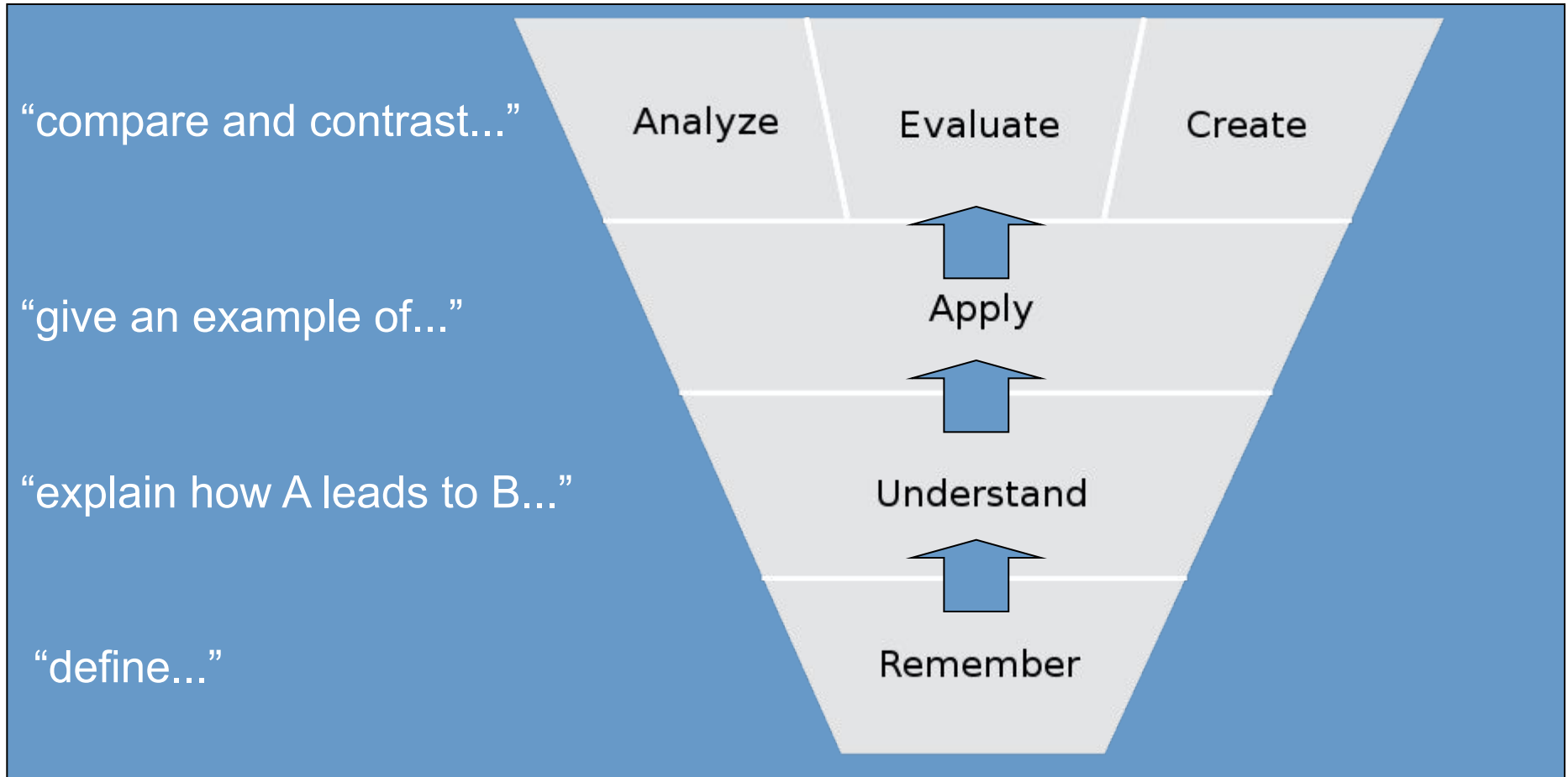
GRADING

- 2 assignments, 20% each
- Exam, 60%

To pass:

- Average for assignments ≥ 3
- Grade for exam ≥ 3

DOING WELL IN THIS CLASS: LEARNING



BLOOM'S TAXONOMY

PART 6:

NEXT CLASS

- Formal institutions: Politics, laws, economics
- Informal institutions: Cultures, ethics, norms

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QUESTIONS?