INTRODUCTION TO INTERNATIONAL BUSINESS

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First Edition

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PREFACE

Introduction to International Business is an introductory reference book for diploma student in the field of commerce's, especially in the business disciplines such as accounting, marketing, e-commerce, banking and finance, international business, insurance, logistic and supply chain and Islamic banking & finance. This book is meant to be a self-study aid, systematically organized to meet the requirements of polytechnics in Malaysia. It presents the basic of international business and their application with detailed explanations, diagrams and end of chapter questions and exercises.

This book is divided into 5 chapters covering major topics in Introduction to International Business as prescribed by JPPKK. These are Overview of International Business Topic 1, Political and Legal Environment in Topic 2, International Business Organization Design in Topic3, Entry and Expansion in Topic 4 and The Cultural Environment in Topic 5. This book provides worked out examples for each topic and self-practice questions for student to further test their understanding of each topic. This also helps the student to develop confidence and expand their knowledge for each topic.

While the book is intended for diploma and undergraduate students, it is also envisioned to be a very useful reference book for postgraduate students, professionals and researchers. We sincerely hope that this book will be benefice for the readers. We welcome any suggestion to further improve the book in future editions.

ACKNOWLEDGEMENTS

Alhamdulillah, praise be to Allah for all the energy and perseverance given to me for this undertaking. This "Introduction to International Business" is about provides an overview of how international business is conducted by taking into consideration various mechanism for dealing with governments and the changing political landscape, different business laws and regulations, local customs and culture. This course fulfils the need to ensure that students are well versed in global operations.

By examining issues and scenarios that relate directly to the external and internal environment factors and forces that related to the operation of international business. It also knows about modes of entering international markets, strategies and cultural differences in International Business environment. Otherwise this book also covers the importance of national differences in political and culture over the country. Introduction of International Business is a focused subject in Malaysian institution for higher learning today in support of the government's drive to promote the birth of more local entrepreneurs. As this subject is wide and involves the understanding of many inter-related areas of knowledge, it is a challenge to provide a comprehensive book to reach beginners who do not have a foundation in basic of business ethics. This manual come out is to help student as an alternative reference.

Special thanks to all to our families and colleagues who have contributed a great amount of time and effort to bring this project to fruition. This manual provides an opportunity for students to revise as well as increase their knowledge in the area of business ethics.

The five chapters covered in this manual provide a current overview of the concepts of International Business in the related field. This manual also basic framework for examining the range of ethical issues from a business. Otherwise this manual provides explanations and positive views of a quality system whereby area in business is considered to be one of the most interesting, challenging and important in an organization nowadays. May Allah bless and help our students in a way of strive for excellent in life.

CONTENT

TOPIC 1 : OVERVIEW OF INTERNATIONAL BUSINESS

LEARNING OUTCOMES:

1. Explain international business overview
2. Explain the influence of external and internal forces in international business
3. Elaborate the drivers of globalization in international business
4. Discuss implication of international business to functional areas

1.0   OVERVIEW OF INTERNATIONAL BUSINESS

1.1   Definition of International Business (IB)

International business involves transaction across borders, where business is conducted between countries. It refers to the performance of trade and investment activities by firms across national borders. In short, international business is about cross border business. International business is conducted not only by the private sector, but also by the public sector or the government. International business includes trading, manufacturing, investing (for example foreign direct investment –FDI), and servicing and covers a whole range of sectors such as transportation, tourism, advertising, construction, retailing and mass communications.

Example: a consumer in Malaysia can go to a shopping mall to by Clarks shoe (an English brand of leather shoes) without having to go to England to buy the shoes

1.1.1 Definition of Domestic Business

Commercial activities conducted within a nation or a commercial entity that conducts economic transactions inside the borders of its home nation. A domestic business is a company that operates only within the borders of a single country. A domestic business typically has the advantages of only having to deal with its local currency, customs, culture, regulations and tax system

1.1.2 Differences Between Domestic and International Business

The most important differences between domestic and international business are classified as under:

1. Domestic Business is defined as the business whose economic transaction is conducted within the geographical limits of the country. International Business refers to a business which is not restricted to a single country, i.e. a business which is engaged in the economic transaction with several countries in the world.

2. The area of operation of the domestic business is limited, which is the home country. On the other hand, the area of operation of an international business is vast, i.e. it serves many countries at the same time.

3. The quality standards of products and services provided by a domestic business is relatively low. Conversely, the quality standards of international business are very high which are set according to global standards.

4. Domestic business deals in the currency of the country in which it operates. On the contrary, the international business deals in the multiple currencies.

5. Domestic Business requires comparatively less capital investment as compared to international business.

6. Domestic Business has few restrictions, as it is subject to rules, law taxation of a single country. As against this, international business is subject to rules, law taxation, tariff and quotas of many countries and therefore, it has to face many restrictions which are barriers in the international business.

7. The nature of customers of a domestic business is more or less same. Unlike, international business wherein the nature of customers of every country it serves is different.

8. Business Research can be conducted easily, in domestic business. As against this, in the case of international research, it is difficult to conduct business

research as it is expensive and research reliability varies from country to country.

9. In domestic business, factors of production are mobile whereas, in international business, the mobility of factors of production are restricted.

BASIS COMPARISON	DOMESTIC BUSINESS	INTERNATIONAL BUSINESS
1. Meaning	A business is said to be domestic, when its economic transactions are conducted within the geographical boundaries of the country.	International business is one which is engaged in economic transaction with several countries in the world.
2. Area of operation	Within the country	Whole world
3. Quality standards	Quite low	Very high
4. Deals in	Single currency	Multiple currencies
5. Capital investment	Less	Huge
6. Restrictions	Few	Many
7. Nature of customers	Homogeneous	Heterogeneous
8. Business research	It can be conducted easily.	It is difficult to conduct research.
9. Mobility of factors of production	Free	Restricted

Table 1.1 : Difference between Domestic Business and International Business

1.2   The Influence Of External And Internal Environment Forces In Ib

1.2.1   External Environments in International Business
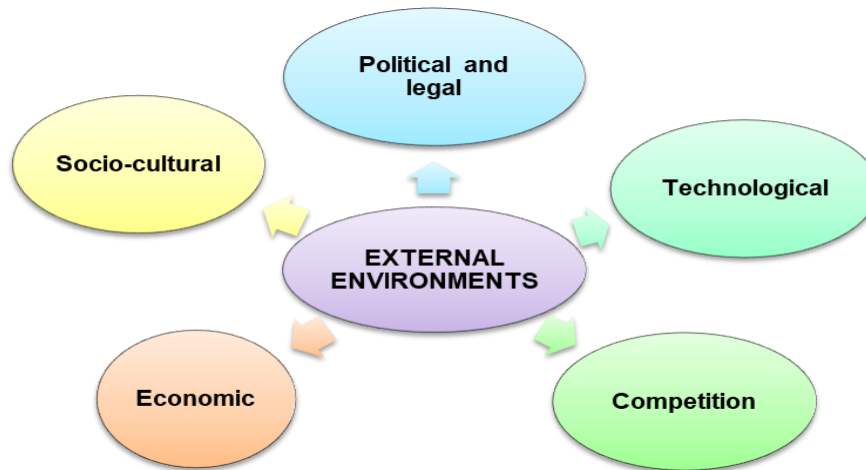
Figure 1.1 : External Environment

a)   Economic Environment

The economic environment differs a lot from one nation to another. Countries are frequently separated into three main categories: the more developed or industrialized, the less developed or Third World, and the newly industrializing or emerging economies. The more developed countries are the richer ones and the less developed countries are the poorer ones. There is also the newly industrializing countries (those moving from poorer to richer). The distinctions are usually made on the basis of gross domestic product per capita (GDP/capita). Better education, infrastructure and technology and health care are often associated with higher levels of economic development.

Three main types of economic systems: free market, centrally planned and mixed. In free market economies, government normally intervenes minimally in business activities. Market forces supply and demand are allowed to determine production and prices. Centrally planned economies are those where the government determined production and process base on forecasts of demand and desired levels of supply. In mixed economies, some activities are left to market forces to decide while government controls national and individual welfare. Clearly, the level of economic activity combined with education, infrastructure, as well as the degree of government control of the economy, affect the way of doing business

and company needs to understand this environment if it is to operate successfully internationally.

b)   Political and Legal Environment

Refers to the type of government, the government relationship with business and the political risk in a country. Types of political system: multiparty democracies, one party states, constitutional monarchies and dictatorships (military and non-military). Government can also be changes through regular elections, occasional elections, death or even through wars. Government business relationships also differ from country to country. Business may be viewed positively as the engine of growth, it may also be viewed negatively as the exploiter of the workers or somewhere in between as providing both benefits and drawbacks.

To be effective in foreign location, an international company must rely on the goodwill of the foreign government and needs to have a good understanding of all these aspects of the political environment. A country's legal and regulatory environment has a great influence in IB environment. A country's legal environment is largely determined by its legal system and types of law that are being used. Three major types of legal system of the world: civil law, common law and religious law.

c)   Sociocultural Environment

A set of beliefs, customs, practices and behaviour that exists within a population. International companies often include an examination of the socio-cultural environment prior to entering their target markets. Basically, socio-cultural factors are customs, lifestyles and values that characterize a society. Cultural aspects include aesthetics, education, language, law and politics, religion, social organizations, technology and material culture, values and attitudes. Social factors include reference groups, family, role and status in the society. The cost of ignoring the customs, traditions, taboos, tastes and preferences etc. of people could be very high. The buying and consumptions habits of the people, their language, beliefs and

values, customs and traditions, tastes and preferences, education are all factors that affect the business.

For a business to be successful, its strategy should be the one that is appropriate in the socio-cultural environment. Examples: Nestle, a Swiss multinational company, today brews more than forty varieties of instant coffee to satisfy different national tastes. Even when people of different cultures use the same basic product, the mode of consumption, conditions of use, purpose of use or the perceptions of the product attributes may vary so much so that the product attributes method of presentation, positioning or method of promoting the product may have to be varied to suit the characteristics of different markets.

d)   Competition environment

The competitive environment can also change from country to country. This is because the economic, political and cultural environmental factors help determine the type and degree of competition that exists in a given country. Competition can come from a variety of sources (public or private sector, large or small organization, domestic or global and stem from traditional or new competitors). The nature of competition can also change from place to place as these factors illustrate: competition may be encouraged and accepted or discouraged in favour of cooperation, relations between buyers and sellers maybe hostile, barriers to entry and exit may be low or high. Regulations may permit or prohibit certain activities.

To be effective internationally, firms need to understand these competitive issues and assess their impact. An important aspect of competitive environment is the level and acceptance of technological innovation in different countries (internet which greatly expands their exposure, market and potential customer base.

e)   Technological Environment

Technological change can have impact on the decisions taken by international business. Technological change can involve: – New process of production: new ways of doing things which rises productivity of factor inputs, as with use of robotics in car assembly techniques which has dramatically raised output per assembly line worker. For example, around 80% of technological change has been process innovation. – New products: For example, online banking and many new financial services are direct result of advances in microprocessor-based technologies. Technological factors sometimes pose problems. A

firm, which is unable to cope with the technological changes, may not survive. Further, the differing technological environment of different markets or countries may call for product modifications.

Technological developments may increase the demand for some existing products. For example, voltage stabilisers help increase the sale of electrical appliances in markets characterised by frequent voltage fluctuations I power supply. However, the introduction of TV's, Fridges etc, with in built voltage stabilizer adversely affects the demand for voltage stabilizers. Advances in the technologies of food processing and preservation, packaging etc., have facilitated product improvements and introduction of new products and have considerably improved the marketability of products. New technologies can both create and destroy jobs. For example, the US Internet banking company has introduced 'smart' technologies into every aspect of its operations, so that its $2.4bn of deposits are now managed by just 180 people, compared to the 2,000 people required to manage deposits of this size in less technologically advanced banks. Technological change provides national and international business with both opportunities and threats. For example, five new broadband wavelengths were auctioned in the UK in early 2000. Access to such wavelengths has been regarded as vital for the new generation of wireless application Protocol (WAP) products, making possible the internet, television and other interactive application on the third-generation of mobile phones.

1.2.2 Internal Environments in International Business

Internal factors are factors within the control of company and are referred to both tangible and intangible factors of organization which influences the strengths and weaknesses of an organization.
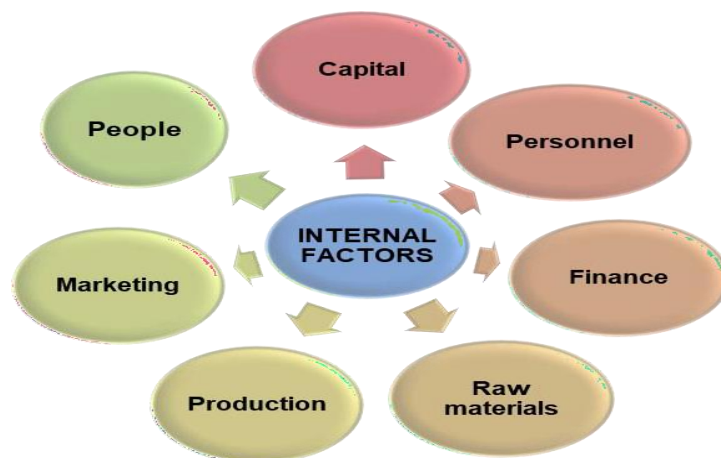

Figure 1.2 : Internal Environment

a) Capital

From a general view, financial capital is the funds necessary to grow and sustain a business. CEO takes financial capital to invest in not only tangible goods such as factories, machines, tools and other productive equipment to produce an output but also intangible resources such as marketing, employee training, etc. No company can survive without having capital resources. Once a company has enough budget, they can easily launch their projects, expand its scale and even achieve impressive result. For instance, in 2010 Coca Cola - "the 84 biggest economy" spent 2.9 billion USD for marketing, which was more than that total marketing investment of Microsoft and Apple. It can be said that without the big investment and stable financial resource, Coca Cola success would not be guaranteed. There are also several ways for an enterprise to maintain stable budgets by some resources such as investment opportunities, funding, and annual income.

b) Raw materials

Raw materials are materials or substances used in the primary production or manufacturing of goods. Raw materials are commodities that are bought and sold on commodities exchanges worldwide. Raw materials play an important role in the production process to a great extent as the success of the economy of a country is determined by the amount of natural resources held by a country within its borders.

c) People / Personnel

In the modern global economy, where ideas and digital skills - rather than physical resources are increasingly where economic value is realised, human resource can be a company's greatest treasure. In general, the employees can be either a strength or weakness of the company depending on the level of practical skills, attitudes toward work, performance and so on. For example, if a business has skilled and motivated workers, they are sure to be the biggest asset of this enterprise. Conversely, employees without carefully trained and have negative attitudes to their task will be an enormous challenge for the company to address. In short, the CEO should have a strategic and effective human management not only for the sake of company benefits but also for the positive developmentof their employees.

d)   Finance

Financial resources refer to the funds available with the company to carry out various operations in the organizations. Funds are the base for growth and competitive position in the industry. Lack of availability of this resource leads to failure and closure of business organization

e)   Production

The concept of operational efficiency encompasses the practice of improving all of your processes, which are all your company's activities leading to your final productor service. Because Operational efficiency directly affects the company's success in the marketplace, a businessman needs to truly know his company's processes and follow them to discover whether they're being performed in the correct manner or not. Here are some suggestions for you to achieve this efficiency:

- ➢   Study the business situation
- ➢   Pay attention to product cost
- ➢   Map process failure and discover failure
- ➢   Use technology for better operation productivity

f)   Marketing

Five common marketing orientations can be applied: production, sales, customer, strategic marketing and social marketing. Product orientation – concentrate on production by assuming that customers simply want product with lower prices, higher quality. Sales orientation – company sells abroad what it sells domestically by assuming that customer is sufficiently similar. Customer orientation – the type of customer is held constant and the product and marketing vary. Strategic marketing orientation – customize to accommodate foreign customers so as not to lose too many sales to aggressive competitors and at the same time, considering their own competencies. Social marketing orientation - pay close attention to the potential environmental, health, social and work-related problems that may arise when selling or making their products.

1.3   The Drivers of Globalization in IB

1.3.1   Definition of Globalization

Globalization is a worldwide economic integration process that removes the barriers, enabling free trade, movement of capital and diffusion of knowledge and information. Globalization can be considered as an economic integration of the world through greater trading, market demands, investments and dispersion of technologies. Globalization expands the range of choices, improves product quality and exerts downward pressure on prices. Globalization not only can be seen in economic activities, it also involves diffusion of technologies where communications and distribution networks becoming vital in people's life. Modern globalization does not only centre its activities on goods traded between nations, it also currently addresses issues such as financial services, technological services and cultural diffusion.

1.3.2   The Drivers of Globalization Towards International Business

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                          ┌─────────────────┐
                          │   IB Drivers    │
                          └────────┬────────┘
           ┌───────────────────────┼───────────────────────┐
    ┌──────┴──────┐         ┌──────┴──────┐         ┌───────┴───────┐
    │  Economic   │         │  Political  │         │ Technological │
    └──────┬──────┘         └──────┬──────┘         └───────┬───────┘
    ┌──────┴──────┐         ┌──────┴──────┐         ┌───────┴────────┐
    │ Market Cost │         │ Government  │         │Telecommunication│
    │  Resources  │         │    legal    │         │ Innovations ICT │
    │ competition │         │liberalization│        │                │
    └─────────────┘         └─────────────┘         └────────────────┘
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Figure 1.3 : Driver of International Business
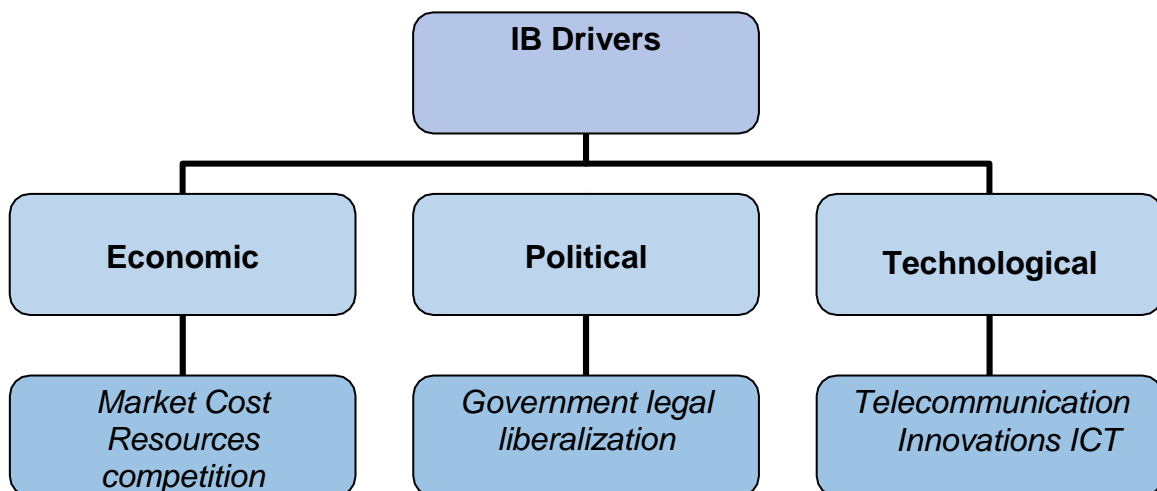
i.   Economic Drivers

Economic factors that drive international business include factors that are related to the market, cost, resources and competition. This driver is primarily uncontrollable by business worldwide.   The huge population of other markets has driven MNCs and TNCs to go abroad to market their products and services in foreign countries. Example: China and

India are very attractive to investors. China has the largest population in the world and represents a huge market waiting to be tapped. The cost of operating in some developing countries are much lower than in a developed country, thus making it lucrative for firms to operate in developing countries. Availability and abundance of resources in the othercountries is also another factor that has driven MNCs and TNCs to globalize their production through outsourcing and foreign direct investment, where they set up their own firms abroad

ii.   Political drivers

The role played by the government, particularly in creating economic or regional integration and providing incentives for foreign direct investment, has driven industrial and financial globalization to grow exponentially. The falling of barriers to international trade enables firms to view the world as their market. The lowering of barriers to trade and investments also allows firms to base production at the optimal location for each activity. After the establishment of the World Trade Organization (WTO), in which many countries participate due to free trade agreements between countries around the world, there has been exponential growth of international trade investment

iii.   Technological drivers

Technological changes also have driven international businesses to escalate through advances in communications, information processing and transportation technology,including the internet and the world wide web (www). The most important innovations have been microprocessor development, the revolution of global communications by developments in satellite, optical fibre and wireless technologies and now the internet and the www. The rapid growth of the internet has facilitated the global sharing of information and resources besides providing an efficient channel for advertising, marketing and the directdistribution of certain goods and information services. Technological changes also have taken place in transportation technology where there is a development of commercial aircrafthas shortened the travelling time from one place to another. The rapid growth of ICT, has resulted in new production processes whereby manufacturing technologies have made production process more efficient thus increasing profits, lowering costs and improve learning effects.

1.3.3   The Motives for Entering Foreign Markets in IB

i.   Increase profits and sales.

Expanding on a global market space is more likely to increase overall revenue sales and reduce operational costs, through attracting a larger customer base. In addition, through the help of technologies and the revolution of the internet, international commerce has become even more attractive, for smaller businesses. Through having the opportunity to outsource, they are able to reduce costs and improve their business management & operational efficiency. Some companies may want to expand their business products, as they are more likely to be accepted around the world. In many industries, expansion through internationalisation may benefit companies, through achieving better economies of scale. This is especially the case for companies operating in smaller more domestic markets. Moreover, internationalisation may also serve as an opportunity to differentiate or exploit a new product extension**,** service**,** or brand**.**

ii.   Protect markets, profits and sale.

Many businesses expand internationally to diversify their assets, an action that can protect a company's bottom line against unforeseen events. For instance, companies with international operations can offset negative growth in one market by operating successfullyin another. Companies also can utilize international markets to introduce unique products and services, which can help maintain a positive revenue stream. Coca-Cola is an exampleof a company that diversifies through global operations. Companies with multinational operations can also benefit from lucrative investment opportunities that may not exist in their home country. For example, many governments around the world offer incentives for companies looking to invest in their region. Thus, U.S. firms should always do theirresearch before making an international expansion decision.

1.4   <u>The Implication of IB to Functional Areas</u>

i.   The concept of international marketing and its strategy

A global marketing strategy is a plan of action to guide firms for positioning themselves in foreign markets and targeting customer segments. A global marketing strategy also guides firms in determining the extent of standardization and adaptation of their

marketing elements.   At global marketing level, the most profound change is the orientation of the company toward markets and associated planning activities. At this stage, firms treat the world, including their home market as one market. Market segmentation refers to the process of identifying and dividing customers into groups based on their purchasing behaviour. A group of customers can be classified into clusters so that the firms can formulate unique marketing strategies for each group (i.e. psychological, demographic, geographic and socio cultural). Global firms often form market segments by groupingcountries together based on macro level variables such as levels of economic development or cultural dimensions.

Examples:

- Entertainment industry that targets youngsters sharing similar interests in music, movies and high street fashion. These youngsters are continually updated on the latest development through global print or broadcast media
- Toyota has several product lines or models for different segments. Toyota Lexus is targeted for upper class consumers, while Toyota Vios is targeted at medium class consumers

ii.   The concept of global supply chain management

Global supply chain management is a very important concept nowadays as it covers the full set of business activities.   A company's supply chain encompasses the coordination of materials, information and funds from the initial raw material supplier to the ultimate customer. It is the management of the value-added process from the supplier's supplier to customer's customer. Global supply chain refers to a firm's integrated network of sourcing, production and distribution, organized on a worldwide scale and located in countries where competitive advantage can be maximized. Global supply chain management involves both upstream (supplier) and downstream (customer) flows. The growth of the logistics and supply chain sectors in Asia has been exponential and is likely to keep on growing at such rates in the coming years

iii.   The difference in the content of financial information

     a)   Language difference
- English tends to be the first choice of companies choosing to raise capital abroad.

- For example, German company Daimler issues financial statements in both German and English, while Sweden's H&M provides its annual reports in Swedish and English.

- Companies also have to deal with differences in terms

b) Currency difference

- Companies around the world prepare their financial statements in different currencies – Daimler's are in euro's, H&M's in Swedish Kronor, Coca Cola in US dollars and so on.

- In its 2015 annual report, Adidas provided its financial information ineuros, disclosed information on the firm's currency translation policies andgave average exchange rates for the US dollar, the British pound, the Japanese yen, the Russian Ruble and the Chines yuan to allow investors to make convenient translations from euros.

iv. The concept of international human resource management in IB

Human resource management (HRM) refers to how an organization plans and executes activities in its workforce. The main element in human resource management lies in its people and how people in the organization are being managed. Activities related to HRM include determining the firm's human resource strategy, staffing, performance evaluation, training and development, compensation and labour relations. The ultimate aim of human resource management is to ensure that an organization has the right number of people with skills relevant to the business needs. International Human Resource Management (IHRM) can be defined as the planning, selection, training, employment and evaluation of employees for international operations. IHRM is more challenging and complexbecause of differences in the international business environment, which encompasses economic, political and socio-cultural factors

- WORKPLACE CULTURE
- MOTIVATION AND INCENTIVES
- RECRUITMENT
- RETENTION
- CONTACTS OF EMPLOYMENT
- JOB DESCRIP-TIONS
- PERSON SPECIFICA-TIONS
- HEALTH AND SAFETY IN WORKPLACE
- TEAMS
- FUNCTIONS
- AUTHORITY AND ACCOUNTABILITY
- GRIEVANCE PROCEDURES
- DISCIPLINARY PROCEDURES
- ABSEENTISM

HUMAN RESOURCE MANAGEMENT ROLE

Figure 1.4 : Human Resource Management in IB

REFLECTION: TOPIC 1

1 | **Define International and Domestic Business**

Define international business.	Define domestic business.

2 | **Compare International and Domestic Business**

Compare International Business and Domestic Business	
International business	**Domestic business**

3 | **Identify the home country of these company/brand:**

_____

_____

_____

_____

_____

_____

_____

_____

4A | **Summarize the factors of external environment in IB.**

4B

Summarize the factors of external environment in IB.

5

Please answer All the question below:

Define Globalization

Explain the reasons for entering IB

➢

➢

➢

State the drivers of globalization

●

●

●

6 **Discuss the implications of IB in these fields:**

Marketing Strategy	Supply Chain Management

Content of Financial Information	Human Resource Management

REVIEW QUESTIONS

1. Identify **FIVE (5)** differences between international business and domestic business.

    [15 marks]

2. Describe **FIVE (5**) advantages of globalization in international business.

    [10 marks]

3. Define globalisation. [3 marks]

4. Briefly explain **FIVE (5)** advantages of globalisation. [10 marks]

5. Explain **THREE (3)** disadvantages of globalisation. [12 marks]

6. Define international business [3 marks]

7. Explain any **FIVE (5)** external forces in international business. [10 marks]

8. Explain **FOUR (4)** reasons why firms involve themselves in international business.

    [12 marks]

9. Identify the terms as stated below:
    i.   International business
    ii.   Domestic business

    [10 marks]

10. Describe **TWO (2)** impacts of globalization towards international business.

    [10 marks]

11. Define external environment in international business.

    [2 marks]

12. Describe the following international environmental terms in international business.

    i.   Economic environment

    [4 marks]

    ii.   Political environment

    [4 marks]

TOPIC 2: POLITICAL AND LEGAL ENVIRONMENT
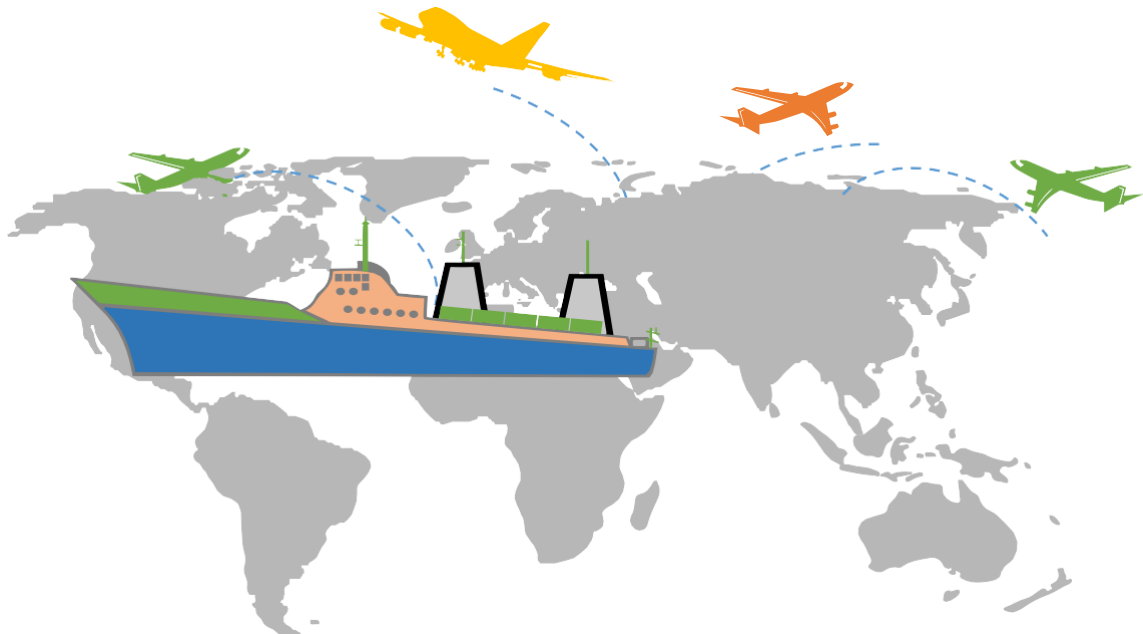
LEARNING OUTCOMES:

i.   Explain the political environment in international business

ii. Discuss the legal environment in international business

2.0   POLITICAL AND LEGAL ENVIRONMENT

2.1   <u>Political Environment In IB</u>

2.1.1 Three Major Types of Political Systems

a.   Totalitarianism

Totalitarianism is the belief that every aspect of people's lives must be controlled in order for a nation's political system to be effective. Totalitarianism has no concern for individual liberties. Societies and institutions such as family, religion, business and labor are considered as employees to the state. Totalitarian political systems include authoritarian governments such as communism and fascism. Totalitarianism is a concept that describes a state that regulates nearly every aspect of public and private sectors. A totalitarianism government seeks to control not only all economic and political matters but the attitudes, values and beliefs of its population, erasing the distinction between state and society.

Totalitarian governments maintain political power by means of secret police, propaganda disseminated through the state-controlled mass media, personality cults, regulation and restriction of free discussion and criticism, single party states, the use of mass surveillance and widespread use of terror tactics.

Example: China is known for its totalitarianism practice; therefore, people work for the state and the state takes care of the society. In doing so, China established an equal society policy to enable the people to accomplish their wishes.

Despite the many differences among totalitarianism states, they have several common characteristics. The two most important characteristics are the existence of an ideology that addresses all aspects of life and outlines ways to attain final goal and a single mass party through which the people are mobilized to gather energy and support. The party is generally led by a dictator and participation in politics especially voting is compulsory. The party leadership maintains monopoly control over the governmental system which includes the police, military, communications, economic and education systems

b.   Democracy

Democracy is the system of rule by the people and is currently understood and most frequently use through the terms of rule by majority. A common feature of democracy is competitive elections. Competitive elections are usually seen to require freedom of speech, freedom of press and to some degree of rule of law. In some countries, democracy Is based on the philosophical principle of equal rights. Democracy can take various forms depending on how the election conducted.
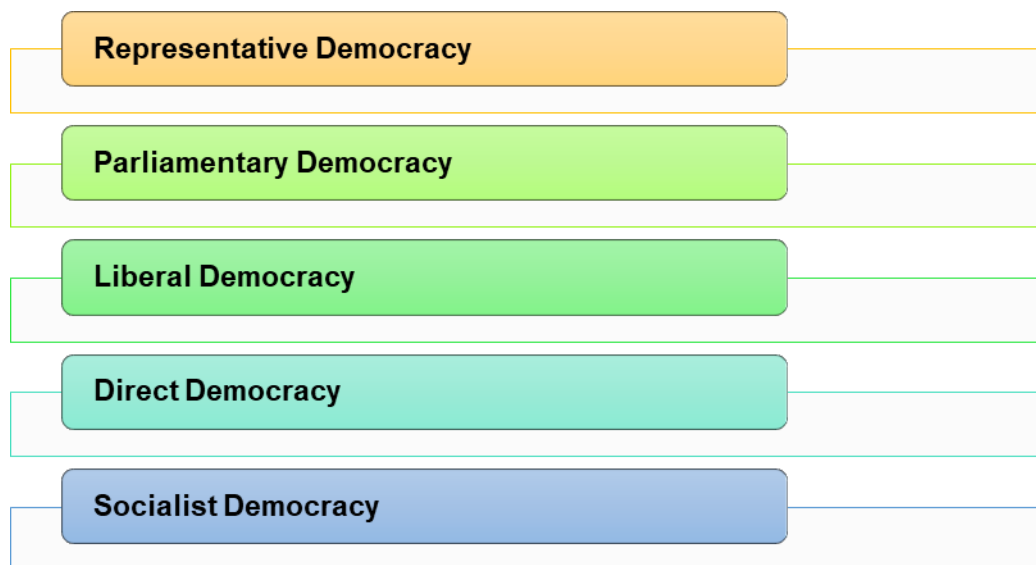
The types of democracy include:

Figure 2.1: Types of democracy

i. **Representative democracy**
- involves the selection of government officials by the people being represented.
- The most common mechanism involves election of the candidate with the majority or plurality of votes

ii. **Parliamentary democracy**
- occurs when parliamentary representatives, as opposed to a 'presidential rule' by ruling dictatorship, appoint the government.
- Under a parliamentary democracy, a government is put into effect by delegation to an executive ministry and subject to ongoing reviews, checks and balances by the legislative parliament elected by liberal democracy

iii. **Liberal democracy**

- is a representative democracy in which the ability of the elected representatives to exercise decision making power is subject to the rule of law.
- The power is usually moderated by a constitution that emphasizes the protection of the rights and freedoms of individuals

iv.   Direct democracy

- is a political system where the citizens participate in the decision making personally, as opposed to relying in intermediaries or representatives.
- The supporters of direct democracy argue that the democracy is more than merely a procedural issue like voting.
- In Switzerland, five million voters decide in national referendums and initiatives two to four times a year

v.   Socialist democracy

- thought has several different views on democracy. Many democratic socialists and social democrats believe in a form of participatory democracy and workplace democracy combined with a representative democracy.
- Marxist orthodoxy is against liberal democracy and is simply referred to as parliamentary democracy because of its centralized nature
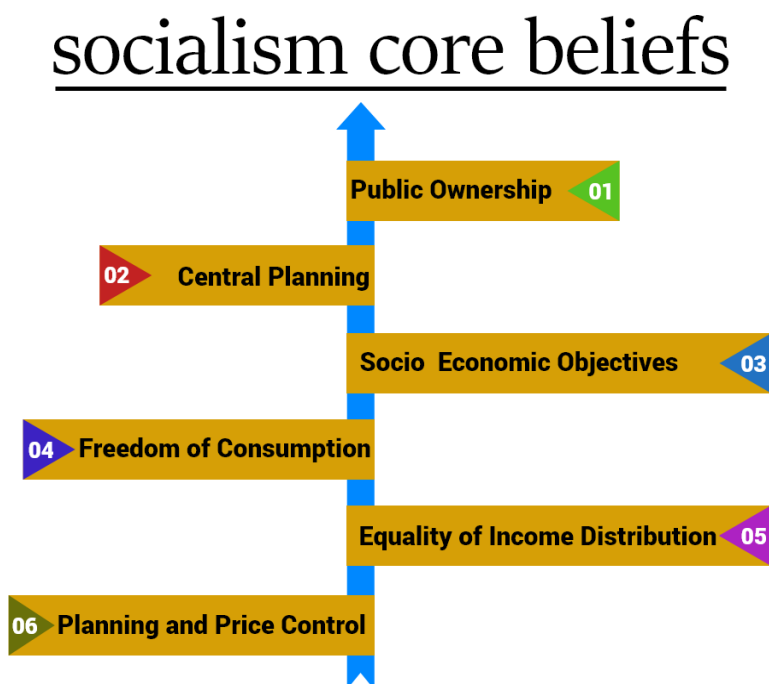
c.   Socialism

Figure 2.2: Types of Socialism

Refers to a various theory of economic organization advocating state, worker or public ownership and administration of the means of production and allocation of resources and a society characterized by equal access to resources for all individuals with egalitarian method of compensation. Socialists advocate the creation of society that allows for the widespread application of modern technology to rationalize economic activity by eliminating the anarchy in capitalist production, allowing for wealth and power to be distributed onthe amount of work expended in production. However, there is considerable disagreement among socialists over how and to what extent this could be achieved

2.1.2 The Relationship Between Political and Economic Freedom

a.   Command Economies

Totalitarianism is characterized by the command economy. A planned economy or directed economy is an economic system in which the state or workers' councils manage the company. It is an economic system in which the central government makes all decisions on the production and consumption of goods and services. Its most extensive form is referred to as command economy, centrally planned economy or command and control economy. In such economies, central economic planning by the state or government is so extensive that it controls all major sectors of the economy and formulates all decisions about their use and about the distribution of income. The planners decide what should be produced and direct enterprises to produce those goods. Planned economies exist in some countries such as Cuba, Libya, Saudi Arabia, Iran, North Korea and Burma

b.   Market Economies

Democracy generally encourages market economies to flourish. A market economy is an economy based on the division of labor in which the prices of goods and services are determined in a free price system set by supply and demand. It is an economic system based on independent producers, cooperative, democratic worker ownership and market allocation of final goods and services. The labor managed market economy is one of several proposed forms of market socialism.

c. Mix Economies

Mixed economies are commonly the hallmark of socialism. A mixed economy is an economic system that incorporates a mixture of private and government ownership or control or a mixture of capitalism and socialism. There is no one single definition for a mixed economy, but relevant aspects include a degree of private economic freedom (including privately owned industry) intermingled with centralized economic planning and government regulation (which may include regulation of the market for environmental concerns and social welfare or state ownership and management of some of means of production for national or social objectives). For some states, there is no consensus on whether they are capitalist, socialist or mixed economies. Economies ranging from the United States to Cuba have been termed mixed economies. The mixed economy as an economic ideal is supported by social democrats as a Third Way between socialism and free market capitalism, among others

2.1.3 Country Risk Produced by Political Systems in IB

a. Government takeover

Government takeover of businesses takes several forms.

    i. <u>Confiscation</u>

Confiscation is a legal seizure without compensation by a government or other public authority. Also called spoliation under legal forms or of any seizure of property without adequate compensation

    ii. <u>Nationalization</u>

Nationalization is the act of taking industry assets into public ownership of national government or state. Nationalization usually refers to private assets, but may also mean assets owned by lower level government such as municipalities, being state operated or owned by the state. Nationalization may occur with or without compensation to the former owners. If it takes place without compensation to the former owners. If it takes place without compensation, then it is considered as a case of confiscation.

Example: The French government seized the automobile makers Renault because its owners had collaborated with the Nazi occupiers of France

iii.   Privatization

Privatization is the incidence or process of transferring ownership of a business, enterprise, agency or public service from the public sector (government) to the private sector (business). Privatization refers to transfer of any government function to the private sector including governmental functions like revenue collection and law enforcement

b.   Expropriation

Expropriation refers to confiscation of private property with the stated purpose of establishing social equality. It also refers to the seizure of corporate assets with compensation

c.   Embargoes and Sanctions

Embargo is the prohibition of commerce and trade with a certain country, in order to isolate it and to put its government into a difficult internal situation, since the effects of the embargo are to make its economy suffer from the initiative. Sanctions may refer to economic sanctions, typically a ban on trade, possibly limited to certain sectors such as armaments or with certain exceptions (such as food and medicine). It can also mean international sanctions or the coercive measures adopted by a country or group of countries against another state in order to elicit a change in that state's behaviour. Sanctions can also be in a form of trade sanctions, which mean economic sanctions applied for non-political reasons, typically as part of a trade dispute or for purely economic reasons and typically involving tariffs or similar measures rather that bans.

d.   Boycotts

A boycott is a form of consumer activism involving the act of voluntarily abstaining from using, buying or dealing with someone or some other organization as an expression of protest, usually for political reasons. An example of a boycott is not buying paper products made with rainforest wood to protest deforestation

McDonald's upset over boycott
August 9, 2014
KUALA LUMPUR: McDonald's Malaysia has re-iterated that it does not channel any sales, profits or franchise fees from any of their restaurants to support any political causes or conflicts in any part of the world.
Its Chief Managing Director, Stephen Chew said the company had been consistent and transparent in communicating their current position, but unfortunately the information that they share have been misinterpreted by certain parties.
"We wish to state very clearly that McDonald's Malaysia does not support nor condone the current conflict in the Middle East. Like all Malaysians, our utmost sympathies go out to the innocent victims in Gaza. "While we understand and respect that the act of boycotting is an individual decision, nevertheless we are dis appointed that McDonald's Malaysia has been unfairly targeted," said Chow. He urged Malaysians to remain calm and to refrain from carrying out any acts that may cause harm any parties. He also added that their employees who are practically all Malaysians have had to endure harassment, threats, and verbal abuse."Some of our restaurants have also been subjected to acts of vandalism to the extent that we had no choice but to shut down our operations for the day. "The reality is that our employees and franchisees have done nothing wrong, and it is grossly unfair that they should be targeted in such a way," said Chow.
He urged everyone to continue praying for the end of the conflict and peace in Gaza. Three McDonald's outlets saw a peaceful protest outside their respective premises at Masjid Jamek, Jalan Tun Perak near here and Klebang, Malacca.
In ALOR STAR some 200 people gathered in front of a McDonald's outlet in Alor Star Walk for a peaceful demonstration. Made of members from Gabungan Pelajar Melayu Semenanjung (GPMS), Pertu]buhan Kebajikan dan Dakwah Islamiah (Pekida) and members of the public, they protested after Friday prayers at Masjid Zahir before marching to the outlet while chanting "Boycott McD dan kekejaman Zionist". Kedah GPMS chairman Shamsul Bahar Abdul Rani said that Israelis atrocities in Palestine had gotten out of hand.Pertubuhan Kebajikan dan Dakwah Islamiah (Pekida) Kota Star district committee member Baharudin Mohd Ali said many Malaysians were not aware of the impact of using Israeli products.
"The government should provide detailed list of goods and services which linked to Israelis to create a bigger impact to the boycott campaign," said Baharudin. Several non-governmental organisations and members had recently launched a campaign to promote yesterday as the "No McDonald's Day" as part of a campaign against multi-national corporations allegedly channelling funds to Israel. Supporters of Palestine had taken to social media plat forms, including Twitter and WhatsApp, to call for a 24-hour boycott of the fast-food chain to pressure Israel to stop its attacks on Gaza, which have killed almost 2,000 people since last month. A campaign image online also called for the boycott to continue beyond Friday until there is "no more Zionist regime in Palestine".

Figure 2.3: Article about boycotts issue

e.   Wars, Insurrection and Violence

War is a violent conflict within a country fought by organized groups to aim to take power at the centre or in a region or to change government policies. Insurrection is an organized attempt by group of people to defeat their government and take control of their country, usually by violence. Violence, an act of physical force that causes or is intended to cause harm. The damage inflicted by violence may be physical, psychological, or both. Violence may be distinguished from aggression, a more general type of hostile behaviour that may be physical, verbal, or passive in nature.

2.1.4   Managing Country Risks in IB

a.   Proactive environment scanning

Environmental scanning is a process of gathering, analysing and dispensing information for tactical strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering

b.   Strict adherence to ethical standards

Corporate social responsibility (CSR) means operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations of stakeholders, employees and communities

c.   Alliance with qualified local partners

A practical approach to reducing country risk is to enter target markets in collaboration with a knowledgeable and reliable local partner. For example, due to various challenges in China and Russia, Western firms often enter these countries by partnering with local firms

d.   Protection through legal contracts

A legal contract spells out the rights and obligations of each party and is especially important when relationships go awry. Contract law varies widely from country to country and firms must adhere to local standards
The **THREE (3)** approaches can be used to resolve contractual disputes:

i.   Conciliation
   - An alternative dispute resolution (ADR) process whereby the parties to a dispute (including future interest disputes) agree to utilize the services of a conciliator, who then meets with the parties separately in an attempt to resolve their differences.
   - He does this by lowering tensions, improving communications, interpreting issues, providing technical assistance, exploring potential solutions and bringing about a negotiated settlement

ii.   Arbitration

- A form of alternative dispute resolution (ADR)
- Is a legal technique for the resolution of disputes outside the courts, wherein the parties to a dispute refer to it to one or more persons, by whose decision they agree to be bound
- It is a settlement technique in which a third party reviews the case and impose decision that is legally binding for both sides
- Other form of ADR include mediation (a form of settlement negotiation facilitated by a neutral third party) and nonbinding resolution by experts

iii.   Litigation

- Is a controversy before a court or a lawsuit.
- If it is not settled by agreement between the parties, it would eventually be heard and decided by a judge or jury in a court.
- Litigation is one way that people and companies resolve disputes arising out of an infinite variety of factual circumstances.

2.2   Legal Environment in IB

2.2.1   Types of Legal Systems IN IB

a.   Common Law

Common law is a law developed through decisions of courts and similar tribunals, rather than through legislative statutes or executive action. In common law legal systems, law is created and refined by judges. Common law is currently in practice in Ireland, most of the United Kingdom (England, Wales and Northern Ireland), Australia, India, South Africa, Canada (excluding Quebec), Hong Kong and United States (excluding Louisiana) and many more places. In addition to these countries, several others have adapted the common law system into a mixed system. For example, Pakistan and Nigeria operate largely on common law system, but incorporate religious law. Australian law is based on English common law. The US Federal court system is based on English common law except for the state Louisiana, which is based upon French civil law

b. **Civil law**

Civil law is the most widespread system of law in the world. It is also known as European Continental law. The central sources of law are recognized as authoritative are codifications in a constitution. Civil law systems are mainly derived from Roman Empire and more particularly issued by the Emperor Justinian ca. 529AD. Civil law was also partly influenced by religious laws such as Canon Law and Islamic law.

Civil law covers many areas including buying and selling houses, marriage and family law and debt. Courts and tribunal can be used to resolve disputes. Civil law today is interpreted rather than developed by judges. Only legislative enactments are considered legally binding. However, in reality courts pay attention to previous decisions especially fromhigher courts

Civil law can be divided into **FOUR** distinct groups:

No	Group	Content
1.	French civil law	In France, the Benelux countries, Italy, Spain and former colonies of those countries
2.	German civil law	In Germany, Austria, Croatia, Switzerland, Greece, Portugal, Turkey, Japan, South Korea and Republic of China
3.	Scandinavian civil law	In Denmark and Sweden. Finland and Iceland inherited the system from their neighbours
4.	Chinese law	a mixture of civil law and socialist law

Table 2.1: Distinct Groups for Civil Law

In Vietnam, the law is derived from the Vietnam Communist legal theory and French civil law. In the People's Republic of China, the law is based on the civil law system, which is derived from the Soviet and continental civil code legal principles

c.   Religious Law

Religious law refers to the notion of a religious system or document used as a legal source. For example, Christian Canon Law is more similar to civil law in its use of civil codes and Islamic Shariah law (and fiqh jurisprudence) is based on legal precedent and reasoning by analogy (Qiyas) and is thus considered a precursor to common law. The main kinds of religious law are Shariah in Islam, Halakha in Judaism and Canon Law in some Christian groups. In some cases, these are intended purely as individual moral guidance, whereas in other cases they are intended and may be used as the basis for a country's legal system. The Islamic legal system of Shariah (Islamic law) and fiqh (Islamic jurisprudence) is the most widely used religious law, and one of the three most common legal systems in the world alongside common law and civil law.

d.   Socialist Law

Socialist law is the official name of the legal system used in Communist states. It is based on the civil law system, with major modifications and additions from Marxist-Leninist ideology. While civil law systems have traditionally put great pains in defining the notion of private property, how it may be acquired, transferred or lost, socialist law systems provide for most property to be owned by the state or by agricultural co-operatives, and having special courts and laws for the state enterprises.

e.   Mixed Systems

Also known as pluralistic systems. It refers to countries that use more than one type of legal system. Some countries combine civil law and common law, civil law and religious law or common law and religious law.
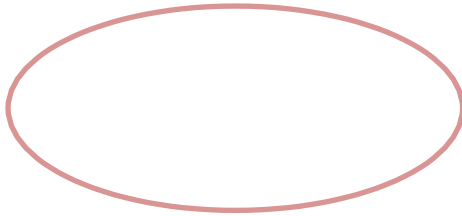
REFLECTION: TOPIC 2

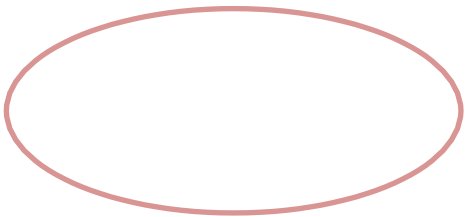| 1	**Summarize the Main Types of Political System**

2 | **Outline the relationship between political system and economic freedom**

Political System

Economic Freedom

3

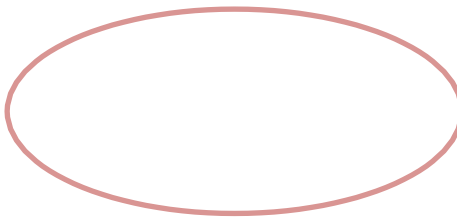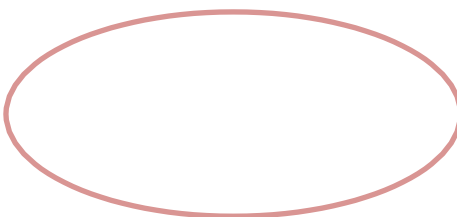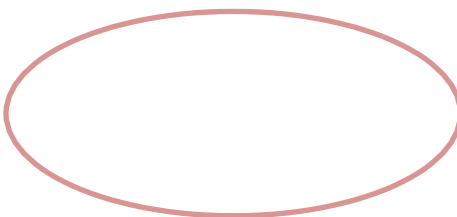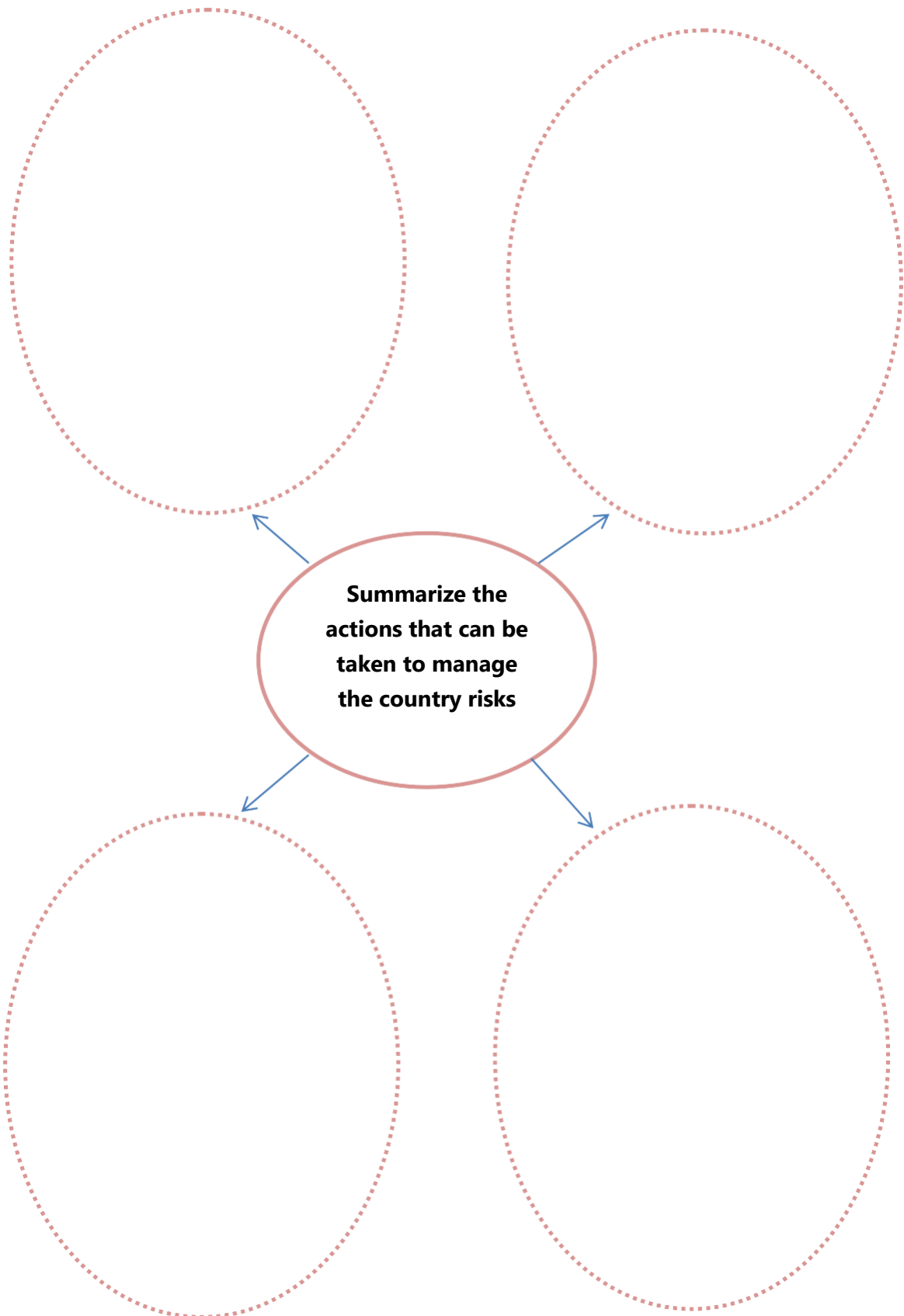**Summarize the types of country risks**

4   Summarize the actions that can be taken to manage the country risks

Summarize the
actions that can be
taken to manage
the country risks

5 **Outline the Types of Legal System in The World**

_____   _____   _____

_____   _____

REVIEW QUESTIONS

1. Describe **TWO (2)** types of legal system as stated below:
   i. Civil law [5 marks]

   ii. Socialist law [5 marks]

2. Interpret **THREE (3)** methods of managing country risk.

   [15 marks]

3. List any **FIVE (5)** principles of democracy.

   [5 marks]

4. Describe socialism of political systems.

   [5 marks]

5. Identify **FIVE (5)** types of legal systems.

   [5 marks]

6. Explain any **TWO (2)** types of legal systems.

   [10 marks]

7. Define totalitarianism. [3 marks]

8. Classify **FOUR (4)** types of totalitarianism. [4 marks]

9. Describe a legal system [3 marks]

10. Explain any **THREE (3)** different types of legal systems. [15 marks]

11. Discuss **TWO (2)** types of political systems mostly practised by developed and developing countries. [10 marks]

REVIEW QUESTIONS

12. Explain **THREE (3**) types of legal systems interplay among various societal institutions, at both the national and international levels.

[15 marks]

13. Explain **THREE (3)** types of legal systems.   [15 marks]

14. Define totalitarianism.   [3 marks]

15. Discuss **TWO (2)** types of political systems mostly practised by developed and developing countries.

[10 marks]

16. Explain **THREE (3)** types of legal systems interplay among various societal institutions, at both the national and international levels.

[15 marks]

TOPIC 3: INTERNATIONAL BUSINESS ORGANIZATION DESIGN

> ## LEARNING OUTCOMES:
>
> 1. Apply organization design in international business.
> 2. Associate types for Multinational Enterprises in international business
> 3. Compare Small and Medium-Sized International Enterprises (SMIEs) in international business

3.0   ORGANIZATION DESIGN IN INTERNATIONAL BUSINESS

Organization structure is defined by the formal structure, coordination and control systems and the organization culture. It's the formal arrangement of roles, responsibilities and relationships within an organization. It's a powerful tool with which to implementstrategy.

3.1   <u>The International Company In International Business</u>

a.   Global Corporate Form-Product

The most common organization design is the global product design, which assigns responsibility for specific products or product groups to separate operating divisions within a firm. The design is most appropriate for firms that have diverse product lines or product lines that are sold in diverse markets. A divisional structure in which products (goods or services) are grouped into separate divisions according to their similarities or differences.

Organizations need to decide how to coordinate its product activities with support functions Product division structure: A centralized set of support functions service the needs of a number of different product lines. Each product division uses the services of the central support function. Support function is divided into product-oriented teams who focus on the needs of one particular product division. For example, an executive over Kraft products would be responsible for every product under that label – dressings, meats, sauces, etc.
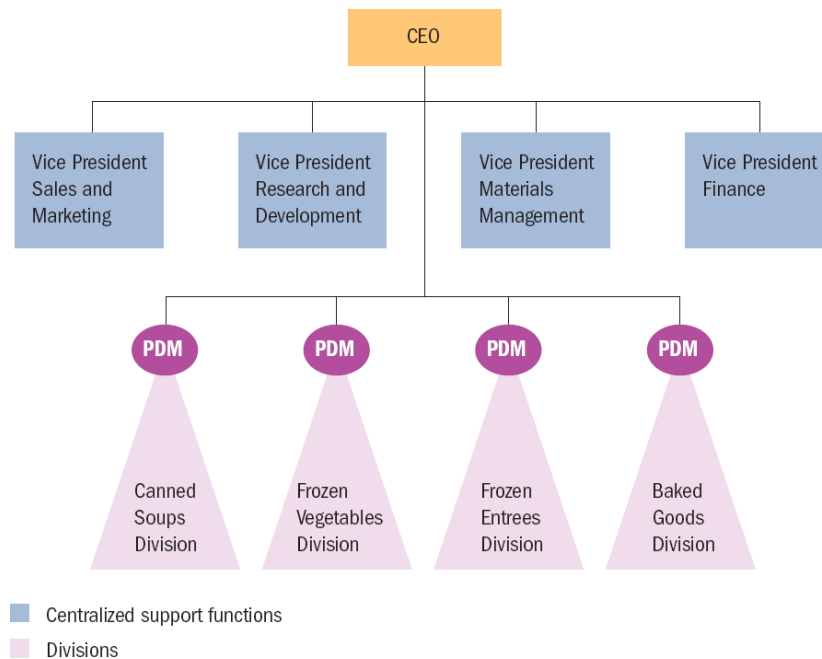

Figure 3.1: Global Corporate Form-Product Structure

ADVANTAGES

1. Able to gain expertise in all aspects of a product or products since a division focuses on a single product or product group.
2. Efficiencies in production are facilitated since products can be manufactured wherever manufacturing costs are lowest.
3. Production can be coordinated at various facilities reflecting global demand and cost fluctuations.
4. Extensive product knowledge, are in a position to incorporate new technologies into their product(s) and respond quickly and flexibly to technological changes that affect their market.
5. The design facilitates global marketing.
6. Facilitates geocentric corporate philosophies.

DISADVANTAGES

1.   Encourage expensive duplication in functional areas and even in physical facilities.
2.   Each product group must develop its own knowledge about the local environment.
3.   Coordination and corporate learning across product groups is more difficult.

b.   Global Corporate Form – Geographic Regions

A divisional structure in which divisions are organized according to the requirements of the different locations in which an organization operates. Allows the organization to adjust its structure to align its core competences with the needs of customers in different geographic regions. Allows some functions to be centralized and others decentralized. For organizations that cover a span of geographic regions, it sometimes makes sense to organize by region. Typically, a structure that is organized by geographical regions reports up to a central oversight person. You see this type of structure in companies that go beyond a city or state limit and may have customers all across the country or in multiple states.
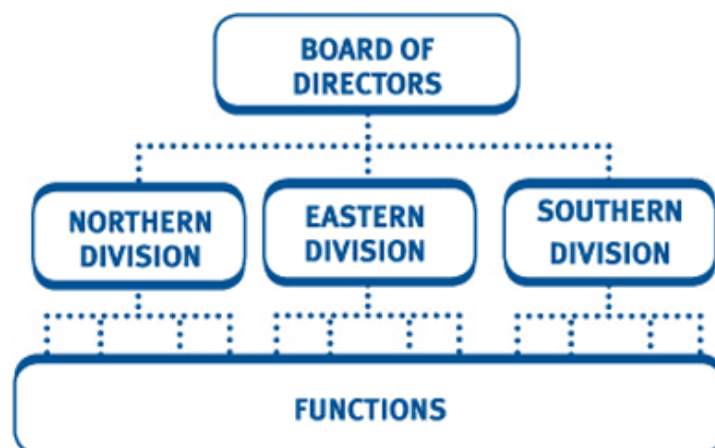

Figure 3.2: Global Corporate Form – Geographic Regions Structure

For example: a group of taxi firms, a small retail chain or a fast-food chain with several branches.

ADVANTAGES

1.   Close communication with local customers.
2.   Strong collaborative teams at each location.
3.   The ability to better serve local needs and tailor their approach to the local market.
4.   The ability to encourage positive competition between different departments.

DISADVANTAGES

1. The main downside of a geographical organizational structure is the potential conflict between local and central management, as individual divisions often take on a great deal of autonomy.
2. Potential duplication of jobs, resources and functions
3. Some economies of scale may be lost

c.   Global Corporate Form – Function

A firm creates departments or divisions that have worldwide responsibility for the common organizational functions. Firms that adopt this design typically have relatively narrow or similar product lines. Functional organizational structures are the most common. Astructure of this type groups individuals by specific functions performed. Common departmentssuch as human resources, accounting and purchasing are organized by separating each of these areas and managing them independently of the others. It is a design that groups peopletogether on the basis of their common expertise and experience or because they use the sameresources. Functional structure is the bedrock of horizontal differentiation. An organization groups tasks into functions to increase the effectiveness with which it achieves its goals.

For example: Managers of different functional areas all report up to one director or vice president who has responsibility for all of the operational areas.
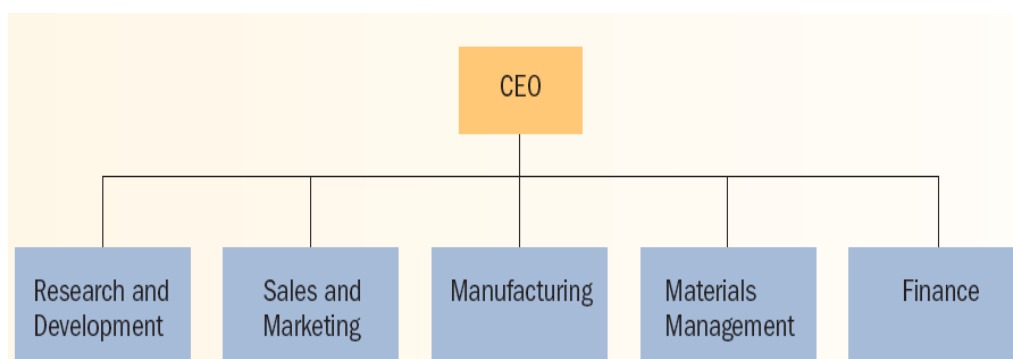

Figure 3.3: Global Corporate Form – Function Structure

ADVANTAGES

1. Firms can develop and transfer expertise within each functional area.
2. It is possible to maintain highly centralized control over functional operations.
3. The design focuses attention on the key functions of the firm.

4.   Provides people with the opportunity to learn from one another and become more specialized and productive

5.   People who are grouped together by common skills can supervise one another and control each other's behavior

6.   People develop norms and values that allow them to become more effective at what they do

DISADVANTAGES

1.   It is only practical when the firm has relatively few products or customers.

2.   It does not promote coordination between divisions.

3.   It may result in duplication of resources among managers.

4.   Organization has certain difficulties in the inter-departmental cooperation and exchanges;

5.   Motivation is not strong enough for project participants, they think the project is an additional burden, and not directly related to their career development and upgrading;

d.   Hybrids Forms Matrix Organizations

This structure is a form of departmentalization, which combines both functional and divisional structure. Particularly large organizations adopt this structure to gain the advantages of both functional and divisional structures. Functional structure gives the benefits of economies of scale, in-depth expertise and resource utilization efficiencies, whereas, divisional structure gives the benefits of specialization of products, services and markets.
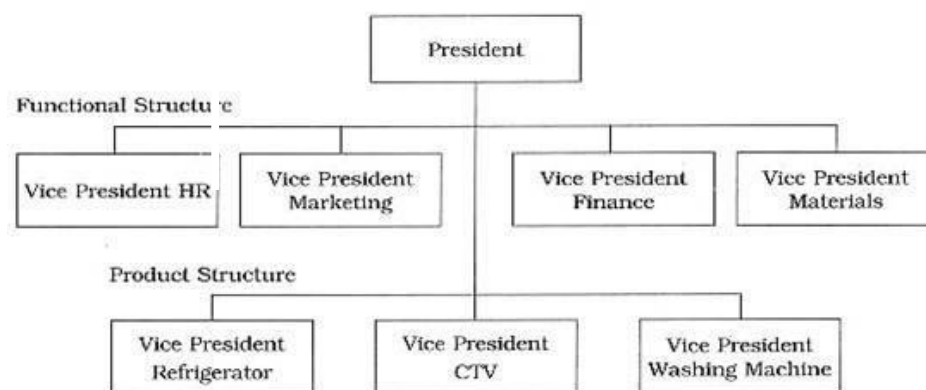

Figure 3.4: Hybrids form Matrix Organization Structure

Hybrid structure gives the benefit of specialized expertise and economies of scale in prime functional areas. It facilitates adaptability and flexibility in handling diverse product or service lines, territories, differing needs of customers, alignment of divisional and corporate goals, etc., because of the partial divisional nature. However, this structure requires hiring of huge staff members both at the corporate level and functional (operational level). Control is also difficult because of the huge organizational structure and it also leads to conflict. Coordination between a division and a corporate functional department is time consuming, which further creates organizational imbalance.

ADVANTAGES

1. Increase efficiency - this structure makes sure that the right quantity of work is assigned at the right time to the right professionals, thus making the optimum use of resources and prevention of waste.

2. Development of Cross-Functional skills - in hybrid structures groups are formed considering the specialisations as well as services. Thus employees with different skills are mingled together which gives an opportunity to learn and develop a varietyof skills from many other participants

3. Flexibility - more flexible than divisional and functional structures. There exists a healthy relationship between the senior managers and junior employees. This helps in addressing all employee problems easily, thus increasing the effective output from the employees.

DISADVANTAGES

1. Conflicts - the chance of having conflicts between corporate departments and divisions, there could be dilemmas among project managers and department managers regarding deadlines and resources and there can also be confusion regarding the roles and responsibilities of each employee.

2. Too much administration overhead - to resolve the conflicts that happen between divisions and corporate departments, time and effort get wasted in the form of meetings. Meetings are also required for better utilisation and coordination of staff in case of two or three concurrent projects.

e.   Matrix Organizations

Matrix structure: People and resources are grouped in **TWO** ways simultaneously:
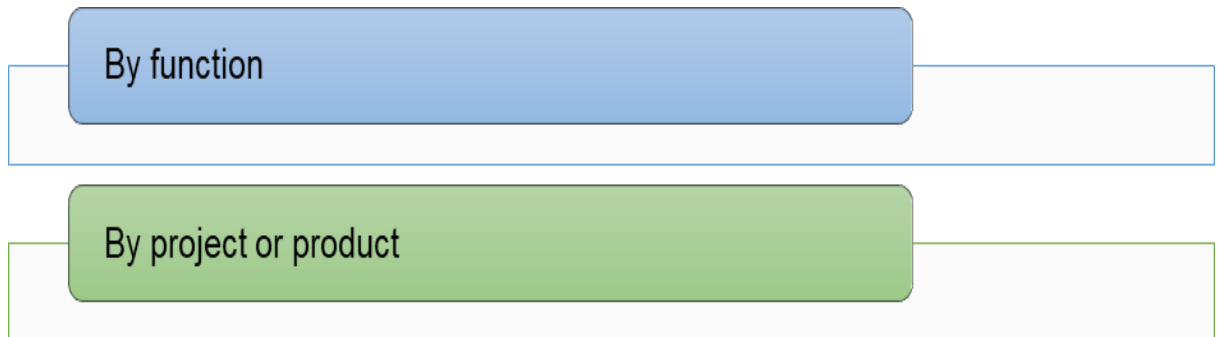

Figure 3.5: Matrix Organization Simultaneously

One or more superimposed organizational structures in an attempt to mesh product, regional, functional and other expertise. Two-boss employees: Employees who report to two superiors: the product team manager and the functional manager. There are usually two separate chains of command. The matrix structure is designed to be partially impermanent. There are two kinds of managers: functional managers and project managers. Managerial roles are fluid, not fixed.   The balance of power between functional and project managers isn't organizationally defined
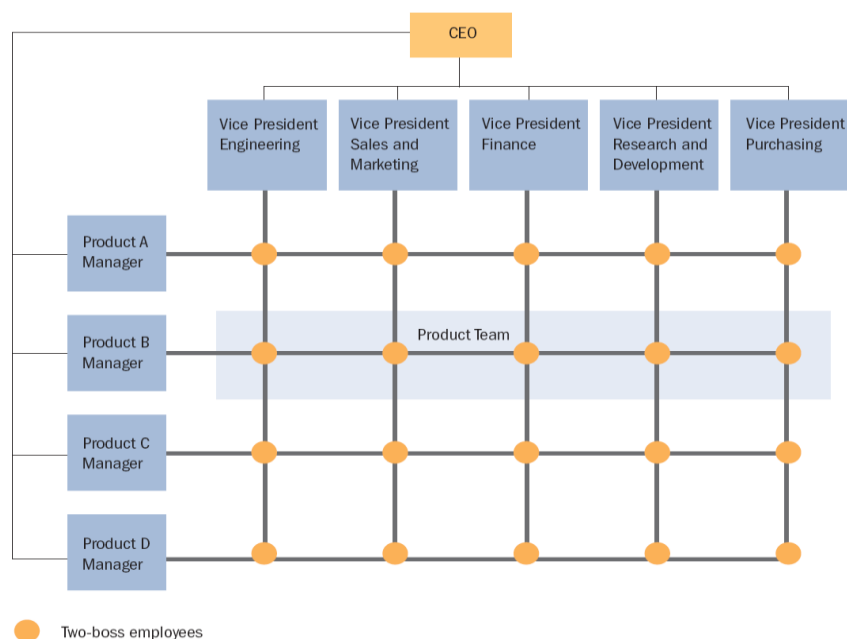

Figure 3.6: Matrix Organization Structure

ADVANTAGE

1. The use of cross-functional teams reduces functional barriers and subunit orientation.
2. Opens up communication between functional specialists.
3. The matrix enables an organization to maximize its use of skilled professionals, who move from product to product as needed
4. The dual functional and product focus promotes concern for both cost and quality
5. Clear articulation of project objectives
6. Workable way of integrating project objectives with functional objectives
7. Efficient use of limited human resources

DISADVANTAGE

1. Matrix lacks a control structure that leads employees to develop stable expectations of one another
2. The lack of a clearly defined hierarchy of authority can lead to conflict between functions and product teams over the use of resources
3. People are likely to experience a vacuum of authority and responsibility
4. Two-boss problems, leaving project members caught in the middle
5. Project members playing bosses against one another
6. Increases organizational complexity
7. Requirement for high degree of cooperation between functional and project management
8. Potential for conflicting management directives

f.   Strategic Business Units

A strategic business unit or SBU operates as an independent entity, but it has to report directly to the headquarters of the organisation about the status of its operation. Fully-functional unit of a business that has its own vision and direction. Typically, a strategic business unit operates as a separate unit, but it is also an important part of the company. It can be a **business division,** a **product line** of the division or even a specific **product/ brand**, targeting a particular group of customers or a geographical location. It operates independently and is focused on a target market. It is big enough to have its own support functions such as HR, training departments etc.

Example: SBU are companies like Procter and Gamble, LG etc. These companies have different product categories under one roof. For example, LG as a company makes consumer durables. It makes refrigerators, washing machines, air-conditioners as well as televisions.
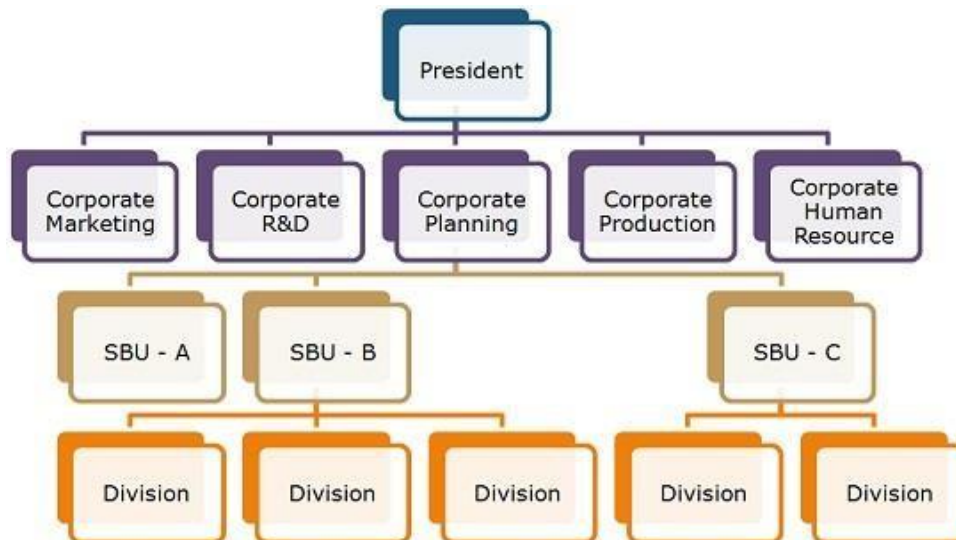

Figure 3.7: Strategic Business Units Structure

ADVANTAGES

1. Grouping personnel into divisions gives employees a unity of purpose.
2. Common divisional goals increase coordination among workers, who can share information, personnel and resources.
3. Increase product adaptation to the market, along with responsiveness to customers or the demands of a geographical location.
4. A company's next generation of leaders can be trained in executive thinking by managing SBUs.

DISADVANTAGES

1. The traditional functional organizational structure has several advantages having to do with economies of scale, including encouraging expertise through specialization and thereby increasing efficiency.
2. Consolidating resources also provides savings through economies of scale. By contrast, the multidivisional structure duplicates resources and personnel across different divisions.
3. The duplication means less efficiency and savings.

4.   Segregating divisions can give rise to interdivisional rivalry.

5.   Divisions may find it difficult to communicate, coordinate and cooperate with one another.

3.2   Types for Multinational Enterprises In International Business

Multinational Enterprises is international strategy and mode of entry – business expanded cross border.   An MNE is any business that has productive activities in two or more countries. A corporation that is registered in more than one country or that has operations in more than one country. It is a large corporation which both produces and sells goods or services in various countries. An MNE is defined as a firm that has operating subsidiaries, branches, or affiliates located in foreign countries. There are four types of MNE firm in international business that exists.

a.   Multidomestic Firm

A company with several international subsidiaries that is independent from eachother. A company that follows a multi-domestic strategy fits its products to each country in which it does business It modifies a product to accommodate the wants or needs of the market. The product features are tailored to the local domestic environment, considering different food preferences, religious customs and other characteristics that define the locality.
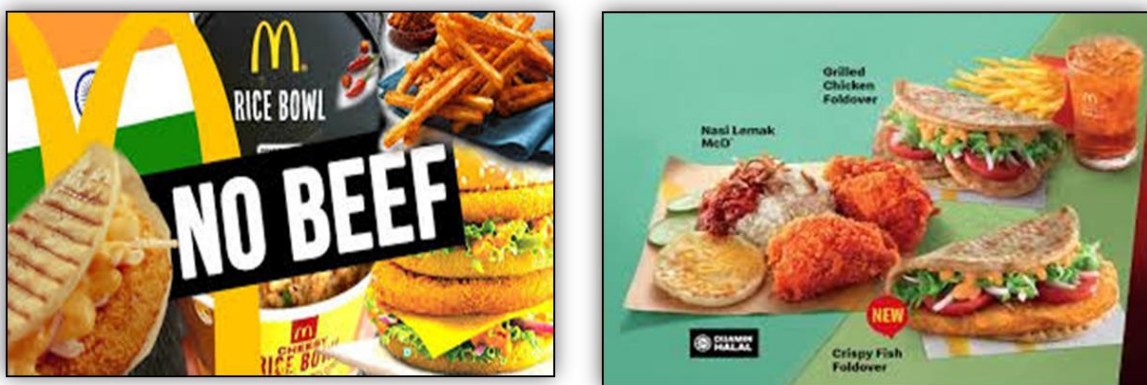
Example: McDonald's in India & USA

Figure 3.8: Example of Multidomestic Firm

b.   **Multinational Firm**

A multinational corporation is a company that operates in its home country, as well as in other countries around the world.   It maintains a central office located in one country, which coordinates the management of all its other offices, such as administrative branchesor factories. An enterprise or corporation which is involved in the manufacture of goods and services in two or more countries.   It generally engages in foreign direct investment (FDI) and involved manufacture goods in host country using local labor.

Example: Honda, Toyota, Exxon Mobil

Figure 3.9: Example of Multinational Firm

c.   **Global Firm**

Firm offers standardized products across country markets. Competitive strategy dictated by the home office, strategic & operating decisions centralized at home office. A global company has integrated international subsidiaries controlled by headquarters. It sees the globe as one single market without borders and earns profits on a global basis.

Example: Hilton and Hyatt Hotels, Adobe, Cisco, 3M, American Express, Facebook and
Google

Figure 3.10: Example of Global Firm

d.   Transnational Firm

They combine domestic and global strategies, using a central control structure to manage all operating units as an integrated global company. For instance, an operating unit in China may be responsible for manufacturing, while one in the United States handles global marketing, and another in Germany leads research and development. The result is a commercial enterprise that runs several facilities and conducts business in multiple countries. While some transnational companies recognize a home country, many do not consider any nation as a base or headquarters.

Example: P&G, Unilever, Nestle,

Figure 3.11: Example of Transnational Firm

3.3   <u>Small And Medium Sized International Enterprises (Smies) In International Business</u>

Small and mid-size enterprises (SMEs) are businesses that maintain revenues, assets or a number of employees below a certain threshold. Each country has its own definition of what constitutes a small and medium-sized enterprise (SME). Certain size criteria must be met and occasionally the industry in which the company operates in is considered as well. Though small in size, small and mid-size enterprises (SMEs) play an important role in the economy. The definition of SME based on sales turnover and number of full-time employees. Detailed definition of for the manufacturing sector, SMEs are defined as firms with sales turnover not exceeding RM50 million or numberof full-time employees not exceeding 200 categories, namely micro, small and medium is as follows:

i. **According to Canada**

- a small business with fewer than 100 employees (if the business is in good producing business) or fewer than 50 employees (if the business is a service-based business)

ii. **According to New Zealand:**

- a SMIE must have 19 people or lesser

iii. **According to Malaysia:**

- It is classifying into 3 categories (micro, small or medium enterprises)
- These groupings are decided based on either the number of people business employs or the total sales or revenue generated by a business in a year.

3.3.1 SMIEs Classified According to Number of Full-Time Employees

	Primary Agriculture	**Manufacturing (Including Agro Based) & Manufacturing Related Business**	**Services Sector (Including ICT)**
MICRO	Less than 5 employees	Less than 5 employees	Less than 5 employees
SMALL	Between 5 and 19 employees	Between 5 and 50 employees	Between 5 and 19 employees
MACRO	Between 20 and 50 employees	Between 51 and 150 employees	Between 20 and 50 employees

### 3.3.2   SMIEs classifies according to annual sales turnover.

	Primary Agriculture	**Manufacturing (Including Agro Based) & Manufacturing Related Business**	**Services Sector (Including ICT)**
MICRO	Less than RM200,000	Less than RM250,000	Less than RM200,000
SMALL	Between RM200,000 and less than RM1 million	Between RM250,000 and less than RM10 million	Between RM20,000 and less than RM1 million
MACRO	Between RM1 million and RM5 million	Between RM10 million and RM25 million	Between RM1 million and RM5 million

3.3.3   Constraints on Small and Medium-Sized International Enterprises (SMIEs)

1. Small scale and limited reach constraints production and service delivery option and costs
2. Frequently hampered by lack of knowledge and track record in exporting and foreign investment
3. Lack of market power and they often find themselves powerless against trade barriers
4. SMIEs are also vulnerable to intellectual property violations

Figure 3.12: Example of SMIEs

REFLECTION: TOPIC 3

1 The structure of organization design in International Business
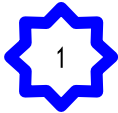
The Structure of Organization Design in International Business

2 | **Differentiate the Structure of Organization Design in IB**

FORM PRODUCT	GEOGRAPHIC REGION	FUNCTION	HYBRID	MATRIX	SBU

3 | **Types of MNE Firm in International Business**

Types of MNE Firm in International Business

4 | **Explain the Types of MNE Firm in IB**

MULTIDOMESTIC FIRM | MULTINATIONAL FIRM

TRANSNATIONAL FIRM | GLOBAL FIRM
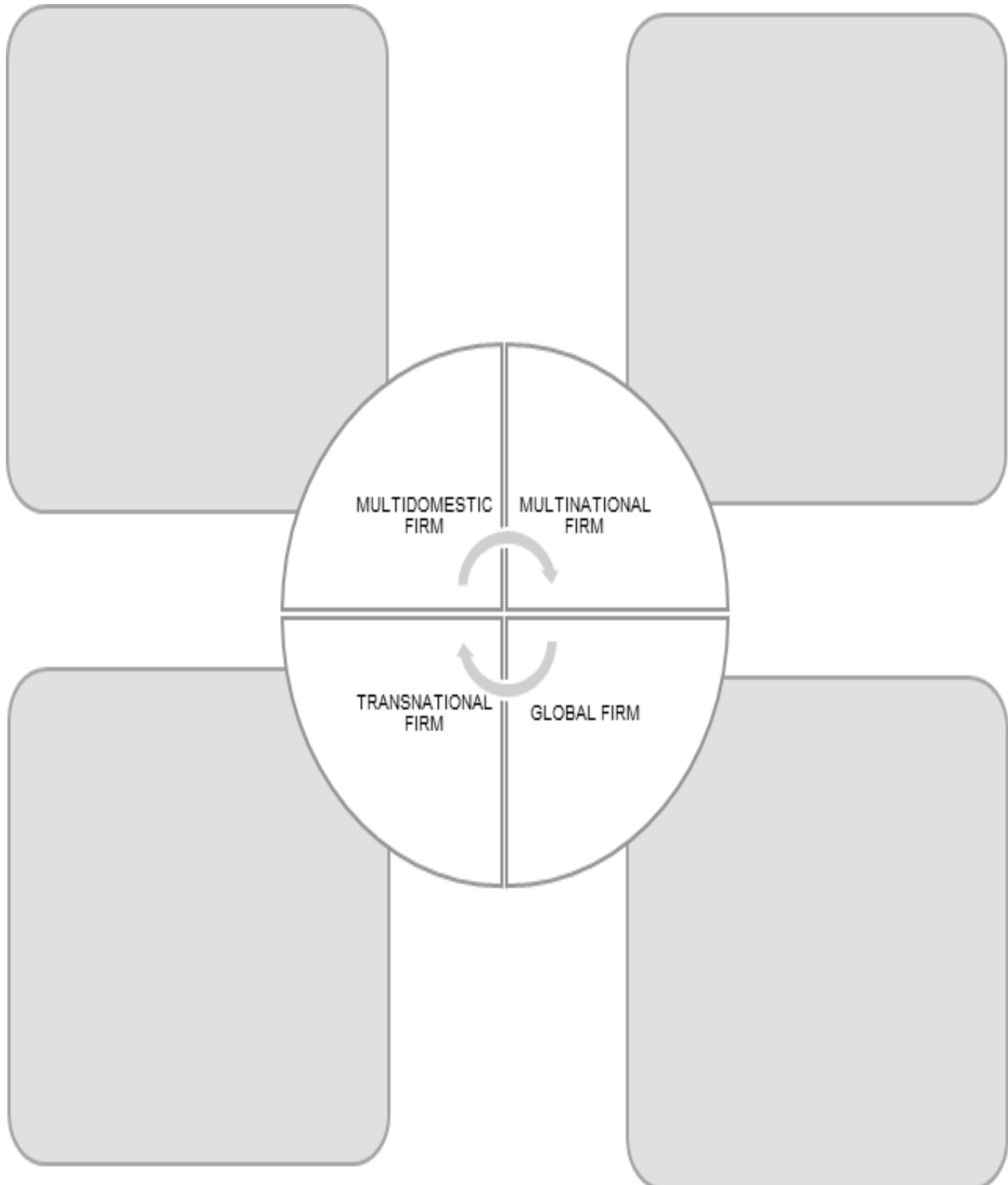
5 | **Relate the MNEs below according to the types of operation in IB.**

GLOBAL STRATEGY	TRANSNATIONAL STRATEGY	MULTIDOMESTIC STRATEGY	TRANSNATIONAL STRATEGY	MULTIDOMESTIC STRATEGY
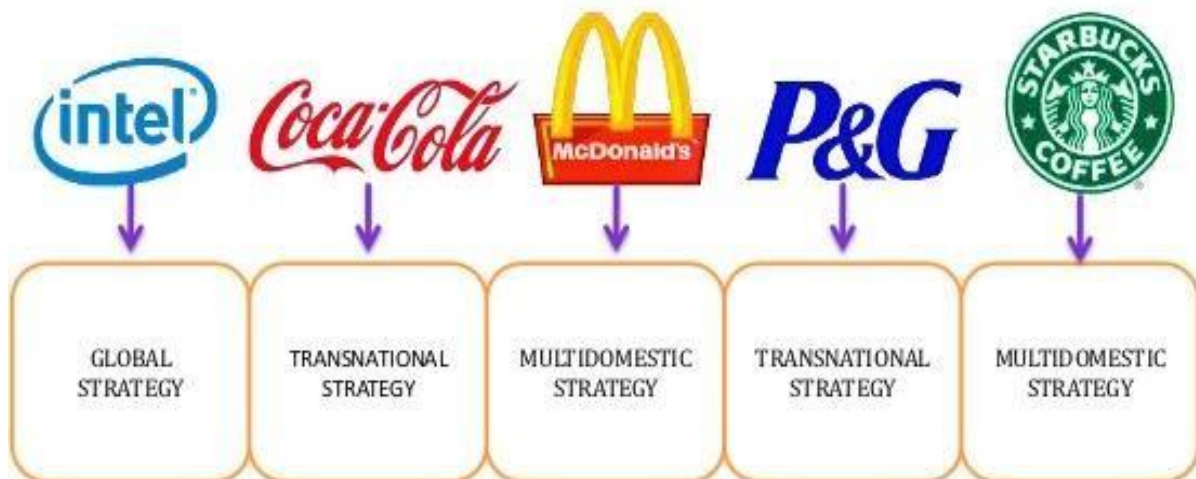
REVIEW QUESTIONS

1. Describe the terms as stated below:

   i. Transnational Firm   [4 marks]

   ii. Global Firm   [4 marks]

   iii. Multinational Firm   [4 marks]

2. Explain what is Small and Medium Sized International Enterprises (SMIEs).

                                                                      [5 marks]

3. Explain any **TWO (2)** types of Multinational Enterprises (MNEs).

                                                                      [10 marks]

4. Define Small and Medium Sized International Enterprises (SMIEs).   [3 marks]

5. Describe **THREE (3)** types of Multinational Enterprises (MNEs) as stated below:

   i. Global firm   [4 marks]

   ii. Transnational firm   [4 marks]

   iii. Multi domestic firm   [4 marks]

TOPIC 4: ENTRY AND EXPANSION

LEARNING OUTCOMES:

1. Examine the international market-entry methods in international business

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4.0   ENTRY AND EXPANSION

4.1   International Market-Entry Methods In International Business

An organisation has a number of different entry modes to choose from when it internationalizes its operations. This essay will focus on the different types of foreign entry modes organisations have to choose from. As well as what organisational circumstances, goals, and objectives are best suited to the types of different entry modes. Examples will also be given of organisations which have used these different entry modes when going international.
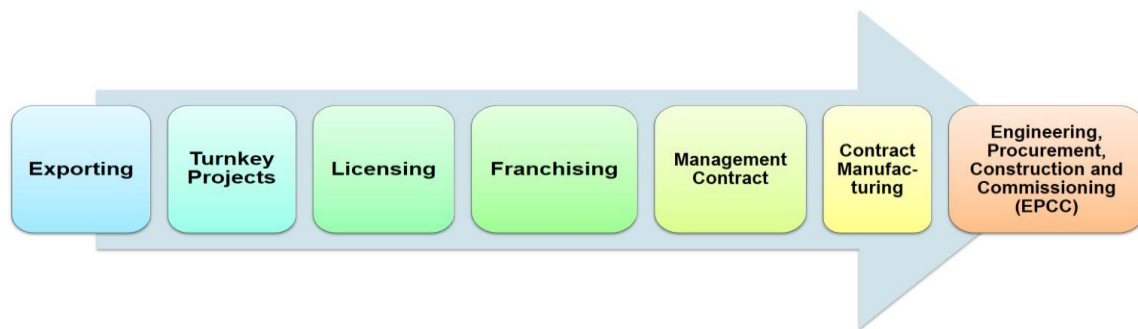
4.1.1   Non-Equity Modes of Entry

Figure 4.1: Non-Equity Modes of Entry

a.   Exporting

Exporting is a common first step in the international expansion process for many manufacturing firms. Later, many firms switch to another mode to serve the foreign market. The commercial activity of selling and shipping goods from home country to a foreign country. A firm begins its foreign expansion through exporting and it will switch to other modes of entry as the strategy changes. The most common overseas entry approach for small Firms. The most popular mode for a company to penetrate markets aboard.

For example: Malaysian carmaker Proton established its first foreign expansion by exporting the Proton Saga to the UK and Australia.

In Malaysia, the Malaysian External Trade Development Corporation **(MATRADE)** and the Malaysian Industrial (Investment) Development Authority **(MIDA)** are two government agencies that help to facilitate exporting and importing activities into the country
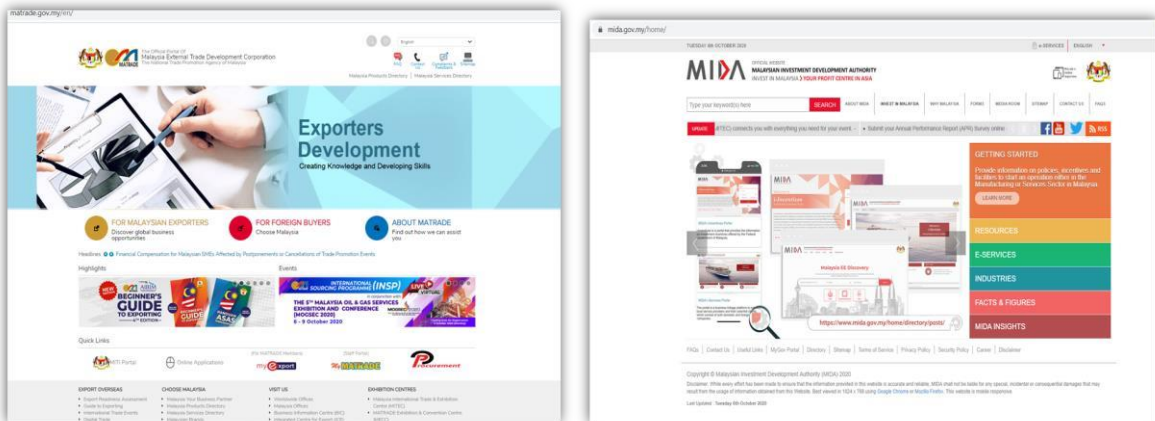
Figure 4.2: Matrade & MIDA

Exporting can be carried out in two ways either direct or indirect exporting

1. **Direct exporting**: selling a company's products or services directly to an international company or customer

2. **Indirect exporting**: a company uses export intermediaries such as commissioned agents, distributors and export management or trading companies
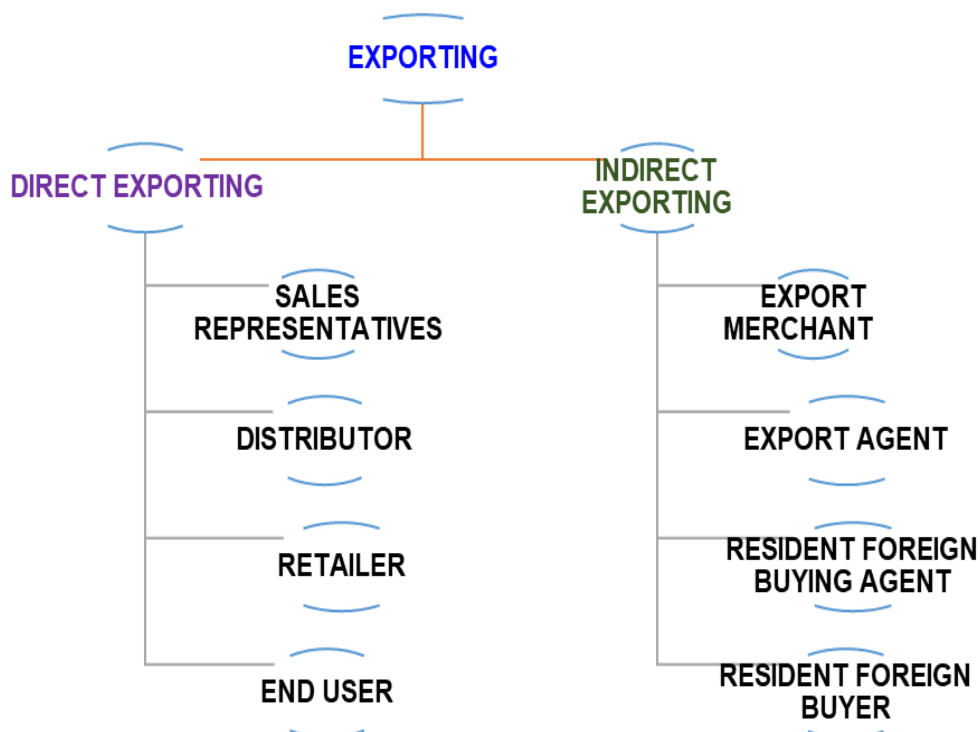
Mode of Exporting :

Figure 4.3: Types of Exporting

DIRECT EXPORTING	INDIRECT EXPORTING
1. Refers to overseas sales in which a producer controls all the activities	1. Involves selling goods to overseas markets through intermediaries, i.e. through another company
2. It enables an exporter to handle the whole exporting process such as market research, foreign distribution and collections	2. It require less marketing effort, but companies might lose substantial control over the marketing process
3. The company can have more control over the export process, higher profits and closer relationship with the overseas market	
4. Direct marketing is preferred since it provides the freedom to choose which foreign market to enter	
5. However, direct marketing requires a considerable commitment as it is costly and require substantial resources	
6. The company also need to focus on developing appropriate channels for supplying its product	

Table 4.1: Compare between Direct Exporting and Indirect Exporting

ADVANTAGES

1. A firm needs no substantial investment such as setting up a manufacturing plant in the foreign market

2. Exporting allows a firm to evaluate the market and its part of the learning process to achieve economies of scale

DISADVANTAGES

1. Tariff barriers (import tax) and transportation costs increase the price of the products into the foreign market

2. Exporting is inappropriate when the firm can identify a low-cost location to manufacture the product

b. Turnkey Projects

A turnkey project is a type of entry mode whereby a project is constructed by a developer and sold or turned over a buyer in a ready-to-use condition. Turnkey contracting can be defined as **an arrangement where the focal firm or a consortium of firms' plans, finances, organizes, manages and implements all phases of a project abroad and then hands it over to foreign customer after training local personnel.** Contractors aretypically firms in construction, engineering, design and architectural services. For example, in the case of the construction of the Penang Bridge, the Malaysian government did not require a pool of engineers, mechanics, architects and other professionals. It was built based on turnkey contracting that were given out to number of contractors.

Potential disadvantages of a turnkey project for a company include risk of revealing company's secrets to rivals, and takeover of their plant by the host country. Entering a market with a turnkey project CAN prove that a company has no long-term interest in the country which can become a disadvantage if the country proves to be the main market for the output of the exported process. This is a means of exporting process technology to other countries. Upon the completion of the project, these contractors handed over the key to the managing company, Penang Bridge Sdn, Bhd, (PBSB). Turnkey projects are also used to construct airports, harbors, refineries and hospitals. Among the most popular turnkey projects are extensions and upgrades to metro systems such as bridges, railways and roadways. Other examples: Petronas Twin Tower and SMART Tunnel constructions

ADVANTAGES

1. Possibility for a company to establish a plant and earn profits in a foreign country especially in which foreign direct investment opportunities are limited and lack of expertise in a specific area exists.

2.   **KNOW-HOW** – the know how required to assemble and run a technologically complex process.

3.   Good returns – a way of earning great economic returns from that asset

4.   Avoid regulations – useful where FDI is limited by host government regulations

5.   Less risky – less risky than conventional FDI (longer terms investment might expose to unacceptable political or economic risks

DISADVANTAGES

1.   Risk of revealing company's secrets to rivals, and takeover of their plant by the host country.

2.   Lack of long term commitment –no long term interest in the foreign country.

3.   Potential competitor –a firm that enters into a turnkey project with a foreign enterprise may become a competitor

4.   Losing competitive advantages – firm's competitive advantage is exposed to potential or actual competitors

c.   **Licensing**

Figure 4.3: Example Company Licensing

Licensing enables a licensee to use specific intellectual property items for a fee or royalty paid to the licensor. The business of granting the right to use a legally protected or intangible property such as trademark, copyright name, graphic, logo, slogan, patents, inventions, formulas, processes, designs, copyrights and trademarks likeness or similar intellectual property in conjunction with a product or service for a prescribed amount of time in a specific geographic area in exchange for a defined payment or series of payments in the form of royalties or fees. Considered a simple mode and is easily implemented. A licensing

is an agreement whereby a firm (licensor) grants the intangible property rights to other parties (licensee) for a special period. Intangible property includes patents, inventions, formulas, processes, designs, copyrights and trademarks

For example: Nike licenses companies in China to produce its products for the local Chinese market and for export. Disney licenses the right to use its cartoon characters in the production of shirts and hats to clothing manufacturer in Hong Kong. Disney also licenses itstrademark names and logos to manufacturers of apparel, toys and watches for sale worldwide

Example:

LICENSOR	LICENSEE
Disney	Hasbro
NFL	Nike
Kentucky Wildcats	Nike

Table 4.2 : Examples Licensor and Licensee

Trademarks and copyright licensing	Know-how licensing
▪ Trademark licensing involves a firm granting another firm permission to use its proprietary names, characters orlogos for a specified period of time in exchange for a royalty	▪ A know how agreement is a contract in which the focal firm providestechnological or management knowledgeabout how to design, manufacture or deliver a product or service
▪ Organizations and individuals with name brand appeal benefit from trademark licensing such as Coca Cola, Harley Davidson, Laura Ashley, Disney, Michael Jordan and organization like universities	▪ The licensor makes its patents, trade secrets or other know how available to licensee in exchange for a royalty ▪ Examples : industries such as pharmaceuticals, chemicals and semiconductors, technology is acquired in reciprocal licensing arrangements between firms from the same industries

Table 4.3 : Licensing

ADVANTAGES

1. A firm could minimize the cost and risk associated with a foreign market.
2. This method is suitable for a firm that is unwilling to commit substantial investment into the foreign market
3. Licensing is attractive for a firm lacking in capital for venturing into a foreign market

DISADVANTAGES

1. A firm does not have tight control over manufacturing and marketing because the processes are run by the licensee
2. The licensee could become the firm's competitor by setting up its own operations
3. Licensing limits a firm's ability to coordinate strategic moves since the firm has no direct control over the investment in the foreign market
4. Licensing could result in potential loss of proprietary or intangible property and technology and know-how

d.   Franchising

Figure 4.5: Franchising

Franchising is an extension of licensing, where a firm (franchiser) grants intangible property rights to a local firm (franchisee), which later agrees to abide by strict rules to operate the business. Franchising is similar to licensing, although franchising tends to involve longer-term commitments than licensing. It is an advanced form of licensing in whichthe franchiser allows the franchisee the right to use an entire business system in exchange for compensation. The franchiser will also often assist the franchisee to run the business on

an ongoing basis. The franchiser typically receives a royalty payment, which amounts to some percentage of the franchisee's revenue

Example: McDonald's is a good example of a firm that has grown by using a franchising strategy (strict rules on the operations of outlets). Franchising strategy is often used by service firms such as McDonalds, KFC and 7-Eleven to enter a foreign market.

The franchiser will help the local firm with business on a continuous basis by training the workers, and assist in the setting up of outlets, equipment, etc. The franchisee compensates the franchiser with the royalty payment representing a percentage of the franchisee's revenues. Franchising is a specialized form of licensing in which the franchisor not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business. Longer-term commitments

ADVANTAGES

1.   Standardized operation – standardized system operation, consumers receive consistent quality etc.
2.   Management assistance – franchiser provides management & finance assistance.
3.   Lower cost and risk – profitable operation and build a global presence quickly
4.   Quick expansion – ability to develop new and distant international markets on a larger scale than possible

DISADVANTAGES

1.   Constant control – franchiser needs to maintain control over a large number of outlets worldwide.
2.   Potential competitor – franchiser must disclose business secrets and detailed knowledge
3.   Political risk – foreign laws and regulations (might affect payment and royalties)
4.   Quality control – geographical distance can make poor quality difficult to detect

e.   Management Contract

Figure 4.4: Management Contract

Under a management contract mode of market entry one company provides another company with managerial expertise for a specified period of time. This maybe in exchange for a lump sum payment or a continuing fee on a % of sales value or volume for example. Sectors that commonly use management contracts are utilities services and it may be possible in developing markets where they need assistance from developed markets to manage new infrastructure like water management for example. Management contracts maybe useful entry modes where the home party has knowledge and expertise but cannot own the assets off-shore and the other party has a dependence or reason for management expertise.

Management contracts involve not just selling a method of doing things (as with franchising or licensing) but involve actually doing them. A management contract can involve a wide range of functions, such as technical operation and of a production facility, management of personnel, accounting, marketing services and training.   In Asia, many hotels operate under management contract arrangements, as they can more easily obtain economies of scale, a global reservation system, brand recognition etc. It is not unusual for contracts to be signed for 30 years, and having a fee as high as 3.5% of total revenues and 6-10% of gross operating profit. Management contracts have been used to a wide extent in the airline industry, and when foreign government action restricts other entry methods. Management contracts are often formed where there is a lack of local skills to run a project.It is an alternative to foreign direct investment as it does not involve as high risk and canyield higher returns for the company.

ADVANTAGES

1. A management contract can save time and resources. Handing over operational control of the marketing or the bookkeeping, for example, means you do not have to worry about these functions.

2. Provides expertise for business and have specialist knowledge of search engine optimization. Business can be signing a management contract can help you distribute staff responsibilities in a more efficient way,

3. If the business function is important (like accounting) but not yet large or important enough to justify hiring a full-time employee to handle it, then management contracting could be the ideal solution.

4. A management contract solves this problem by providing continuity. The same company handles everything from the start, and to the same standard. This means there's much less disruption if an employee leaves, since you do not have to worry about a change in style or performance.

DISADVANTAGES

1. Loss of control of an entire business function to an outside company

2. Reputation Damage because business will be a signing a management company means you're trusting your business reputation to people who are located outside of the business.

3. Conflict of interest issues are fairly common, and you must resolve these if you don't want your confidential information falling into the wrong hands.
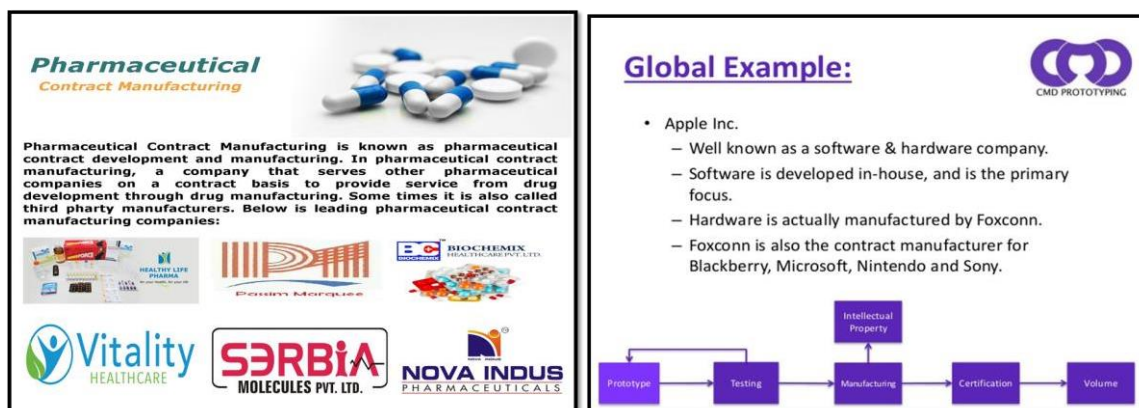
f.   Contract Manufacturing

Figure 4.5: Contract Manufacturing

Contract manufacturing is the outsourcing of part of the manufacturing process of a product to a third-party. More specifically, contract manufacturing is an outsourcing of certain production activities that were previously performed by the manufacturer to a third-party. A company may outsource the manufacture of certain components for the product or outsource the assembly of the product. Outsourcing companies have become specialists in a multitude of services for manufacturers including design, production, assembly, and distribution. Contract manufacturing in international markets is used in situations when one company arranges for another company in a different country to manufacture its products; this is also known as international subcontracting or international outsourcing. The company provides the manufacturer with all the specifications, and, if applicable, also with the materials required for the production process.

ADVANTAGES

1. Economies of Scale. Contract manufacturing helps in minimizing the cost of production for the company. This helps them in acquiring cheap materials in bulk and takes advantage of economies of scale.

2. More focus on selling activities because contract manufacturing helps companies in paying attention to functional areas. Selling of products is important task for the businesses.

3. Contract manufacturing, products are not manufactured by the company itself. These manufacturers are highly skilled and expert in production activities. They produce high-quality products at lower costs. This helps companies to provide good quality products to its customers.

DISADVANTAGES

1. Quality issues is one of the risks involved in contract manufacturing. It is essential for companies to inspect the products manufactured by contract manufacturers. They need to develop certain standards for testing of their products.

2. Companies lose control over production activities. Contract manufacturers produce products as per their skills. Companies may not be able to control or directs manufacturers for the production of their products.

3. Outsourcing problems, companies contact manufacturers of different countries. These manufacturers are basically of low-cost countries. Different countries have different cultures, traditions, language and lead times.

g. Engineering, Procurement, Construction and Commissioning (EPCC)

01. Engineering

Control System Engineerting
Shop Drawing
Approval of Drawing

02. Procurement

SCADA SYSTEM (PLC/HMI)
Control Panel, MCC / Power Panel
Instrument
Construction Material / Cable

03. Construction

Panel installation
Instrument installation
Electric Work

04. Commissioning

Commissinoing, Test

Engineering
• Preparation of designs, plans, & technical specifications of equipments
• Preparation of performance standards maintenance and training manuals
• Designing and planning layout
• Documenting delivery schedules of equipments, instructions for erection, etc

EPC

Construction
• Erection, commissioning, testing and completion of the facility
• Correction of defects

Procurement
• Provision of equipments
• Procurement from third parties
• Clearing of goods at ports
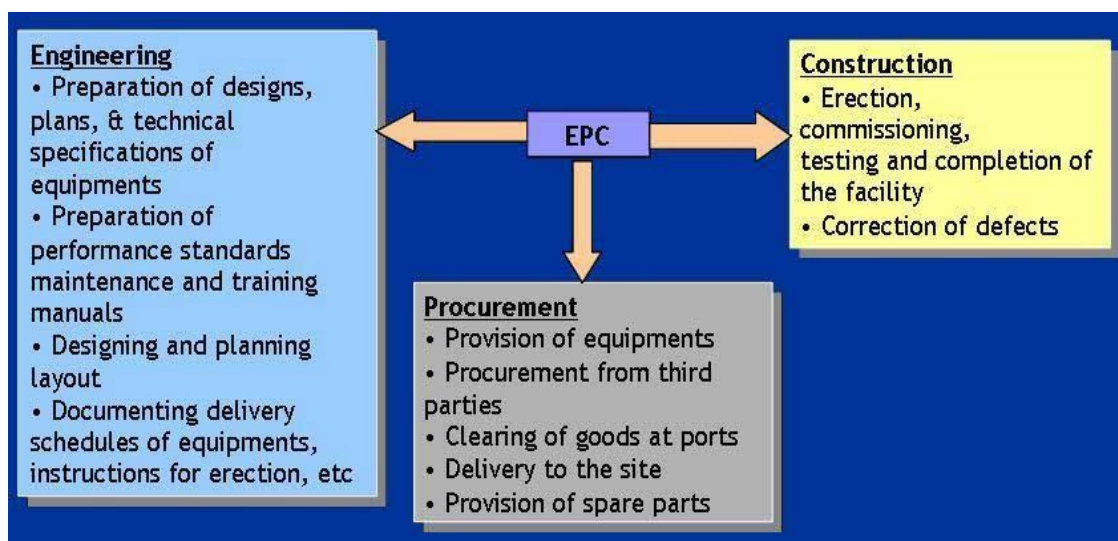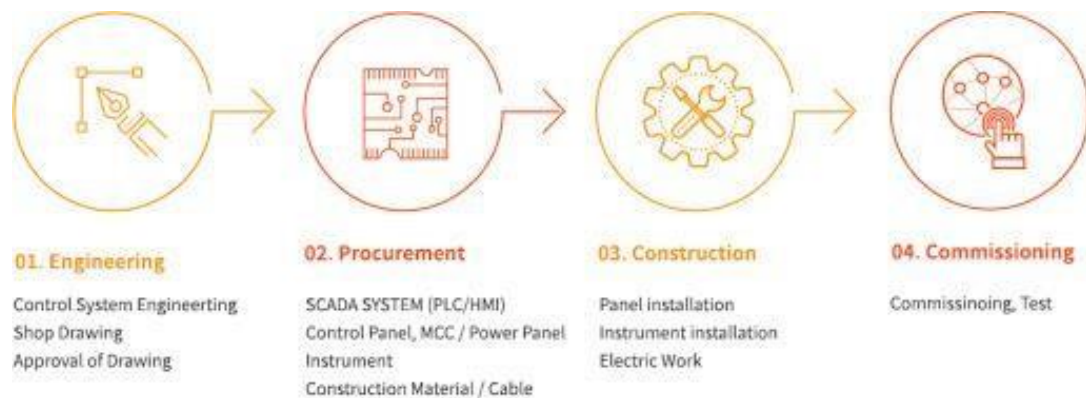• Delivery to the site
• Provision of spare parts

Figure 4.6: Engineering, Procurement, Construction and Commissioning (EPCC)

Engineering, Procurement, Construction and Commissioning (EPCC) contracts are the most common form of contract used to undertake construction works by the privatesector on large-scale and complex infrastructure projects. Under an EPCC contract a contractor is obliged to deliver a complete facility to a developer who need only turn a key to start operating the facility; hence EPCC contracts are sometimes called turnkey construction contracts. In addition to delivering a complete facility, the contractor must deliver that facility for a guaranteed price by a guaranteed date and it must perform to the specified level. Failure to comply with any requirements will usually result in the contractor incurring monetary liabilities. The EPCC contractor coordinates all design; procurement and construction work and ensures that the whole project is completed as required and in time.
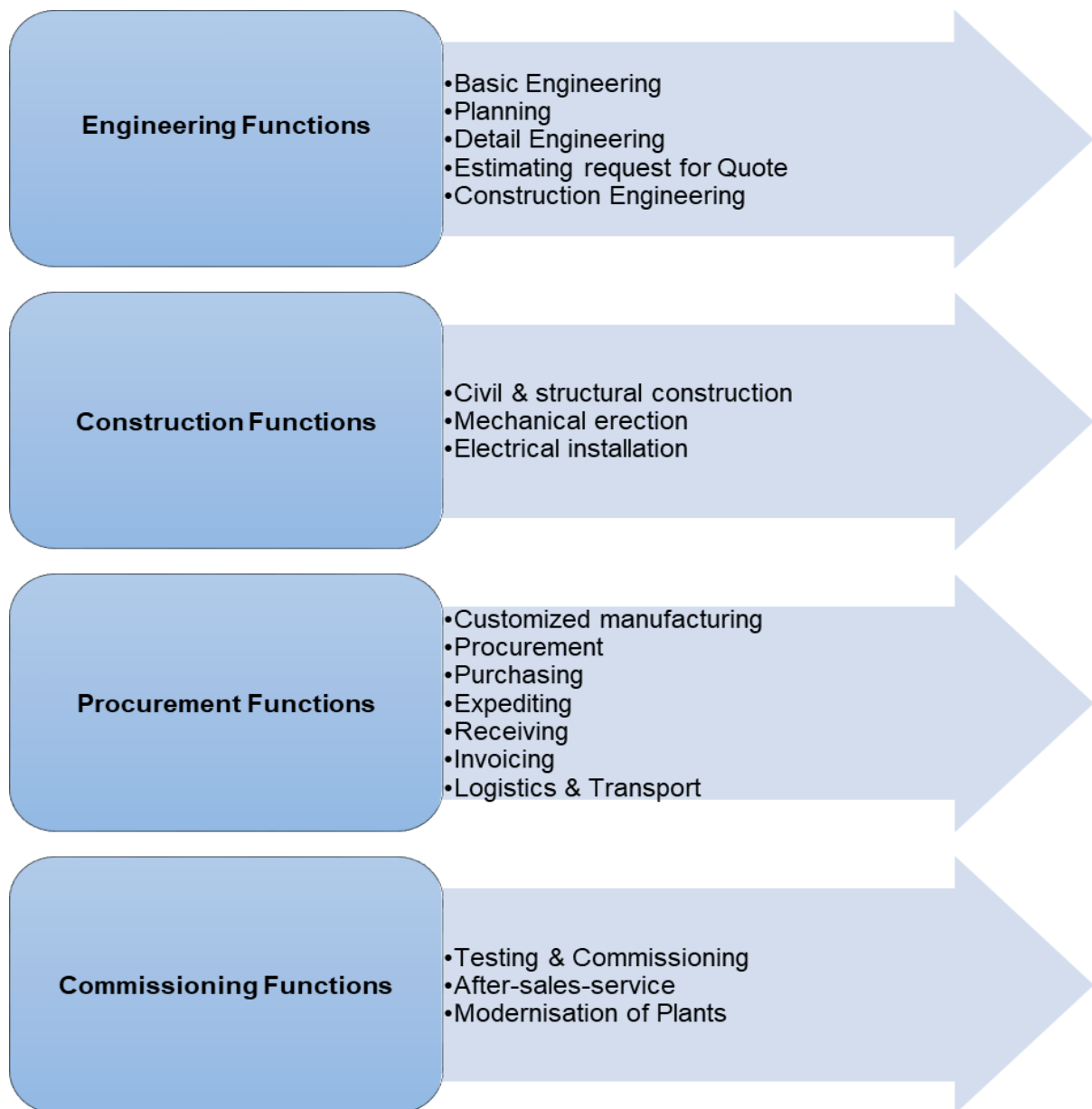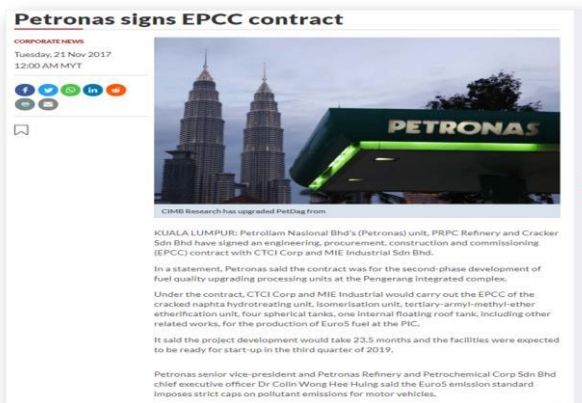
Figure 4.7: Function in EPCC

Example of EPCC

ADVANTAGES

1.   Scope and the specifications of the plant
2.   Cost is known at the start of the project
3.   Easy work and growth of the company.
4.   Single point of contact for owner simplifies communications.
5.   Ready availability of post-commissioning services
6.   Ensures quality and reduces practical issues faced in other ways
7.   Owner protected against changing prices for materials, labor, etc.

DISADVANTAGES

1.   EPCC Contracts do assign more risk with the coordination of the design
2.   EPCC contractors are in a position to exercise a great deal of control to efficiently lower construction costs.
3.   While principals can benefit from the single point of responsibility for the delivery of the project, they do lose involvement with the design process, adding potential risk if the project's design is crucial.
4.   Principals should ensure they carefully mark out the project's milestones to avoid lifecycle costs and scope changes being easily overlooked.
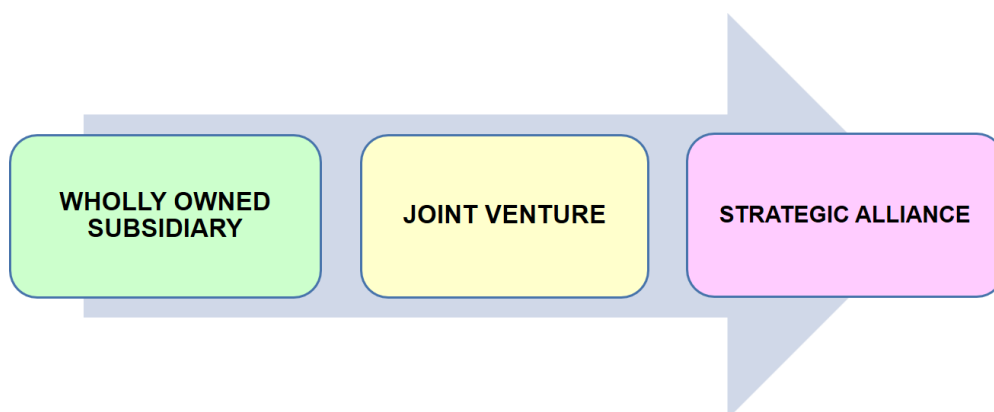
4.2   Equity Modes of Entry

Figure 4.8: Equity Modes of Entry

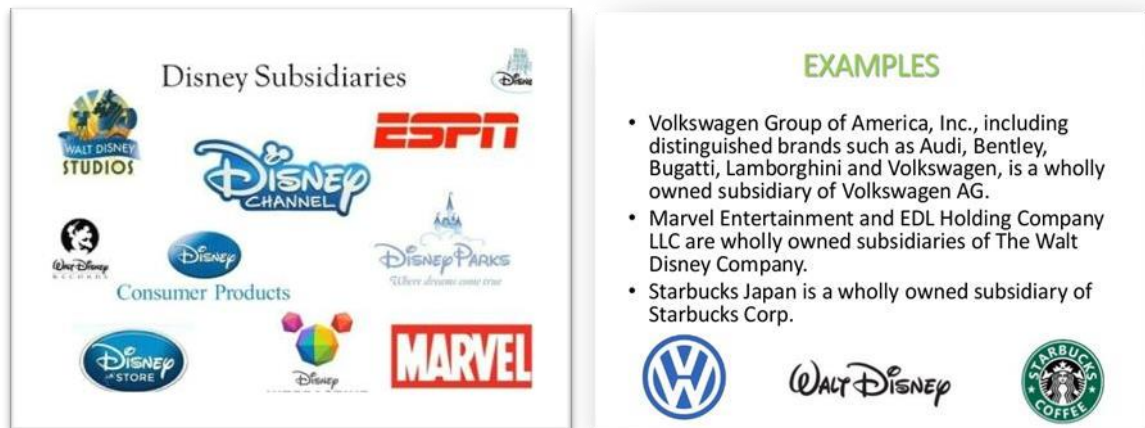### a. Wholly Owned Subsidiary

Figure 4.9: Example company Wholly Owned Subsidiary

A wholly owned subsidiary is a traditional foreign direct investment (FDI), whereby a firm commits capital investment in plant and related facilities in the foreign market. A wholly owned subsidiary is a mode of entry where a firm owns 100% of the stock either by setting up a new operation in a country or by acquiring an established firm. The parent company owns the company outright and there are no minority owners. The owner of a wholly owned subsidiary is known as parent company or holding company common stock of the subsidiary's common stock. A subsidiary is an entity controlled by a bigger and more powerful entity.

The controlled entity is called a company, corporation or limited liability company, and the controlling entity is called its parent or parent company. The setup of a wholly owned subsidiary can be done in **TWO** ways:

1. Greenfield operation (a firm invests directly in manufacturing operations or other facilities like Toyota in the USA).

2. Acquisition (a firm acquires existing or local firms in the foreign market). For example, Sony of Japan acquired the USA firm Columbia Pictures

However, a firm will need to bear all the costs and risks if it chooses to become a wholly owned subsidiary. A wholly owned subsidiary is a company that is completely owned by another company. The company that owns the subsidiary is called as the parent company. The parent company will hold all of the subsidiary's common stock.
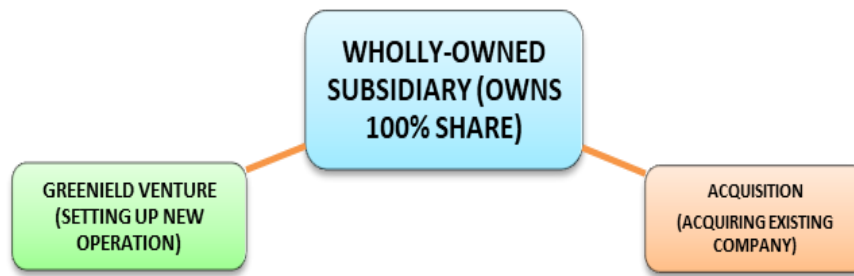
Figure 4.10: Types of Wholly Owned Subsidiary

ADVANTAGES

1. A firm acquires host country's resources for producing its product
2. Greenfield operations will result in economies of scale because of increase in production volume
3. Ultimate control over the investment can protect the firm's know-how and technology
4. A Greenfield operation provides a firm with learning effects in which products would adapt to local taste and preference
5. Acquisition provides a firm with speedy market penetration
6. An acquiring firm gains quick access to existing market share

DISADVANTAGES

1. Greenfield ventures are sometimes slower to establish because the learning process is time consuming
2. Greenfield ventures bear risks similar to the first mover
3. An acquiring firm might pay an acquisition fee higher that acquired firm's fair value
4. Acquisition will result in clash of cultures between the acquiring and acquired firm

b.   Joint Venture

Figure 4.11: Example Company Joint Venture

JV or strategic alliances are collaborative ventures between firms, or sometimes between competitors across borders. For example, Fuji Xerox was established out of the JV between XEROX (USA) and Fuji Photo (Japan). JV can be divided into **TWO** types:
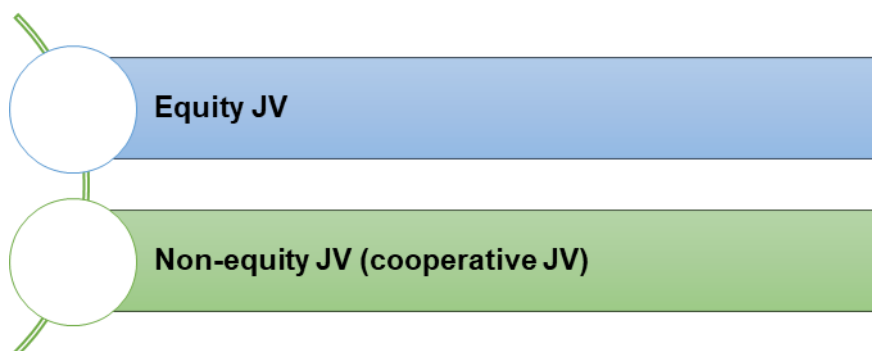

Figure 4.12: Types of Joint Venture

The most typical equity JV are 50/50 basis (jointly owned by 2 or more firms). The non-equity JV (2 firms shared the distribution network: Nissan distributing VW cars in Japan) or manufacturing alliance whereby 2 firms share the manufacturing facility: Matsushita Japan manufactures IBM PC in Japan. The key to a joint venture is the sharing of a common business objective.

Example: Petronas establishes an JV with the government of Sudan in their effort to search for oil in Sudan.

Example: Sony Ericsson - JV with Sony - A Japanese electronics company and Ericsson – a mobile phone manufacturer.

Example company: Tesco + Sime Darby Bhd

Proton, Geely sign JV agreement to set up facilities in China

By Bernama - August 18, 2018 @ 9:29pm

Both companies will take up equal equity in the yet-to-be-named joint-venture (JV) company and target to incorporate the JV within the first half of 2019, subject to obtaining all regulatory approvals. Bernama Photo

KUALA LUMPUR: Proton Holdings Bhd and Zhejiang Geely Holding Group today signed a Heads of Agreement to set up a joint venture that will pave the way for Proton to assemble and market their cars in China.

Both companies will take up equal equity in the yet-to-be-named joint-venture (JV) company and target to incorporate the JV within the first half of 2019, subject to obtaining all regulatory approvals.

ADVANTAGES

1. JV could ease the process of entering a new market by collaborating with an established local partner.

2. Firms in JV could share costs and risks (minimize the business risks in the new market)

3. JV develop complementary skills, whereby firms can share their technology and know-how in order to produce a product that suits the new market

4. One could leverage on the local partner's efforts to create brand awareness among consumers in the foreign market

5. Partners could access the necessary resource that will result in economies of scale

DISADVANTAGES

1. JV create the risk of giving control of technology to the partner.

2. Firms may not have tight control over subsidiaries.

3. Shared ownership can lead to conflicts due to different views among the patterns

c.   **Strategic Alliances**

Strategic alliance is a type of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation. An agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. The modern form of strategic alliances is becoming increasingly popular and has three distinguishing characteristics. Strategic alliances happen when two or more businesses work together to create a win-win situation. For example, Company A and Company B may decide to combine their distribution facilities so they can share mutual resources and cut the costs associated with shipping. You can form a strategic alliance with any company and for any reason. Often, businesses seek out strategic alliances in the areas of design, product development, manufacturing, distribution or the sale of goods and services, but you can enter into an alliance to further any business objective.

Example: Starbucks and Barnes & Noble

Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk.

ADVANTAGES

1. Sharing resources and expertise. A strategic alliance should combine the best both companies have to offer. This can be a deeper understanding of the product, sales, or marketing knowledge, or even just more hands on deck to increase speed to market.
2. New-market penetration. In some cases, a strategic alliance gives access to new markets with a solution that wouldn't have been possible for either company on their own. For instance, companies going global often work with a trusted local partner to get an advantage in an emerging market.
3. Expanded production. When it comes to manufacturing and distributing products, strategic alliances allow partners to increase their capabilities and scale quickly to meet demand.

4.   Drive innovation. With the right alliance, partners can outpace the competition with new solutions that are a complete package for their customers. These alliances are creative and revolutionary and change the market landscape in a dramatic way.

DISADVANTAGES

1.   Difficult to find a good partner

2.   Risk of unequal partnership

3.   Loss of control. In an alliance, both organizations must cede some control over how their business is run and perceived. A strategic alliance requires honesty and transparency, but that trust isn't built overnight. Without significant buy-in from both parties, an alliance may suffer.

4.   Relationship management across borders

5.   Increased liability. In a joint venture or equity strategic alliance, both companies are on the hook for the outcome. If something happens to stall production or create unhappy customers, both partners are at risk for the loss in reputation.

REFLECTION: TOPIC 4

1 | **Non-Equity Modes of Entry:**
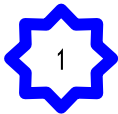
Non-Equity Modes of Entry
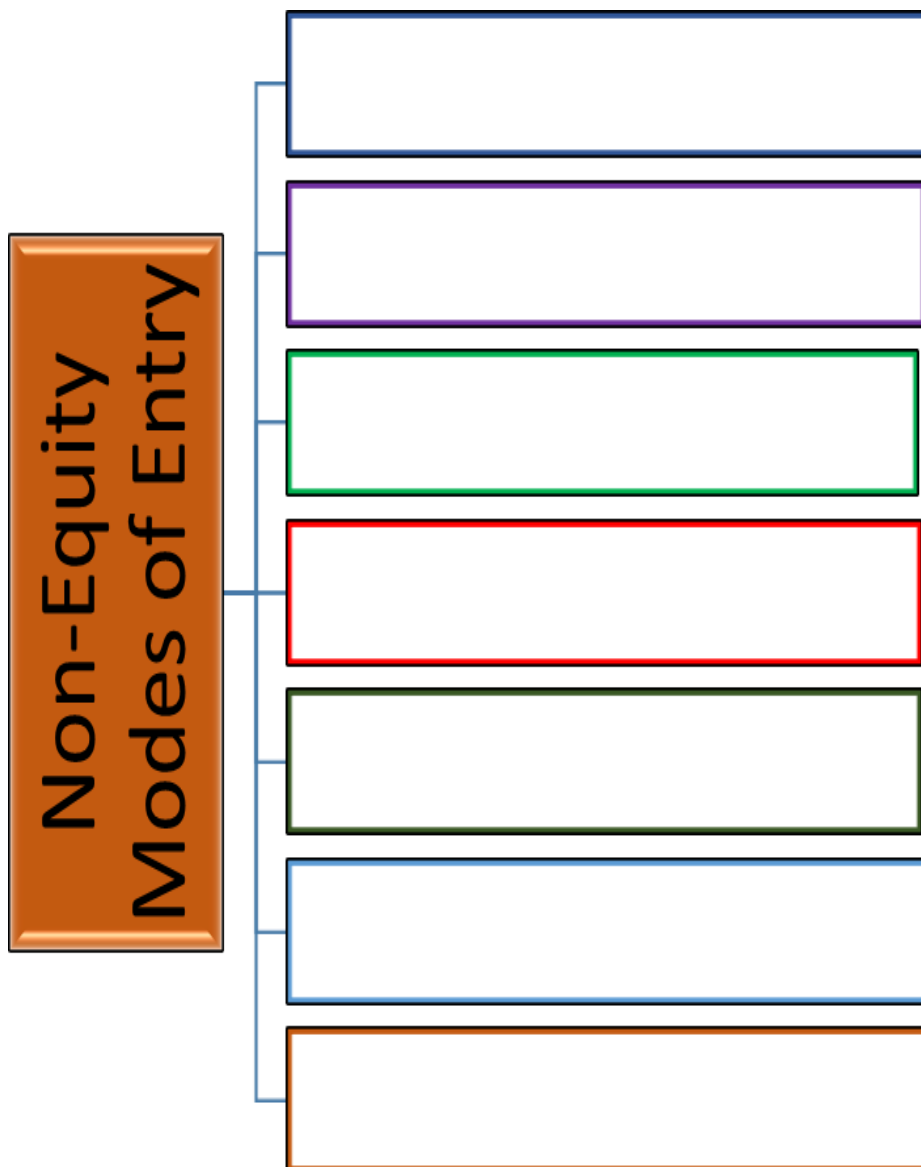
2 | **Describe the advantages of non-equity modes of entry below:**

Equity Modes of Entry

3 | **Describe the advantages of non-equity modes of entry below:**

Franchising | Licensing

4 | **Explain the disadvantage of equity modes of entry below:**

Wholly Owned Subsidiary	Joint Venture	Strategic Alliance
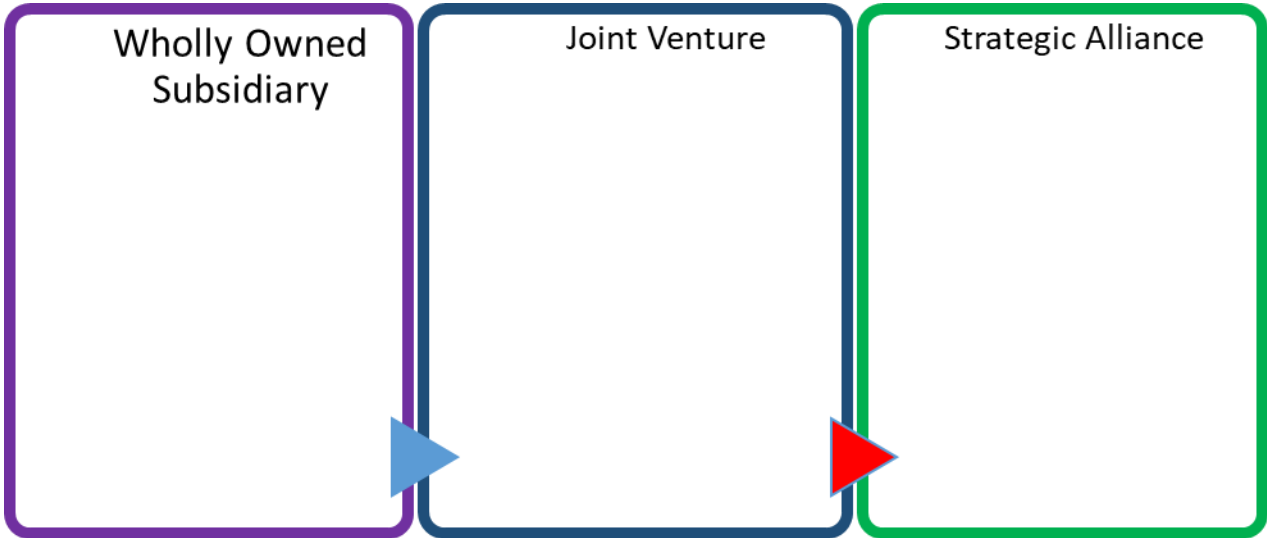
5 | **Discuss The Advantages and Disadvantages of Wholly-Owned Subsidiaries, JV and Strategic Alliance**

	WHOLLY-OWNED SUBSIDIARES	JOINT VENTURES	STRATEGIC ALLIANCE
ADVANTAGES			
DISADVANTAGES			

REVIEW QUESTIONS

1. Discuss the types of exporting as stated below

   i. Direct Exporting [5 marks]

   ii. Indirect Exporting [5 marks]

   > The joint venture is a commercial enterprise in which two or more companies join their forces to gain a tactical and strategic edge in the market.

2. From the statement above answer the question below:

   i. Discuss **THREE (3)** benefits of Joint Venture. [9 marks]

   ii. Explain **TWO (2)** disadvantages of Joint Venture. [6 marks]

3. Describe the following basic decisions before entering foreign markets.

   i. Where to enter

   [5 marks]

   ii. How to enter

   [5 marks]

4. Discuss the following mode of entry.

   i. Contract manufacturing

   [5 marks]

   ii. Wholly owned subsidiary

   [5 marks]

   iii. Management contract

   [5 marks]

5. En. Ahmad is attempting to start a new business in year 2015. He had decided to set up his business under the brand 7eleven. From the info given above,

   i. Identify the mode of entry that he will use to start his business. [2 marks]

   ii. Explain the mode of entry for your answer. [3 marks]

   iii. State FIVE (5) advantages of the chosen mode of entry. [10 marks]

   iv. Explain the type of export. [10 marks]

REVIEW QUESTIONS

6. Founded by Fred Deluca and Peter Buck in 1965, Subway is an American restaurant franchise that primarily sells submarine sandwiches and salads. It is owned and operated by Doctor's Associates, Inc. Subway plans to have 900 sandwich restaurants in China by the end of 2015, according to comments made to local media by the company's management. During recent years, the American and European fast food market has become nearly saturated, and emerging markets such as China and India have become new battlefields for Western fast foodcompanies.

   Source : www.thefranchiswetimes.2014

   i. Identify **ONE (1)** mode of entry strategy used by Subway to enter China's market.

   [4 marks]

   ii. Discuss **FOUR (4)** advantages of the stated strategy above. [12 marks]

   iii. Discuss **THREE (3)** disadvantages of the stated strategy above. [9 marks]

7. Describe modes of entry as stated below:

   i. Franchising [5 mark]

   ii. Licensing [5 marks]

   iii. Joint venture [5 marks]

8. Explain **THREE (3)** basic decisions before entering foreign market. [10 marks]

9. Describe modes of entry as stated below:

   i. Franchising [5 marks]
   ii. Licensing [5 marks]
   iii. Joint venture [5 marks]

10. Identify **ONE (1)** mode of entry strategy used by Subway to enter China's market.

    [4 marks]

11. Discuss **FOUR (4)** advantages of the stated strategy above. [12 marks]

TOPIC 5: THE CULTURE ENVIRONMENT

LEARNING OUTCOMES:

1. Discuss the foundation concepts of culture in international business.

2. Interpret the culture differences for international business in 5 continent countries.

3. Clarify Hofstede Cultural Dimensions in international business.

5.0   THE CULTURAL ENVIRONMENT

5.1   Foundation Concepts of Culture In International Business

5.1.1   Concept of Culture

Culture is a word used to describe the behaviors that represent the general operating norms in an environment. People living in different countries have different ways of conducting their daily lives. Culture is a shared understanding of meaning and is the core of society stability (Kanter & Corn,1994). Culture is comprised of shared values, understandings, assumptions and goals that are learned from earlier generations. Generally, some characteristics of culture are :

• Culture is not inherited but learned

• Various aspects of culture are inherited

• Culture is shared and it defines the boundaries of different groups.

5,1,2 **Elements of Culture**

Figure 5.1 : Elements of culture

i.   **Aesthetics**

Aesthetics refers to imagery that represents certain expressions and symbolism of certain colors. It is a kind of cultural judgment of beauty and good taste, which is expressed in its art, drama, music and dance. For example, Italians have good sense of fashion design and are among the market leaders in the world fashion and design industry. Understanding criteria of cultural aesthetics are important when a firm considers doing business in another country.

The selection of appropriate colors, music or paintings can increase the firm's chances to success. For example, green is favorite color in most Islamic nations like Jordan, Pakistan and Saudi Arabia. Following a death situation or sad situation, Islamic nations, Japan and most Asian countries use the color white, while in Europe, Mexico and the US,the color used to represent the situation is black.

Symbols are also important to certain cultures. The number 7 for instance signifies good luck in the US but represents bad luck in Singapore, Ghana and Kenya. The number 4 is unlucky in Japan and China, therefore when doing business in these countries, products packed in 4 may not be well accepted by potential consumers.
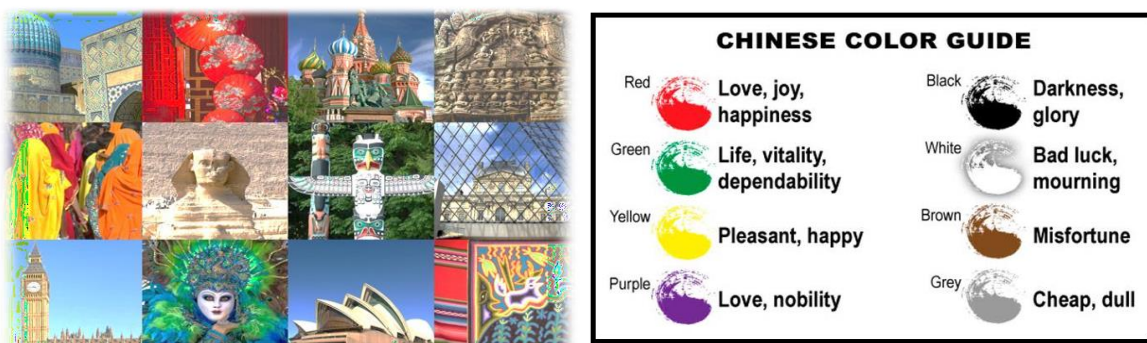
Figure 5.2 : Elements of Aesthetics

ii.   Religion

Religion refers to a specific set of beliefs and practices regarding the spiritual realm. It includes the belief in the existence of divine being as a single being or group, the purpose of life, who created and oversees the world. Rituals, prayer and other spiritual exercises are common parts of religion practices. Religion beliefs often provide guidance for behavior and explanations for the human condition.

Religion is often a source of strength for cultural groups in a society, providing a sense of community and basis for cohesion and moral strength within a cultural group. Religion provides the best insight into a society's behavior. In most cultures, a country's religion plays a major role in shaping the national culture. Some of the major religions practiced in the world today is Islam, Christianity, Hinduism, Buddhism, Confucianism, Judaism and Shintoism.

MAJOR RELIGION	EXAMPLES OF COUNTRIES
Islam	Saudi Arabia, Iran, Iraq, Jordan, Turkey, Afghanistan, Pakistan, India, Malaysia, Indonesia
Christian	Italy, France, Germany, Spain, Portugal, United Kingdom, Canada, USA, Mexico, Brazil, Argentina
Buddhism	Thailand Cambodia, Myanmar, Bhutan, Sri Lanka, Laos, Vietnam, Macao, Taiwan
Hinduism	India, Nepal, Bangladesh, Indonesia, Mauritius, Sri Lanka, Trinidad
Confucianism	China, Hong Kong, Macao, Taiwan, Singapore, Vietnam, South Korea, Japan, Tibet, Mongolia
Shintoism	Japan
Judaism	Israel

Table 5.1 : Major religion and exampes of countries

Figure 5.3 : Elements of Religion

iii.   Material Culture

Material culture includes things that people leave behind and all the things people make from the physical world like farm tools, ceramics, houses, furniture's, toys, buttons, roads and cities. The material environment which consists of landscape and climate can be linked and represented with material culture, which refers to tools, artifacts and technology used in a culture.

Geographic surface of the region and the weather conditions determine where people live and which transportation and distribution systems are suitable. Through material culture, people learn about belief systems like values, ideas and attitudes and assumptions of a particular society across the time.

Before marketing in a foreign culture, it is important for firm to assess the material culture like transportation, power, communications, technology and others. All aspects of marketing are affected by material culture, for example, sources of power for products, media availability and distribution. For example, chilled transport does not exist in many African countries.

iv.   Language

They are many sub-cultural languages all over the world, such as dialects. Language can cause communication problems, especially in the use of media or written material. For example, in the Indonesian language, if someone says yes it may not necessarily mean yes, it might mean no. As Indonesian is known for their gracious, polite culture, saying no is

considered impolite. The culture requires a polite, agreeable response. Therefore, unless you are fluent in the Indonesian language, the correct message mat be not being conveyed.

Figure 5.4 : Elements of Language

v.   Social Organization

Social organization refers to a society's fundamental organization, which is comprised of groups and institutions. It is a system of social positions and their relationships and the processes by which its resources are distributed. Three important elements of social culture that differ across societies or nations are:

      i.   Social group association

     ii.   Social status

   iii.   Social mobility

Social group association refers to two or more people who identify themselves through self-image. For example, golf clubs in Malaysia portray the image that its members are successful businessmen or top managers who are rich, famous and have an urban lifestyle.

Social status is an important aspect of social culture, where culture is divided according to status3 factors that normally determine social status are family heritage, income and occupation. For example, in Malaysian royal family with the title 'Tengku', his social status is higher in society.

Social status can be upgraded and downgraded in social through social mobility. However, in certain cultures, social status is not mobile, but it is inherited. For example, in Indian culture, caste is a kind of social organization with characteristics of social inequality. Caste refers to a system of ranked, named groups into which a person is born.
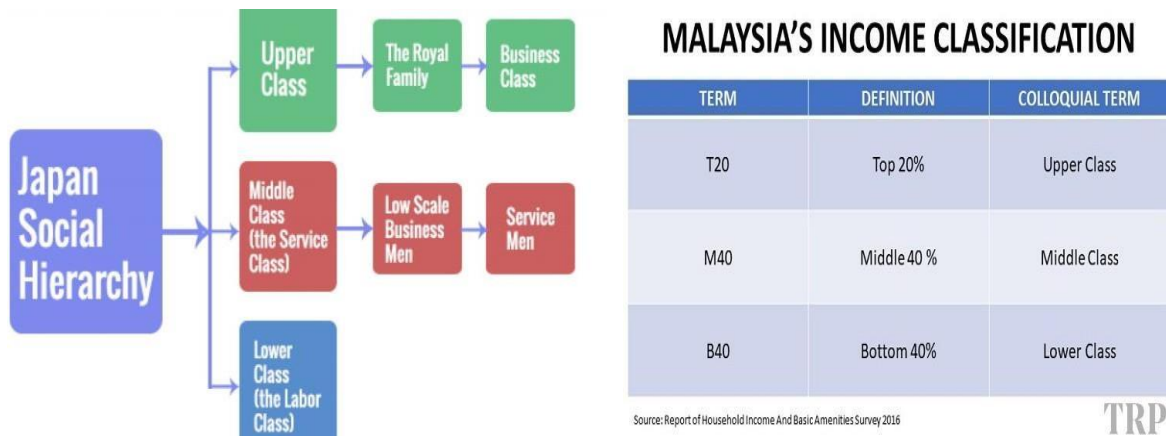
Figure 5.5 : Elements of Social Organization

vi.   Manners and Customs

Manners and customs refer to appropriate methods of behaving, speaking and dressing in a certain culture. They represent the ways of behaving and conducting oneself in public and business situations. Some countries are characterized by informal cultures (egalitarian countries) in which people are equal and work together cooperatively. In other non-egalitarian countries, people are more formal and put importance on status, hierarchy, power and respect.

Customs that vary most worldwide are those related to eating habits and mealtimes, work hours and holidays, drinking and toasting, appropriate behavior at social gatherings, gift giving and the role of women. Customs are habits or way of behaving in specific circumstances that are typically passes down through generations. For example, sharing gifts of food during the Islamic holy month of Ramadan is a custom among Muslims.

Customs differ from manners in that they define appropriate habits or behavior in specific situations. For example, In Korea, it is poor manner to lift a rice bowl close to one's mouth when eating rice, while it is common practice in China and Japan. In Chinese culture, when a guest is served a food, he is not supposed to finish all the food because it is ill-mannered. While in Malay or Indian culture, the well-mannered guest is expected to finish the food.
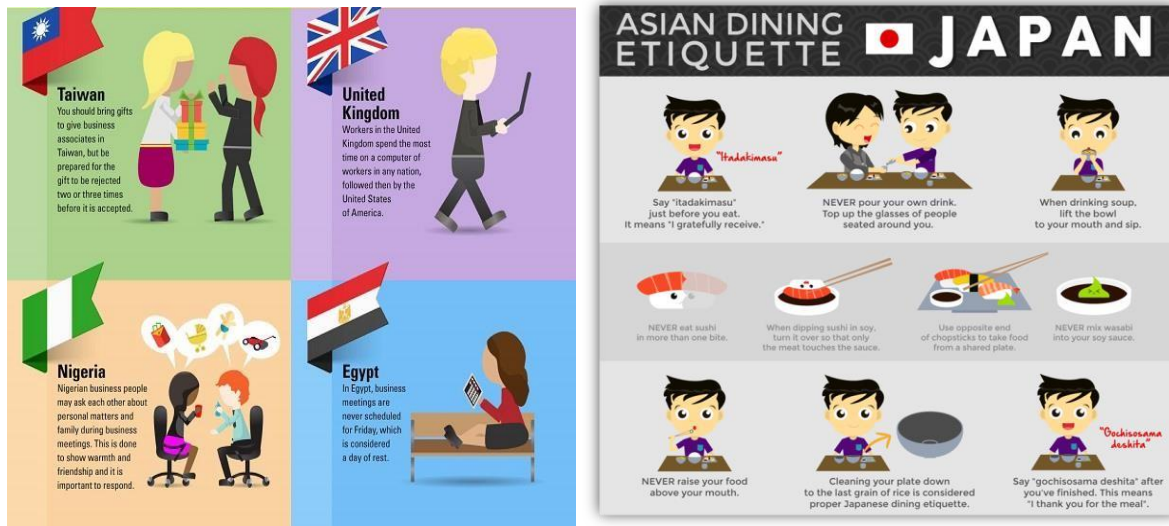
Figure 5.6 : Elements of Manners and Customs

5.1.3   Overcoming Cultural Challenges

When doing business, cultural diversity can be a significant barrier to understanding and may pose risks for both buyer and seller. To avoid or minimize some of these risks, it is necessary to possess the ability to identify and to obtain sources of information to ascertain the level of risk in conducting cross border transactions. Failure to research this aspect may prove very costly for manufacturer.

i.   Cultural Risk

Risk is an inherent part of all business transactions because of the laws, regulation s and politics of the buyers' and sellers' countries as well as possible third countries would affect the outcomes. The cultural risks of doing business arise from different expectations, misunderstandings and miscommunication between a buyer and the seller. For example, a seller does not do extensive marketing research and exports a product for distribution only to find out later that for religious and cultural reasons it will not be purchased and therefore is needed worthless.

Differences in culture may also arise in both written and verbal communication. Styles of writing and usage of words may influence how each side interprets the same text, how they react to it and whether they understand it or not. Cultural miscommunication can occurin few setting, mostly due to several reasons such as:

a. Different values

- What is the right thing to do in one culture may not necessarily be a good thing to another culture? For example, wearing shoes inside a house is common for Westerners, but many Muslims fail to appreciate this practice because Muslims don't wear shoes in a house.

b. Different types of communication styles

- Different styles in communication can be either direct, such as getting straight into business discussion during first meeting or indirect, such as only after a shared meal. Other behavior that may not be same throughout the world is communicating using handshakes, kissing on the cheeks or talking loudly in a meeting.

c. Different concepts of time

- Cultural differences can also be seen over how things should be done. They are differences of what is usual, acceptable and polite and what is not proper especially when dealing with time. For example, Americans and Canadians prefer to be punctual but in some culture such as Malaysians and Arabs, punctuality is a myth.

d. Different use of physical space

- Some cultures value privacy more than others. This affects how they interact with other people. At the first meeting between people from different cultures, the participants will take steps back and forth, naturally adjusting the space to what they are comfortable with. For example, Americans have different types of distances when they communicate with colleagues, friend and families. In contrast, South American people like to touch more during conversation.

Before venturing on a global assignment, these preparations need to be done:

- Identify the cultural differences that may exist between one's home country and the host country
- In the event of such differences, one must decide whether and to what extent the home country practices may be adapted to the foreign environment. Many times the differences are not very evident or concrete.

ii.   Cultural Awareness

Creating cultural awareness involves conducting workshops and familiarization sessions both in one's own country and in the related country abroad to create an awareness of each other's cultural practices. Reading and discussing about other cultures would surely assist in building cultural awareness, but opinions presented must be assessed carefully as they may denote unwarranted stereotypes, aimed at only a subgroup of a particular group of people or a situation that has since undergone drastic changes. A more prudent approach would be to obtain different viewpoints about the same culture.

iii.   Culturally Compatible Resource Deployment

It refers to hiring local, native onsite persons to manage the onshore client relationship or even having a culturally compatible offshore workforce as was done in UK and South Africa. Firstly, it needs to be ascertained whether the cultural barrier is addressed internally within the organization and secondly, how much of a cost advantage is provided by the compatible offshore workforce location.

5.1.4   Culture Affects All Business Functions
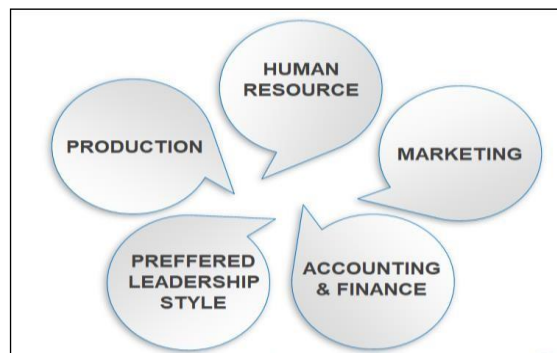
Figure 5.7 : Business functions

i.   Marketing

When a company which is going to expand overseas is developing its strategy there are alternatives for it:

   a. selling the product without changes on international markets
   b. modifying products for different countries or regions
   c. developing new products for foreign markets

For example advertisements of well-known brands completely different than those ones at home, or even opening hours for shops. All of those simple facts are of a great importance for marketing managers and pose potential threats for them when developing a strategy. Having categorized cultural groupings and cultural characteristics, managers are able to seek new overseas markets to expand their firms, to sell more goods, and to raise profits. Even culture might be suggested as a tool for marketing segmentation because if the culture in the target country is similar to the culture in the existing markets, it's a preconditionthat selling the product in the target country might be successful. Products sold on foreign markets are influenced by the local behaviour, tastes, attitudes and traditions in each market.

The Coca Cola Company's attempt to sell Diet Coke product on the Japanese market was not successful because the Japanese do not consider themselves overweight and Japanese women do not want to admit they are dieters turning to products whose label specifies that. The company was forced to change the product name in Coke Light, and the promotion emphasized keeping in shape by consuming the product, and not losing weight.

ii.   Human resource

In every company the HRM Manager is in charge to care for recruiting and training staff, working methods and time. For every company dealing across the world, it's very likely to have staff of mixed nationalities which could lead to cultural confounding. The approach will be based on accurate qualification for the job and also test in order to access the potential ability of the candidates. Other cultures will act differently by applying more easy going approach. For example, this approach is based on education, personal recommendation or employer networks.

A main concept that is also relevant to the HRM is Hofstede's concept of 'power distance'. It is relevant because it's related to man's attitudes to hierarchy and also the way in which this might be translated into different ranges of pay levels of the highest and the lowest in the company. For example in France which Hofstede defined in the Power Distancegroup, there's a great gap between lowest and highest paid employee while in contrast the more collectivist and low power distance countries the gap is much smaller.

iii.   Accounting and finance

In order a company to pursue its goals and objectives it must be ensured with sufficient funds. Also need to be monitored if funds are used efficiently and correctly, if

financial performance is reported to then management and shareholders. These are the main functions of the finance within every business. But elements mainly influenced by culture are sources of finance and reporting practice. Sources that might be used for companies expanding vary between different countries, as sources reflect not only on the political economy of the countries but also on their state of economic and financial development. For example in countries as Japan and Germany usual form of sourcing business is by having loan from a bank while in the USA and UK businesses rely more on raising money by selling equity shares on the stock market.

In order to expand overseas, companies may choose to find the money from the host or home country or even from third country. For example, when McDonalds decided to open their first restaurant in Moscow in 1990 during the Soviet Union. The company has used a joint venture with the Moscow City Council. Despite all the funds came from the franchisor from Canada and the US headquarters, the deal was to pay to the City Council in order to beallowed to operate in Moscow. So the agreement reflected the Soviet/Russian political system where business and state are closely connected. So it's fair to say that the financial arrangements were partially influenced by culture.

Similarly there isn't an unified approach for reporting financial results by annual reports. For example nations as Germany , Italy and France use "continental" approach and is heavily influenced by tax regulations. The report's information is designed to allow the tax authorities and government to compute and monitor the liability. While Australia , USA and UK use Anglo-Saxon approach. It's assumed that the shareholders are the main users and the information provided in the report allows them to access the company's performance andtheir investment's performance. These differences are of a great importance for international companies because when they enter the international market and build their branches they will be challenged to agree to the local terms and rules.

iv.   Preferred leadership style

To see how cultures might come into play, we can easily imagine a situation in which a British executive who was trained at an American business school is asked to run the Argentine manufacturing facility of a Japanese firm. What leadership attributes should this executive work to develop: Japanese? Argentine? American? British? This executive needs to understand the culture within which he works and how his employees perceive leadership.

Charismatic/transformational leadership is thought to broaden and elevate the interests of followers, generate awareness and acceptance among the followers of the purpose and mission of the group and motivate followers to go beyond their self-interests for the good of the organization. But different cultural groups may vary in their conceptions ofthe most important characteristics of charismatic / transformational leadership.

In some cultures, one might need to take strong, decisive action in order to be seen as a leader, while in other cultures consultation and a democratic approach may be the preferred approach to exercising effective leadership. Leaders are expected to have vision, but how this is displayed differs from culture to culture. In China, the influence of Confucian values make people wary of leaders who talk without engaging in specific action. Indian managers, on the other hand, care less about visionaries, preferring bold assertive styles of leadership.

Communication skills are also important to the leader, but again, how these skills are perceived differs among and within cultures. What constitutes a good communicator is likely to vary greatly across cultures. American managers are more likely to provide directions to subordinates on a face-to-face basis while Japanese managers are likely to use written memos. In the U.S. subordinates are usually provided negative feedback directly from their supervisors, while in Japan such feedback is usually channeled through a peer of the subordinates. These differences reflect the U.S. individualistic norm of "brute honesty" and the Japanese collectivistic norm of "face-saving".

v.   Production

National culture has also been shown to have an impact on manufacturing and supply chain practices, which can be useful to consider in a variety of contexts (analyzing manufacturing footprints,managing multi-plant operations, assessing competitors and suppliers and different countries, and so on).

Consider the adoption of quality management practices. One European study indicates that in cultures with low power distance and uncertainty avoidance, implementation of formal quality management systems may require external market pressure, versus internal management also associated with companies purchasing rather than manufacturing in- house a larger proportion of inputs for products they make.

5.1.5 Culture Differences For International Business In Five (5) Continent Countries
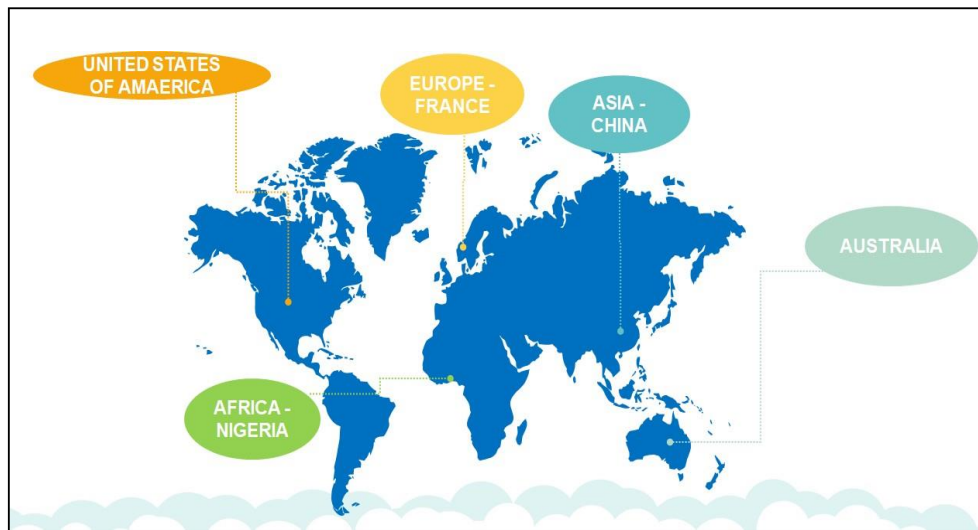
Figure 5.8 : The Five Continent Countries

i. United States

Figure 5.9 : United States

a. Religion & Beliefs

The vast majority of people in the USA are Christian – around 70-78%. Catholicism is the largest single denomination however Protestants of all denominations (i.e. Baptist, Methodist, Lutheran, Presbyterian, etc) outnumber Catholics. Judaism is the largest non-

Christian faith (around 1.6%) , followed by Islam (0.5%) as well as all other major faiths such as Buddhism, Sikhism, etc.

b.   Social Stratification

America in theory is not a 'class' based society. 'The American Dream' is based on the premise that anyone, from any background can achieve anything. 'Rags to riches' storiesare very popular in the US as a result. In reality some social stratification does exist mainly based on economics and ethnicity. Poor areas are clearly visible in the US as are distinctionsbetween where people of a certain colour or race might live. Although 'class' per se does not exist, the elements of it can be seen through discrimination over accents, clothing and manners.

c.   Socialization

Infant care depends on economic status first and foremost. Less affluent families rely on the mother or extended family to look after and raise children. Wealthier families will often have nannies or use day care centres. Children can attend school from the age of age five to eighteen, with it being compulsory until the age of sixteen

d.   Arts, Humanities & Popular Culture

America's contribution to the world through its arts, humanities and pop culturecannot be summarised in a few sentences. American literature very much came to the fore inthe nineteenth century and continued ever since. Famous American writers include Mark Twain, F. Scott Fitzgerald and Ernest Hemingway. Sport is very popular in the USA with American football, baseball and basketball and ice- hockey being the most popular. The USAtraditionally does very well in the Olympics.

Jazz, Rock, Grunge, Country, Hip-Hop, RnB are but some of the many genres of music created in the USA and still listened to today. Art is very popular in the US with galleries to be found nationwide. Jackson Pollack and Andy Warhol are two of the country's globally recognised artists.

e.   Meeting and Greeting

American greetings are generally quite informal and casual. It is becoming more common in social situations not to shake hands upon meeting and simply smile or nod. When people are introduced handshakes are common accompanied with a "How d'ya do?", "How you doing?" or "How are you"? depending on where in the US you are. Within business handshakes are generally expected when meeting and leaving. Pleasantries are exchanged out of courtesy rather than being genuine. Rather than say "bye" Americans may also use terms such as "call me some time," "let's do lunch" or "see you around" as politer ways of departing. If introducing someone, use their full name and a bit of information about them, for example, "This is Larry Whyte; he works at the local school as a science teacher."

f.   Communication style

Americans can come across as self-interested, aggressive and rude to some outsiders. This is down to the US communication style which is influenced by the need to be direct, clear and transparent and open about matters. Plain and simple talk is very much valued in America. Americans see coded, indirect communication which relies on body language as confusing and unnecessary. The emphasis within communication is on the factsat hand and not the relationships – thus the term, "It's just business." Americans are much more open in conversation about private affairs than many other cultures and do not shy away from asking direct questions.

g.   Personal Space

Americans do not tend to like close contact with others. 2-3 feet of personal space during conversations is the norm. For most Americans there is little or no touching ever with others although within some communities this may be much more common within the community itself. This will also be different between good friends and family. In public, such as in parks or on the bus, people try to give one another space.

h.   Gift Giving

Americans do not really have any customs or taboos concerning gifts. Gifts are usually given for special occasions or between friends and family. Gifts within business are generally discouraged due to anti-bribery policies. Cash should never be given as a gift. If

visiting a house, bring flowers, a potted plant, a fruit basket, chocolate, wine, a book or a small household ornament like a vase.

i.   Dining and Food

Americans socialise and do business over breakfast, lunch and dinner. If business is the goal, then socializing is kept to a minimum at the start and end. Social meals are more about eating those chatting and taking hours over the food. If you invite someone to a restaurant, you should pay.

The fork is held in the left hand facing down with the knife is held in the right hand. Napkins if provided are placed on the lap. A toast might take place at the start of a formal meal or for a special occasion/guest. Feel free to refuse specific foods or drinks without offering an explanation. Do not begin eating until the hostess starts or says to begin. Remainstanding until invited to sit down. Do not rest your elbows on the table.

j.   Meetings

Arrive on time for meetings since time and punctuality are so important to Americans. In the Northeast and Midwest, people are extremely punctual and view it as a sign of disrespect for someone to be late for a meeting or appointment. In the Southern andWestern states, people may be a little more relaxed, but to be safe, always arrive on time, although you may have to wait a little before your meeting begins. Meetings may appear relaxed, but they are taken quite seriously. If there is an agenda, it will be followed. At the conclusion of the meeting, there will be a summary of what was decided, a list of who will implement which facets and a list of the next steps to be taken and by whom. If you make a presentation, it should be direct and to the point. Visual aids should further enhance your case. Use statistics to back up your claims, since Americans are impressed by hard data andevidence. With the emphasis on controlling time, business is conducted rapidly. Expect very little small talk before getting down to business. It is common to attempt to reach an oral agreement at the first meeting. The emphasis is on getting a contract signed rather than building a relationship. The relationship may develop once the first contract has been signed.

k.   Negotiating

Final decisions are usually made from the top down although group consensus is valued. Hard selling tactics are used from time to time. The deal at hand is always more

important than then personal relationship. Americans sometimes start negotiations with excessive demands or a low price. They are usually taking a starting position that gives them room to bargain. Negotiations may seem rushed – always remember that "time is money" to Americans.

I.   Management

In the U.S.A, there is a sense that all people in the organization have an important role to play and all are valued for their input. Employees expect to be consulted on decisions that affect them and the greater good of the organization. American managers are viewed as facilitators--people who help employees do their best work and not simply decision makers. Missing a deadline is a sign of poor management and inefficiency.

ii.   Europe – France

Figure 5.10 : France Map

a.   Food and Cuisine

Food is one of the great passions of the French people. French cooking is highly refined and involves careful preparation, attention to detail, and the use of fresh ingredients. It varies by region and is heavily influenced by what is grown locally.

b.   French Family Values

The family is the social adhesive of the country and each member has certain duties and responsibilities. The extended family provides both emotional and financial support.

Despite their reputation as romantics, the French have a practical approach towards marriage. Families have few children, but parents take their role as guardians and providers very seriously.

c. Relationships - Public vs. Private

The French are private people and have different rules of behaviour for people within their social circle and those who are not. Although the French are generally polite in all dealings, it is only with their close friends and family that they are free to be themselves. Friendship brings with it a set of roles and responsibilities, including being available should you be needed. Friendship involves frequent, if not daily, contact.

d. Meeting Etiquette

The handshake is a common form of greeting. Friends may greet each other by lightly kissing on the cheeks, once on the left cheek and once on the right cheek. First names are reserved for family and close friends. Wait until invited before using someone's first name. You are expected to say 'bonjour' or 'bonsoir' (good morning and good evening) with the honorific title Monsieur or Madame when entering a shop and 'au revoir' (good-bye) when leaving. If you live in an apartment building, it is polite to greet your neighbours with the same appellation.

e. Gift Giving Etiquette

Flowers should be given in odd numbers but not 13, which is considered unlucky. Some older French retain old-style prohibitions against receiving certain flowers: Whitelilies or chrysanthemums as they are used at funerals; red carnations as they symbolizebad will; any white flowers as they are used at weddings. Prohibitions about flowers are notgenerally followed by the young. When in doubt, it is always best to err on the side of conservatism. If you give wine, make sure it is of the highest quality you can afford. The French appreciate their wines. Gifts are usually opened when received.

f. Dining Etiquette

If you are invited to a French house for dinner, arrive on time. Under no circumstances should you arrive more than 10 minutes later than invited without

telephoning to explain you have been detained. The further south you go in the country; the more flexible time is. If invited to a large dinner party, especially in Paris, send flowers the morning of the occasion so that they may be displayed that evening. Dress well as the French are fashion conscious and their version of casual is not as relaxed as in many western countries.

g.   Table manners

Table manners are Continental -- the fork is held in the left hand and the knife in the right while eating. If there is a seating plan, you may be directed to a particular seat. Do not begin eating until the hostess says *'bon appetit'.* If you have not finished eating, cross your knife and fork on your plate with the fork over the knife. Do not rest your elbows on the table, although your hands should be visible and not in your lap. Finish everything on your plate. Do not cut salad with a knife and fork. Fold the lettuce on to your fork. Peel and slice fruit before eating it. Leave your wine glass nearly full if you do not want more.

h.   Relationships & Communication

French business behaviour emphasizes courtesy and a degree of formality. Mutual trust and respect is required to get things done. Trust is earned through proper behaviour. Creating a wide network of close personal business alliances is very important. If you do not speak French, an apology for not knowing their language may aid in developing a relationship. It is always a good idea to learn a few key phrases, since it demonstrates an interest in a long-term relationship. The way a French person communicates is often predicated by their social status, education level, and which part of the country they were raised. In business, the French often appear extremely direct because they are not afraid of asking probing questions. Written communication is formal. Secretaries often schedule meetings and may be used to relay information from your French business colleagues.

i.   Business Meetings Etiquette

Appointments are necessary and should be made at least 2 weeks in advance. Appointments may be made in writing or by telephone and, depending upon the level of the person you are meeting, are often handled by the secretary. Do not try to schedule meetings during July or August, as this is a common vacation period. If you expect to be delayed, telephone immediately and offer an explanation. Meetings are to discuss issues, not to make decisions. Avoid exaggerated claims, as the French do not appreciate hyperbole.

j.   Business Negotiation

French business emphasizes courtesy and a fair degree of formality. Wait to be told where to sit. Maintain direct eye contact while speaking. Business is conducted slowly. You will have to be patient and not appear ruffled by the strict adherence to protocol. Avoid confrontational behaviour or high-pressure tactics. It can be counterproductive. The French will carefully analyze every detail of a proposal, regardless of how minute. Business is hierarchical. Decisions are generally made at the top of the company. The French are often impressed with good debating skills that demonstrate an intellectual grasp of the situation and all the ramifications. Never attempt to be overly friendly. The French generally compartmentalize their business and personal lives. Discussions may be heated and intense. High-pressure sales tactics should be avoided. The French are more receptive to alow-key, logical presentation that explains the advantages of a proposal in full. When an agreement is reached, the French may insist it be formalized in an extremely comprehensive, precisely worded contract.

k.   Dress Etiquette

Business dress is understated and stylish. Men should wear dark-coloured, conservative business suits for the initial meeting. How you dress later is largely dependent upon the personality of the company with which you are conducting business. Women should wear either business suits or elegant dresses in soft colours. The French like the finer things in life, so wear good quality accessories.

l.   Business Cards

Business cards are exchanged after the initial introductions without formal ritual. Have the other side of your business card translated into French. Although not a business necessity, it demonstrates an attention to detail that will be appreciated. Include any advanced academic degrees on your business card. French business cards are often a bit larger than in many other countries.

iii.   Asia – China

Figure 5.11 : China Map

a.   Core Cultural Values

1. **Mianzi** – The concept of mianzi, or face, is important throughout China, and should never be underestimated. Face can be defined as an expectation of the level of personal dignity or respect given to someone due to their status, reputation or other position in society.

2. **Guanxi** – The concept of guanxi can be described as building, nurturing and leveraging a network of relationships. These relationship networks are interdependent and are the 'glue' to Chinese business and social culture. Knowing the right person in the right position is generally more important than your level of experience or expertise.

3. **Confucianism** – Dating back to the 6th Century BCE, Confucian philosophy has played a major role in the ethics and behaviours of Chinese cultures. Key Confucian values that have particular significance in business environments include relationships, humility, responsibility, obligation and loyalty.

b.   Important Business Values

1.   Face first

Face cultures expect all business contacts, including overseas visitors to recognise the importance of saving face and giving face above and beyond all other behaviours. Individuals from a culture which values face will generally go out of their way to avoid a situation that causes embarrassment or shame. They may also avoid or sometimes even deny blame if they consider it to imply a loss of face. Visitors to China should note that it would be nearly impossible to do business with someone who does not trust you to respect their mianzi or who could cause them to lose face.

2.   Relationship building

Business visitors to China should never underestimate the importance of establishing and maintaining their own network of connections and business relationships, as they will be vital to any chance of getting business done successfully. Nothing works as well as face-to-face visits, with good channels of communication kept open in between visits. An emphasis on socialising, whether on the golf course or in a karaoke bar, are all important business tools. In the early stages of business development in particular, relationship-building activities may be more important than completing tangible tasks or progressing through a project plan or forecast.

3.   Business Meetings

The Chinese put a huge amount of importance on time, and as such how early you are is used to reflect how much importance you have for the meeting and how much you value those in attendance. It's not uncommon for those attending a meeting to show up a full hour before the scheduled start time.

4.   Food

The Chinese are famed for their eclectic mix of flavours, spices, colour and taste. Their staple foods are rice, tofu and noodles which form a basis to the wide variety of complimentary ingredients such as: Bamboo shoots, string beans, water chestnuts, Chinese mushrooms, ginger root, garlic, chillies and coriander. Individuals typically eat a wide rangeof meats, the most popular of which are pork and duck. Fish and shell fish are also a popular

source of food. Dinner is the most important meal of the day and will typically include a variety of dishes which may start with soup. Most popular dishes in China include: Spring Rolls, Peking Duck - thin strips of crispy, roasted duck served with shredded cabbage and a sweet sauce, Bang Bang chicken or duck, so called because the meat is tenderised by hitting it with a hammer, Chow Mein which incorporates stir fried noodles with either meat, fish or vegetables.

5.   Arts, Humanities & Popular Culture:

China has a rich heritage of culture, art and literature dating back to the earliest civilisations. Traditional beliefs influenced by changing imperial rulers, philosophies and Confucianism have been carried through time and are reflected in the arts. China is known for its pottery - particularly the blue and white willow pattern which depict pastoral, rustic scenes of everyday life in China's past. China was the first to discover porcelain which was perfected in the 1500s during the Ming dynasty – hence the famed and valuable Ming vase.

Poetry and literature have played a role in traditional culture including 'The Book of Songs' dating back to 600 BC written by Qu Yuan which, even today, has some influence. The Red Chamber was a literary piece considered one of China's great classics written by Cao Xueqin in the 18th Century. In the 19th Century western influence began to creep in andgave way to a new genre of writing. The Rickshaw Boy is a 20th Century classic fiction written by Lao She which features the story of a Rickshaw bearer in Beijing. Language and sentiments within the book aligned with some of the concerns held by those with communist leanings. Following the inception of communist rule all artists work has been censured and any criticism of the party ideology outlawed. Despite being one of the world's fastest moving economies importing luxury cars and goods, China remains sensitive to criticism within its popular culture albeit there has been some decrease in the rigidity of those controls.

c.   Social Customs & Protocol

1.   Meeting & Greeting

Greetings are formal and the oldest person is always greeted first. Handshakes are the most common form of greeting with foreigners. Many Chinese will look towards the ground when greeting someone. Address the person by an honorific title and their surname.If they want to move to a first-name basis, they will advise you which name to use. The Chinese have a terrific sense of humour. They can laugh at themselves most readily if they

have a comfortable relationship with the other person. Be ready to laugh at yourself given the proper circumstances.

2.   Communication style

Chinese non-verbal communication speaks volumes. Since the Chinese strive for harmony and are group dependent, they rely on facial expression, tone of voice and posture to convey meaning or intention. Frowning while someone is speaking is interpreted as a sign of disagreement. Therefore, most Chinese maintain an impassive expression when speaking. It is considered disrespectful to stare into another person's eyes. In crowded situations, the Chinese avoid eye contact to give themselves privacy.

3.   Personal Space

Chinese people are precious of their personal space and do not like over-familiarity. Touching is only acceptable between family and close friends. Prolonged eye contact could be seen as confrontational and avoiding eye contact can be seen as reverential rather than rude.

4.   Gift Giving

In general, gifts are given at Chinese New Year, weddings, births and more recently (because of marketing), birthdays. The Chinese like food and a nice food basket will make a great gift. Some tips on gift giving in China are:

- Do not give scissors, knives or other cutting utensils as they indicate the severing of the relationship.
- Do not give clocks, handkerchiefs or straw sandals as they are associated with funerals and death.
- Do not give flowers, as many Chinese associate these with funerals.
- Do not wrap gifts in white, blue or black paper.
- Four is an unlucky number so do not give four of anything. Eight is the luckiest number, so giving eight of something brings luck to the recipient.
- Always present gifts with two hands.
- Gifts are not opened when received.
- Gifts may be refused three times before they are accepted.

5.   Meetings

Appointments are necessary and, if possible, should be made between one-to-two months in advance, preferably in writing. If you do not have a contact within the company, use an intermediary to arrange a formal introduction. Once the introduction has been made, you should provide the company with information about your company and what you want to accomplish at the meeting. You should arrive at meetings on time or slightly early. The Chinese view punctuality as a virtue. Arriving late is an insult and could negatively affect your relationship. Pay great attention to the agenda as each Chinese participant has his or her own agenda that they will attempt to introduce. Send an agenda before the meeting so your Chinese colleagues have the chance to meet with any technical experts prior to the meeting. Discuss the agenda with your translator/intermediary prior to submission.

Each participant will take an opportunity to dominate the floor for lengthy periods without appearing to say very much of anything that actually contributes to the meeting. Be patient and listen. There could be subtle messages being transmitted that would assist you in allaying fears of on-going association. Meetings require patience. Mobile phones ring frequently and conversations tend to be boisterous. Never ask the Chinese to turn off their mobile phones as this causes you both to lose face. Guests are generally escorted to their seats, which are in descending order of rank. Senior people generally sit opposite senior people from the other side.

It is imperative that you bring your own interpreter, especially if you plan to discuss legal or extremely technical concepts as you can brief the interpreter prior to the meeting. Written material should be available in both English and Chinese, using simplified characters. Be very careful about what is written. Make absolutely certain that written translations are accurate and cannot be misinterpreted. Visual aids are useful in large meetings and should only be done with black type on white background. Colours have special meanings and if you are not careful, your colour choice could work against you. Presentations should be detailed and factual and focus on long-term benefits. Be prepared for the presentation to be a challenging experience.

6.   Negotiating

Only senior members of the negotiating team will speak. Designate the most senior person in your group as your spokesman for the introductory functions. Business negotiations occur at a slow pace. Be prepared for the agenda to become a jumping off point

for other discussions. Chinese are non-confrontational. They will not overtly say 'no', they will say 'they will think about it' or 'they will see'. Chinese negotiations are process oriented. They want to determine if relationships can develop to a stage where both parties are comfortable doing business with the other.

Decisions may take a long time, as they require careful review and consideration. Under no circumstances should you lose your temper or you will lose face and irrevocably damage your relationship. Do not use high-pressure tactics. You might find yourself outmanoeuvred. Business is hierarchical. Decisions are unlikely to be made during the meetings you attend.

7.   Management

Like most things in China, business management is based upon the teachings of Confucianism which denote that no relationship is underpinned by equality. There is always a hierarchy - Older and most senior people command the most respect. Directives of management start at the top and are passed down the chain. Those on the lowest rung of the ladder would not be expected to question the motives or decisions made by the higher ranks; to do so would indicate a lack of respect. The most senior person in the company is viewed rather like a father who should receive unquestioned loyalty and obedience.

iv.   Australia
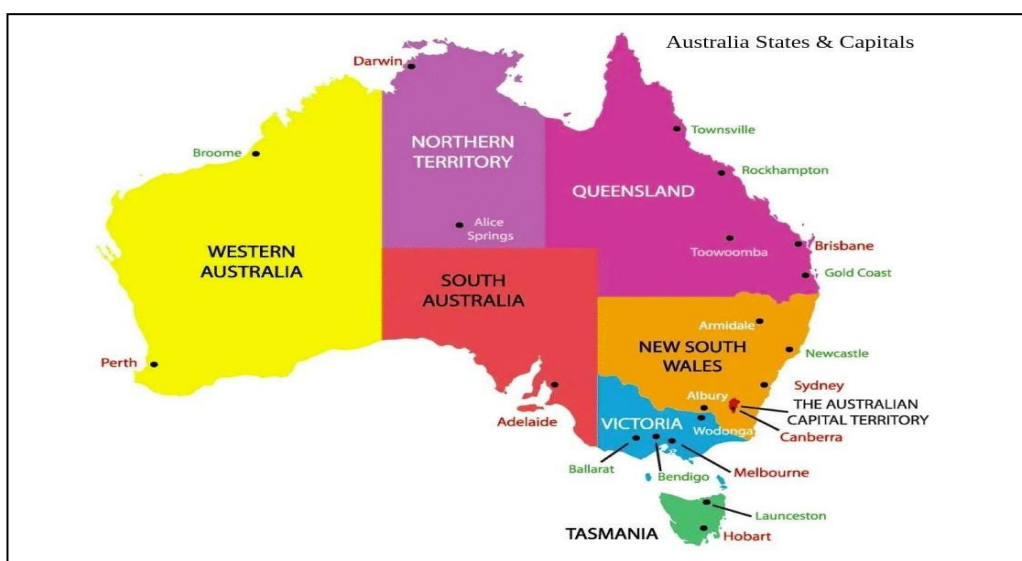
Figure 5.12 : Australia Map

a.   Modesty

Humility and authenticity are strong values in Australian culture. As such, Australians are very down to earth and always mindful of not giving the impression that they think they are better than anyone else. They also tend to value sincerity, humour, informality, whilst loathing pretentiousness. Australians tend to get on well with people who are modest, humble, self-deprecating and with a sense of humour. This is a country where deprecatory comments are a sign of friendship, so you should be prepared for banter and sarcasm if you are to build relationships. If you're from a culture where 'face' is strongly valued, then you must be prepared to put this to one side and not take offence. Australians tend to not draw attention to their academic or other achievements and are inclined to distrust people who do. They even downplay their own success to ensure they are not perceived as achievement- oriented. This behaviour may well present a challenge for people from cultures where titles, achievements and credentials are greatly respected and openly promoted.

b.   Meeting Etiquette

Australian culture is not very formal, so greetings are typically casual and relaxed. A handshake, smile and a simple 'hello, how are you' should suffice. If you are attending a party or a similar type of informal event, then handshakes may be replaced with a simple greeting. While an Australian may say, 'G'day' or 'G'day, mate', this may sound patronizing from a foreigner. Aussies prefer to use first names, even at the initial meeting. As such, avoid using titles when you first meet someone and, instead, introduce yourself with your firstname only. If you are a visitor in Australia and attending an event with an Australian counterpart, then you should be prepared to introduce yourself to others. Don't depend on your counterpart to do so. As Australian culture is fairly tactile, close friends may kiss each other on the cheek or exchange a quick backslap or hug. However, you should avoid hugging, kissing or back slapping anyone unless you know them well and in a social setting.

c.   Gift Giving Etiquette

Small gifts are commonly exchanged with family members, close friends, and neighbours to mark special events such as birthdays, births, engagements or Christmas. Trades people, such as sanitation workers, may be given a bottle of wine or a six-pack of beer. If invited to someone's home for dinner, it is polite to bring a box of chocolates, bottle of wine or flowers to your hosts. A good quality bottle of wine is always appreciated. With the value placed on humility and equality, it's important that gifts are modest and not too

expensive. Although it's acceptable to give high value gifts to those you're close to, giving high value gifts to others may cause embarrassment and you may be perceived as flaunting your wealth. Unless you're giving a small amount of money to a child, then it's rarely a good idea to give cash to Australian people. Gifts are typically opened when received.

d.   Business Etiquette and Customs in Australia

1.   Relationships & Communication

Australians are very matter of fact when it comes to business so do not need long- standing personal relationships before they do business with people.Australians are very direct in the way they communicate. There is often an element ofhumour, often self-deprecating, in their speech. Aussies often use colourful language that would be unthinkable in other countries.

2.   Business Meeting Etiquette

Appointments are necessary and relatively easy to schedule. They should be made with as much lead time as possible. Punctuality is important in business situations. It is better to arrive a few minutes early than to keep someone waiting. Meetings are generally relaxed; however, they are serious events. If an Australian takes exception to something that you say, they will tell you so. If you make a presentation, avoid hype, making exaggerated claims, or bells and whistles. Present your business case with facts and figures. Emotions and feelings are not important in the Australian business climate.

It is polite in Australia to shake someone's right hand when you meet him or her for the first time. This is also customary for business practices. If you are meeting with someone who you have met before, it is polite not to talk about personal matters. Australians tend to be fairly informal in their everyday interactions and it is common practice to call someone by their first name only. You can address someone by their title and their family name, but this is considered unnecessary and overly formal for most situations. People do, however, tend to be more formal in business and professional situations.

Business hours are 9am – 5pm, Monday to Friday. Australians are very straightforward and direct when it comes to business and they don't need to have a

long-standing relationship with you before doing business. They don't appreciate the "hard sell". They appreciate modesty and factual information, which is to the point and delivered by an approachable and friendly individual who avoids self-importance. They tend to underplay their own success so ensure that you don't jump to conclusions or make any initial judgements about them. Decision making can be a slower process than what you are used to, as the business culture in Australia is collaborative and top management like to consult with subordinates prior to making big decisions, so this takes time. Patience in awaiting a decision is appreciated. They are very direct and not afraid of saying no, so you will be sure to know where you stand.

v.   South Africa – Nigeria

Figure 5.13 : Nigeria Map

a.   Local culture & language

Nigeria is an extremely diverse country, with well over 1000 different ethnic groups residing within its territory. The 4 largest of these groups are the Hausa, the Fulani, the Igbo and the Yoruba. The culture of Nigeria is therefore every bit as diverse as you would expect from a country which is a melting pot of people from so many different backgrounds.Generally speaking, Nigerians can seem very emotional to people of other cultures, as big shows of emotion in public are commonplace and perfectly acceptable. This may make it seem that people are having an argument or a shouting match, when in fact they are merely having a discussion or a friendly conversation, so try not to be put off by this.

b.   Language in Nigeria

The make-up of languages in Nigeria is hugely diverse. Over 500 languages are spoken in the country, according to recent estimates, though many of these are on the decline. The official language of Nigeria is English, the former colonial language. English waschosen in an attempt to try and promote cultural and linguistic unity within the country, although only around 75% of the population actually speak it, most of these being concentrated in urban areas. Many people speak "pidgin" English, which is a slightly simplified form of the language which also includes elements. The other primary languages spoken in the country include Hausa, Igbo, and Yoruba. These languages are all quite distinct, as the languages of Nigeria draw from many different families, including Afroasiatic languages, Nilo-Saharan languages, and Niger-Congo languages. There are also some languages spoken in the country which have not yet been subjected to sufficient study to determine exactly what language group they belong to.

c.   Written Language

The 3 most widely spoken languages in Nigeria: Yoruba, Igbo and Hausa, all use the Latin alphabet but with language-specific variations. Most of these writing systems were developed by European colonists and have since been adopted as the official writing systems for these languages. Hausa is written in the Boko alphabet, which adds 3 additional letters to the standard Latin alphabet of 26. Historically Hausa has also been written using Arabic script, however this practice is now significantly less common, and is primarily only used in Islamic schools and for the study of Islamic literature. Yoruba and Igbo are generally written in the Önwu alphabet, also known as the Pan-Nigerian alphabet. This writing system adds 6 letters to the standard Latin alphabet, for a total of 33. The Pan-Nigerian alphabet was established with the intention of it being sufficient to write all the many languages of Nigeria without recourse to diagraphs, i.e. combining 2 letters to make one sound.

d.   Etiquette & customs

Nigerians tend to be more relaxed about physical contact, so bear in mind that if you are from a western background, you may feel that your personal space is being invaded. People of the same gender will often touch each other on the arms or back whilst having a conversation, and this is considered perfectly normal. Touching between people of different genders is less common, particularly in the Muslim areas in the north of the country. Many aspects of Nigerian customs are defined by traditional family roles. Therefore, during a meal,

it is not uncommon for men, women and children to eat separately, with the men being served first. When sitting down to eat, the honoured guest will be served first, and you shouldnot start eating until they have started. Avoid eating or passing food with your left hand and do not position yourself so that your feet are pointing towards the food. At the end of a meal, a small burp indicates that you are full and have enjoyed the food. Better out than in! If you are eating out in a restaurant, in addition to the above, you should also be aware that you may be seated at a table with strangers. If this happens, then do not feel obliged to start a conversation with them, but continue with your meal as if you were at your own table. Normally the person who invites other people for a meal will also be the one paying. It is appropriate in Nigerian restaurants to tip at about 10%.

e.   Religion

The population of Nigeria is divided fairly evenly between Christians and Muslims, though exact numbers vary, with the primarily Sunni Muslim communities being based in the north of the country, and Christianity dominating the central and southern regions. There are also a small minority of people who adhere to other religions, including traditional tribal beliefs. Unfortunately, there have been some confrontations between Christians and Muslims in Nigeria in recent history, propagated by the radical Islamist sect, Boko Haram, who have claimed responsibility for several attacks.

f.   Doing business in Nigeria

Handshakes are the normal means of greeting in a business context, though be aware that they are often longer than average, and you may be expected to hold onto the person's hand for the whole initial part of conversation. Be wary of physical contact between a man and a woman, as Muslim Nigerians discourage this. If you are a man, then it is best towait to see whether a woman extends her hand to you. Status is important in Nigeria, so if you are meeting someone senior to you, a small bow when shaking hands would beappropriate. Additionally, avoid prolonged eye contact with someone more senior to you, as this could be seen as disrespectful. In the same way, do not be put off if you are meeting someone junior to yourself and they do not maintain eye contact – this is their way of showing respect. When greeting a group of people, always try to greet them in order of seniority.

Generally, greetings are a very important aspect of social interactions in Nigeria, so you should always try to ask after a person's health and talk about what they are doing, their

family etc. as this shows an interest. Moving swiftly from a handshake on to discussing business may be interpreted as rudeness. It is normal to exchange business cards. Make sure you present your card with your right hand, and accept cards from others with the same hand, smiling and making eye contact. Put cards that you receive into a case or keep them on the table in front of you.

g.   Business Meetings

The Nigerian attitude to business meetings and negotiations is a reflection of their wider attitude to social interactions. Therefore, expect a certain amount of emotion when negotiating, and feel free to respond in kind, however remember that losing control is not acceptable. Bargaining and haggling are an important part of Nigerian business negotiations.You should always arrive on time for meetings, although be aware that it is possible others may arrive late. Tardiness does not have the same stigma attached to it as it does in westerncountries.

Expect meetings to take a lot of time and to involve a certain amount of "beating about the bush". Nigerians like to feel comfortable that they know the people they are dealingwith before they will make important decisions like entering into business with that person, and therefore there will be a lot of small talk and getting to know each other before getting down to business.

h.   Hierarchy

Nigeria is a hierarchical society. Age and position earns, even demands, respect. Age is believed to confer wisdom so older people are granted respect. The oldest person in a group is revered and honoured. In a social situation, they are greeted and served first. In return the most senior person has the responsibility to make decisions that are in the best interest of the group.

i.   Gift Giving Etiquette

If invited to dinner at someone's home then bring fruit, nuts or chocolates for the host. A gift for the children is always a nice touch. Gifts should be given using the right hand only or both hands. Never use the left hand only. At Ramadan, it is customary for Muslims to give gifts of food and fruit. Gifts from a man to a woman must be said to come from the man's mother, wife, sister, or other female relative, never from the man himself. Gifts should be

wrapped, although there are no cultural taboos concerning paper colour. Gifts are not always opened when received.

j.   Meeting and Greeting

Handshakes are the most common greeting. Wait for a woman to extend her hand first. Shake hands at the beginning and end of meetings. To rush a greeting is extremely rude; spend time inquiring about the other person's general well-being. It is a good idea to lower your eyes when meeting someone who is older or more senior. Titles are important. Use the honorific title plus any academic or professional title and the surname. Wait until invited before moving to a first-name basis. This is not a first name culture, although that may be changing with people under the age of 35.

Business cards are exchanged without formal ritual. Present and receive business cards with two hands or the right hand, never with the left. It is a good idea to include any advanced university degree on your business card. Make certain that your title is prominently displayed. Never write on your business card. If the information has changed, have new cards printed. Make a point of studying any business card you receive before putting it into a business card holder.

k.   Nigerian Communication Style

Due to the ethnic make-up of the country, communication styles vary. In the southwest, where the people are from the Yoruba tribe, people's communication employs proverbs, sayings and even songs to enrich the meaning of what they say. This is especially true when speaking their native language, although many of the same characteristics have been carried into their English language usage. The Yoruba often use humour to prevent boredom during long meetings or serious discussions. They believe that embedding humour in their message guarantees that what they say is not readily forgotten.

Nigerians living in the south of the country tend to speak more directly. You may also find their tone slightly louder than elsewhere. They may raise their voices even more and become emotionally excited when they feel passionately about a topic. At the same time, a harsh tone is considered unwelcoming and even hostile. Nigerians prefer facial expressions that imply empathy and believe an indifferent facial expression indicates that a person is ignorant or obnoxious.

Generally speaking, Nigerians are outgoing and friendly. Communication commences with polite inquiries into the welfare of the person and his family. Such social niceties go a long way since. Therefore, foreigners who take the time to get to know the Nigerian as a person are considered friends and welcomed into a Nigerian's inner circle of family and closefriends. Nigerian communication can also be indirect and may rely on non-verbal cues. Manyuse gestures when communicating. They may smile to mask their true feelings, especially when disappointed or confused. Many employs indirect eye contact to demonstrate their respect for the other person. It is common to gaze at the forehead or shoulders of someone they do not know well. Very direct eye contact may be interpreted as being intrusive unless there is a longstanding personal relationship.

At the same time, there are some Nigerians who are extremely direct communicators and have no difficulty stating what is on their minds. Therefore, it is a good idea to observe the situation carefully before determining what behaviour is appropriate. In general, Nigerians start with the general idea and slowly move into the specific, often using asomewhat circuitous route. Their logic is often contextual. They look for the rationale behind behaviour and attempt to understand the context. They tend to examine behaviour in its total context, not merely what they have observed.

I.   Business Meetings

Nigerians prefer to develop personal relationships prior to conducting business. Therefore, if this is the first time you are meeting with a Nigerian company, you should expect to devote a decent period of time to getting to know people on a personal level. This may take as long as two hours for an initial meeting. Any attempt to bypass this protocol will hamper your business success.

Expect the first few meetings to be somewhat formal as your Nigerian counterparts continue to become comfortable with you as a person. It is a good idea to maintain a polite and somewhat reserved manner until the person you are meeting drops some of his formality. Try to avoid using hyperbole or making exaggerated claims when presenting a business case as Nigerians are naturally suspicious of a deal that sounds too good to be true. Team members should present a united front at meetings. Any disagreement between members will be interpreted as meaning that you are not relaying the entire story and that they should proceed cautiously. If you plan to work from an agenda, it is a good idea to send it in advance of the meeting. Nigerians will generally follow the agenda point by point and may want to consult with key stakeholders who will not be present prior to the meeting.

5.2   Hofstede Cultural Dimension In International Business

The Hofstede model of national culture consists of six dimensions. The cultural dimensions represent independent preferences for one state of affairs over another that distinguish countries (rather than individuals) from each other.

The country scores on the dimensions are relative, in that we are all human and simultaneously we are all unique. In other words, culture can only be used meaningfully by comparison. The model consists of six dimensions namely Power Distance, Individualism v Collectivism, Masculinity v Feminity, Uncertainty Avoidance, Long Term Orientation v Short Terms Orientation and Indulgence v Restraint.

I.   Individualism Versus Collectivism (IDV)

The high side of this dimension, called Individualism, can be defined as a preference for a loosely-knit social framework in which individuals are expected to take care of only themselves and their immediate families.

Its opposite, Collectivism, represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular ingroup to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we."

IDV	CHARACTERISTICS
High IDV	• High value placed on people's time and their need for privacy and freedom. • An enjoyment of challenges, and an expectation of individual rewards for hard work. • Respect for privacy.
Low IDV	• Emphasis on building skills and becoming master of something. • People work for intrinsic rewards. • Maintaining harmony among group members overrides other moral issues.

Table 5.2: Characteristics of Individualism Country

ii. Power Distance Index (PDI)

This dimension expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people.

People in societies exhibiting a large degree of Power Distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low Power Distance, people strive to equalise the distribution of power and demand justification for inequalities of power.

PDI	CHARACTERISTICS
High PDI	• Centralized organizations. • More complex hierarchies. • Large gaps in compensation, authority and respect.
Low PDI	• Flatter organizations. • Supervisors and employees are considered almost as equals.

Table 5.3 : Characteristics of Power Distance Country

III. Uncertainty Avoidance Index (UAI)

The Uncertainty Avoidance dimension expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue here is how a society deals with the fact that the future can never be known: should we try to control the future or just let it happen?

Countries exhibiting strong UAI maintain rigid codes of belief and behaviour, and are intolerant of unorthodox behaviour and ideas. Weak UAI societies maintain a more relaxed attitude in which practice counts more than principles.

UAI	CHARACTERISTICS
High UAI	• Conservative, rigid and structured, unless the danger of failure requires a more flexible attitude. • Many societal conventions. • People are expressive, and are allowed to show anger or emotions, if necessary. • A high energy society, if people feel that they are in control of their life instead of feeling overwhelmed by life's vagaries.
Low UAI	• Openness to change or innovation, and generally inclusive. • More inclined to open-ended learning or decision making. • Less sense of urgency.

Table 5.4 : Characteristics of Uncertainty Avoidance Country

iv.   Masculinity Versus Femininity (MAS)

The Masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness, and material rewards for success. Society at large is more competitive. Its opposite, Femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented.

In the business context Masculinity versus Femininity is sometimes also related to as "tough versus tender" cultures.

MAS	CHARACTERISTICS
High AS	• Strong egos – feelings of pride and importance are attributed to status. • Money and achievement are important.
Low MAS	• Relationship oriented/consensual. • More focus on quality of life.

Table 5.5 :Characteristics of Masculinity Country

v. Long Term Orientation Versus Short Term Normative Orientation (LTO)

Every society has to maintain some links with its own past while dealing with the challenges of the present and the future. Societies prioritize these two existential goals differently. Societies who score low on this dimension, for example, prefer to maintain time-honoured traditions and norms while viewing societal change with suspicion.

Those with a culture which scores high, on the other hand, take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future. In the business context, this dimension is referred to as "(short-term) normative versus (long-term) pragmatic" (PRA). In the academic environment, the terminology Monumentalism versus Flex humility is sometimes also used.

LTO	CHARACTERISTICS
Long-Term Orientation	• People often wonder how to know what is true. For example, questions like "What?" and "How?" are asked more than "Why?" • Thrift and education are seen as positive values. • Modesty. • Virtues and obligations are emphasized.
Short-Term Orientation	• People often want to know "Why?" • Strong convictions. • As people tend to oversell themselves, others will assess their assertions critically. • Values and rights are emphasized.

Table 5.6 :Characteristics of Long Term Orientation Country

vi. Indulgence Versus Restraint (IVR)

Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.

Countries with a high IVR score allow or encourage relatively free gratification of people's own drives and emotions, such as enjoying life and having fun. In a society with a

low IVR score, there is more emphasis on suppressing gratification and more regulation of people's conduct and behaviour, and there are stricter social norms.

IVR	CHARACTERISTICS
High Indulgence	• Optimistic. • Importance of freedom of speech. • Focus on personal happiness.
High Restraint	• Pessimistic. • More controlled and rigid behaviour.

Table 5.7 : Characteristics of Indulgence Country

REFLECTION: TOPIC 5

1 | **List 6 Element of Culture**

2 | **Explain the culture considerations for foreign business firm to enter Malaysian market.**

AESTHETICS	RELIGION	MATERIAL CULTURE	LANGUAGE	SOCIAL ORGANIZATION	MANNERS & CUSTOMS

3 | **State THREE (3) examples of the country**

PRA	Example of Country
High PRA	i. ii. iii.
Low UAI	i. ii. iii.

4 | **Identify the Hofstede cultural dimension (either high or low for these countries:**

	United State	Australia	China	France	Nigeria
Power Distance					
Uncertainty Avoidance					
Masculinity v Feminity					
Individualism v Collectivism					
Long term v Short term orientation					

REVIEW QUESTIONS

1. Interpret any **TWO (2)** elements of culture.   [10 marks]

2. Interpret Hofstede Cultural Dimensions below:
    i.   Power Distance Index   [4 marks]
    ii.   Individualism versus Collectivism   [4 marks]

3. Interpret **TWO (2)** business etiquettes while doing business in the United States.
                                                  [7 marks]

4. Explain the elements of culture as stated below:

    i.   Religion
                                                  [5 marks]

    ii.   Social organization
                                                  [5 marks]

5. Interpret the etiquette and manners of doing business in China.
                                                  [15 marks]

6. Discuss cultural effects on international business in these countries.

    i.   Australia

    ii.   China   [10 marks]

REVIEW QUESTIONS

7. Western business looking to tap the Chinese market should be aware of local preferences and adapt accordingly. For example, Starbucks started serving green tea lattes in abid to get traditionally drinking nation hooked on coffee; Mc Donald's adapted its menu to include items like spicy chicken wings and chicken burgers in an effort to appeal to local tastes. Furthermore, western countries looking a tap to China also need to show a long term approach that will prove that they're in the country to stay. *-Teo Kermeliotis, CNN-*

   You may use the statement above to answer the following question:

   i.   Determine the most suitable environmental force that will affect international business in the statement.   [5 marks]

   ii.   Relate the element of social organization in the context of culture in China.
                                                                                [5 marks]

   iii.   Apply China's culture based on Hofstede's **FIVE (5)** dimensions of culture framework.   [15 marks]

8. Discuss **THREE (3)** reasons cultural miscommunication can occur in international business.   [9 marks]

9. Jason is planning a business trip to France, and is his first time doing business in that country. Discuss **FOUR (4)** differences between France and American culture according to Hofstede's Dimension of culture.   [16 marks]

10.   Relate **TWO (2)** elements of social organization in the context of culture in Australia.
                                                                                [10 marks]

11. Interpret **THREE (3)** Hofstede's dimensions of culture framework based on Nigeria's culture.   [15 marks]

SIMULATION TEST SET 1

QUESTION 1

(a)   List **FIVE (5)** types of controllable environment in international business.

[5 marks]

(b)   Give **FOUR (4)** types of country risk that may be faced by an international company.

[4 marks]

(c)   A multinational enterprise (MNE) is a firm that has operating subsidiaries, branches, or affiliates located in foreign countries. Discuss the operating strategy for the **FOUR (4)** types of MNE firm in international business.

[16 marks]

QUESTION 2

(a)   Ascertain the considerations for Malaysian Multinational Corporation (MNC) firm to choose to enter foreign market by using equity modes of entry.

[15 marks]

(b)   According to Kanter & Corn (1994), culture shared understanding of meaning and is the core of society stability. Adapt the differences of the cultural dimensions according to Hofstede's Cultural Dimension for a Malaysian Multinational corporation (MNC) as a preparation in conducting business in China.

[10 marks]

SIMULATION TEST SET 2

QUESTION 1

(a)   Identify **FIVE (5)** differences between International Business and Domestic Business.

[10 marks]

(b)   Describe democracy political system.

[6 marks]

(c)   Discuss **THREE (3)** constraints on Small and Medium Sized International Enterprises.

[9 marks]

QUESTION 2

(a)   Licensing is a contract where the company licenses to other companies to use intellectual property (IP), brand, design or business programs.

  i.   Discuss the features of licensing process.

[4 marks]

  ii.   Ascertain **THREE (3)** advantages of licensing to licensor.

[6 marks]

(b)   Australia is an interesting destination for foreign investors in a range of sectors as it is an excellent place to invest because of its population growth, highly skilled workforce, strategic location, stable governance and regulatory environment andstrong record of economic management. Apply the adaptability of culture for an investor doing business in Australia in business etiquettes, communication and decision making.

[15 marks]

SIMULATION TEST SET 3

QUESTION 1

(a)   List **FIVE (5)** types of uncontrollable environment in international businesses.

[5 marks]

(b)   Democracy is the system of rule by the people and is currently understood
and most frequently used through the terms of rule by majority. Give **FIVE (5)**
types of democracy.

[5 marks]

(c)   Discuss the relevant types of organizational structure for the characteristics of the
international business firms below:

        (i)   Multiple product group (production)

        (ii)   Many divisions and functions

        (iii)   Separate business unit

[15 marks]

QUESTION 2

(a)   F4 Sdn. Bhd. is a company engaged in the personal care products and intends to
expand its market internationally by the year of 2021. Apply the most suitable methods
that can be used by F4 Sdn Bhd. for their first attempt to enter foreign markets.

[10 marks]

(b)   Faraway Co. is a Malaysian Multinational Corporation (MNC) based in France that has
been doing Foreign Direct Investment (FDI) in Malaysia since 2018. Cultural
differences are among the risks that are faced by the company since
the operations started. Ascertain the ways to minimize the differences of culture
according to Hofstede's Cultural Dimension between the two countries.

[15 marks]

FINAL EXAMINATION SIMULATION SET 1

SECTION A : 100 MARKS

INSTRUCTION:

This section consists of **FOUR (4)** essay questions. Answer ALL questions.

QUESTION 1

(a)   List **FIVE (5)** item relates for international and domestic business.

[10 marks]

(b)   i. Discuss the implication of marketing towards international business activities.

[5 marks]

    ii. External environment in the international business is an event beyond the firm.
      control. Elaborate any **TWO (2)** external environment

[10 marks]

QUESTION 2

(a)   Describe the following legal system:
    i. Civil law

[5 marks]

    ii. Socialist law

[5 marks]

(b)   Explain the following organizational design in the international business with a diagram
    for each design.
    i. Global corporate form-product

[7 marks]

    ii. Global corporate form – functions

[8 marks]

QUESTION 3

(a)   i.   Identtify **FOUR (4)** non equity modes of entry in international business

[4 marks]

       ii. State **THREE (3)** advantages of Franchising

[6 marks]

(b)   i. Write **THREE (3)** benefits of Joint Venture

[9 marks]

      ii. Write **TWO (2)** drawbacks of Joint Venture

[6 marks]

QUESTION 4

(a)   Explain any TWO (2) elements of culture

[10 marks]

(b)   Write any THREE (3) Hofstede Cultural Dimensions

[15 marks]

FINAL EXAMINATION SIMULATION SET 2

SECTION A : 100 MARKS

INSTRUCTION:

This section consists of **FOUR (4)** essay questions. Answer ALL questions.

QUESTION 1

(a) Describe **TWO (2)** impacts of globalization towards international business

[10 marks]

(b) Elaborate the following external environment in the international business.

i.	Political environment	[5 marks]
ii.	Economic environment	[5 marks]
iii.	Sociocultural environment	[5 marks]

QUESTION 2

(a) Differences in political systems can be found in how the country provides services, protect rights and enforce the rule of law. Describe the following political system:

i.	Democracy	[5 marks]
ii.	Totalitarianism	[5 marks]

(b) Discuss **THREE (3)** constraints facing by the Small and Medium Sized International Enterprise at the international level

[15 marks]

QUESTION 3

(a) Describe the types of exporting as stated below

i.	Direct Exporting	[5 marks]
ii.	Indirect Exporting	[5 marks]

(b) Write how the following mode of entry operate:

i.	Turnkey Project	[5 marks]
ii.	Management Contract	[5 marks]
iii.	Joint Venture	[5 marks]

QUESTION 4

(a)   Hofstede's cultural dimensions theory is a framework for a cross-cultural communication, developed by Geert Hofstede. Explain the following cultural dimension.

  i.   Power Distance Index   [5 marks]

  ii.   Uncertainty Avoidance   [5 marks]

(b)   Write about the culture environment by doing business in Nigeria

                                                                              [15 marks]

FINAL EXAMINATION SIMULATION SET 3

SECTION A : 100 MARKS

INSTRUCTION:

This section consists of **FOUR (4)** essay questions. Answer ALL questions.

QUESTION 1

(a)   Identify **FIVE (5)** differences between international and domestic business.

[10 marks]

(b)   i.   List **FIVE (5)** Internal environment in international.   [5 marks]

        ii.   Explain the implication of international business area towards:

              - International Marketing   [5 marks]
              - Global Supply Chain Management   [5 marks]

QUESTION 2

(a)   Interpret the **THREE (3)** types of government takeover.   [10 marks]

(b)   i.   Explain the international strategies used by Multidomestic Firms.   [6 marks]

        ii.   Discuss **THREE (3)** differences between Transnational and Global Firm.

[9 marks]

QUESTION 3

(a)   Describe the following modes of entry :
        i.   Joint Venture   [5 marks]
        ii.   Manufacturing Contract   [5 marks]

(b)   i.   Examine market entry methods for franchising and provide an example.

[6 marks]

        ii.   Write **THREE (3)** advantages and disadvantages of Franchising.

[9 marks]

QUESTION 4

(a)   Discuss any **TWO (2)** elements of culture.   [10 marks]

(b)   Examine China culture based on Hofstede`s five dimension.   [15 marks]

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