Business Environment of Transnational Companies

11. lecture

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BUSINESS ENVIRONMENT

Introduction

- International business environment is the sum of the governmental, intergovernmental and systematic factors that:
  - govern or influence the conduct of international business;
  - are not present in domestic business environments.

- International entrepreneurial activities are provided in the context of diverse environmental influences.

- International business environment presents an array of both governmental and non-governmental players which impact on transnational corporations. They include national and regional authorities, as well as formal and informal international organizations.

International Companies

- International business activities may be defined simply as business transactions that take place across national borders.

- This definition includes the very small organization that exports (or imports) a small quantity to only one country, as well as the very large global organization with integrated operations and strategic alliances around the world.

- Within this broad array, distinctions are often made among different types of international company, and these distinctions are helpful in understanding a organization s strategy, organizational structure, and functional decisions:
    - Multinational enterprises;
    - Global companies;
    - Transnational companies.

International Companies

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- **Multinational enterprise** MNE is an organization (the parent company) which acquires ownership or other contractual ties in other organizations (including companies and unincorporated companies) outside its home country.

- The parent company (from home country) co-ordinates and controls the international business activities carried out by all the organizations within the MNE s broad control.

- These enterprises using a multinational strategy sacrifices efficiency in favor of emphasizing responsiveness to local requirements within each of its markets.

International Companies

- **Global companies** have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets.

- The global company has a more specific meaning, referring to an enterprise that engages in value-added activities in each of the major regions of the world, and which pursues an integrated strategy towards these activities. Generally one corporate office is responsible for global strategy. Emphasis is on volume, cost management and efficiency.

- The global company using a global strategy sacrifices responsiveness to local requirement within each of its markets in favor of emphasizing efficiency. Some minor modifications to products may be made in various markets, but a global strategy stresses the need to gain economies of scale by offering essentially the same products in each market.

International Companies

- **Transnational corporations** are all enterprises which control assets (factories, mines, sales offices and the like) in two or more countries. Transnational is a company that owns assets and operates direct business activities in at least two countries.

- Transnational corporations are companies that supply foreign markets entirely through exports and that concentrate on those which engage in international production.

- Transnational corporations have become central actors of the world economy and, in linking foreign direct investment, trade, technology and finance, they are a driving force of economic growth.

International Business Environment

- Transnational corporations operate in different levels of business environment – national, regional and international environment.

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Elements of international business environment

- The international business refers to commercial activities that cross the borders of a national state.

- The elements of the international business can be grouped into three primary categories:
  - Regulatory elements – national level and regional level;
  - Complicating elements – national level;
  - Facilitating elements – international level.

- The classification of these elements is based on their operational significance. The term operational significance refers to how and to what degree an element affects the operations of companies engaged in the conduct of international business.

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Elements of international business environment: National level

- National government enjoys the ultimate authority for the enactment and implementation of laws and policies within its country s geographical territory.

- Most governments have in place machinery for the regulation of company affairs, financial services and accounting regulation.

- Laws and policies emanating from all these governmental authorities may impact both directly and indirectly on the businesses which operate within their borders, whether foreign or domestic.
    - Governments may be direct players in economic life through owning and controlling companies.
    - Indirectly, government are responsible for lawmaking and implementation in numerous fields relevant to business.

Elements of international business environment: National level

- A trade barrier is any action by the government of a national state that restricts or regulates trade.

- Trade barriers can be divided into three categories:
    - Tariff barriers;
    - Non-tariff barriers;
    - Other barriers to trade.

- Purposes of trade barriers:
    - To protect domestic products, organizations, industries, jobs;
    - To address balance of payments problems;
    - To generate revenue;
    - To limit exports.

Elements of international business environment: Regional level

- The post-war period has seen a proliferation in regional grouping of states, mainly originating from the wish to promote free trade among the states within the region, whereby business can buy and sell products across national borders unfettered by barriers to trades such as import duties.

- Such groupings include:
    - The European Union EU;
    - The North American Free Trade Agreement NAFTA;
    - The Association of Southeast Asian Nations ASEAN.

- Businesses are often inclined to see protective legislation as a hindrance and such legislation emanating from regional structures seems more remote than that of national legislatures.

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Elements of international business environment: Regional level

- The regulatory elements of the international business environment are the policies, laws, regulations, rules, requirements, decisions and actions that are implemented by government of national states and that restrict or regulate international trade and foreign direct investment.

- These elements can be grouped into four sub-categories:
  - Tariff and non-tariff barriers;
  - Other barriers to trade;
  - Investment barriers;
  - Post-entry barriers.

- Regulatory elements are the most dominant elements of the international business environment because they:
  - Restrict or regulate the conduct of international business;
  - Apply directly to the operations of organizations engaged in the conduct of international business;
  - Carry the force of national governmental authority.

Elements of international business environment: International level

- Relations at an international level rely on co-operation between sovereign states. There is a number of international organizations which provide governance structures in particular areas of global concern. Also instrumental in nurturing awareness of global issues with local impact have been the many non-governmental organizations which have been set up.

- Grouping of representatives of sovereign states formed to foster international co-operation to tackle particular global issues. Many set standards for cross-border business activities.

- For example:
    - The United Nations UN;
    - The World Trade Organization WTO;
    - The International Labour Organization ILO;
    - The Organization for Economic Co-operation and Development OECD.

Elements of international business environment: International level

- Facilitating elements (are referred to as intergovernmental instruments and mechanisms) of the international business environment are the written agreements and the organizational and functional entities that are created and controlled by the governments of two or more national states.

- These elements can be grouped into five sub-categories:
    - Global instruments and mechanisms;
    - Regional instruments and mechanisms;
    - Bilateral instruments and mechanisms;
    - Instruments and mechanisms for the harmonization of laws;
    - Dispute settlement mechanisms.

Elements of international business environment: International level

- The dominant facilitating instruments in the international business environment are the GATT and other WTO instruments. The dominant facilitating mechanism is the WTO.
- These elements:
    - Provide the framework and the systems that facilitate the operations of the international business environment;
    - Facilitate the reduction of trade and investment barriers;
    - Facilitate the harmonization of laws and the settlement of disputes;
    - Govern or influence how national governments treat companies engaged in the conduct of international business.

External International Business Environment

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National, regional, and international influences

- ***Legal environment***
    - National legal systems;
    - Regional law and regulation;
    - International law and regulation.
- ***Political environment***
    - National political systems;
    - Regional political ties;
    - International relations.
- ***Economic environment***
    - National economies and financial regulation;
    - Regional economic conditions;
    - International economic trends.
- ***Cultural environment***
    - National cultures;
    - Different languages;
    - National social groupings;
    - Changing cultural preferences due to international influences.

Complicating elements

- The complicating elements of the international business environment are the differences in legal, financial, political, economic and social systems in different countries, which include differences in currencies, laws, languages and cultures.

- These elements can be grouped into two sub-categories:
    - Systemic differences;
    - Cultural differences.

- Systemic and cultural differences neither regulate nor facilitate the conduct of international business. These differences can, however, make the conduct of international business more complex and difficult than the conduct of domestic business.

Internal International Business Environment

- Internal environment includes internal factors of the organizations which can be controlled by organizations. It refers to environment within the organization.

- Internal environment includes objectives of organization, managerial policies, departments of the organization, management and employees of the organization, labor management relationship, brand image and corporate images, physical resources etc.

- In the study of internal environment of transnational enterprises, attention will be paid to some selected topics.

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Strategies of international companies

- ***International strategy*** – core competencies are centralized and other activities are decentralized.

- ***Multi-domestic strategy*** – the organization has operations in more than one country. The goal of the strategy is to optimize local competitive advantages, revenues and profits.

- ***Global strategy*** – the organization has integrated operations in more than one country. A global strategy seeks to maximize worldwide performance through sharing and integration.

- ***Transnational strategy*** – is typically a global matrix that seeks to be both locally responsive and efficient. This strategy is based on the simultaneous attainment of location and experience curve economies, local responsiveness and global learning.

Internal International Business Environment

Structure and controls	International	Multi-domestic	Global	Transnational
Vertical differentiation	Core competency centralized, other decentralized	Decentralized	Some centralized	Mixed
Horizontal differentiation	Product division	Area structure	Product division	Informal matrix
Need for coordination	Moderate	Low	High	Very high
Integrating mechanisms	Few	None	Many	Very many
Performance ambiguity	Moderate	Low	High	Very high
Need for controls	Moderate	Low	High	Very high

Organizational structure of international companies

- Organizations operating in foreign markets are usually organized as a parent company and subsidiaries:

  - Parent company – located in the home country co-ordinates the activities of other companies in the group. Parent company is likely to be registered in its home country.

  - Affiliates – organizations connected through ownership or other strategic to a corporation. The parent company has a significant equity stake, but short of majority ownership.

  - Subsidiary company – is a company owned wholly or substantially by another company, which is in a position to exert control. Subsidiaries registered in the countries where they carry out their activities. The subsidiary can be viewed as a local company. A subsidiary is a company which is at least 50% owned by a parent company.

Mind-set of international companies

- The **ethnocentric organization** has an unquestioning belief that its own national culture and ways of doings thing are the best. Ethnocentrism is the belief that the values, practices and behaviors of the home country are intrinsically superior to those in other nations.

- A strong sense of national power can be a source of this outlook, along with that the country s culture and history have helped to make it a world leader.

- The ethnocentric organization tends to be dominated by the head office in its home country, which takes the major strategic decisions.

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Mind-set of international companies

- **Polycentric mind-set** accepts the importance of adapting to differences, real or imaginary, between the home and host country.
- Polycentric manager champions the ways of foreign markets as just as enlightened as the practices of the parent company and home nation, if not more so.
- Polycentric organization accepts that its own cultural assumptions are a part of its background, but strives to understand and work with those in other countries as it becomes international in scope.
- Polycentric organization appreciates the need for cross-cultural skills in international business.

Mind-set of international companies

- **Geocentric mind-set** is nottied to a particular home or host nations. Geocentrism hold that all nations have inalienable traits that are neither superior nor inferior but simply there.
- Geocentric organization aims to focus on global corporate goals, but allowing for local responses and adaptation.
- The geocentric approach sees the differing local environments as a potential source of value, rather than as an obstacle to be overcome, and aims to recognize local inputs within a global perspective.

Mind-set of international companies

Mind-Set	Advantages	Disadvantages
Ethnocentric	Leverages an individual s or company s unique competence to foreign market. Gives people a strong point of perspective.	Can inspire belief that the home market is intrinsically better at everything. Can result in cultural arrogance. May blind people to innovations in other countries.
Polycentric	Helps people see the special virtues of a particular nation. Removes barriers to adapting to the chosen local market.	Can lead to the „going native“ effect. May lead people to give too much credit to attitudes and practices in a favored nation.
Geocentric	Helps people see points of commonality across different nations. Opens up tremendous learning opportunities.	Can lead to a loss of national identity. Tough to develop and hard to maintain.

Staffing international operations

- International business takes place within a world marked by geographic borders and populated by bricks-and-mortar organizations. Staffing thousands of home offices and foreign affiliates is a major aspect of international business.

- Transnational corporations must ultimately find and move managers among the various units of their corporation. The vaste majority of transnational corporations resolve this issue by deciding whether to staff their international operations with:
    - Local workers in the host nation or;
    - Expatriates sent from home or a third nation.