

Globalization and International Business

How Does Globalization affect International Business

Global community is rich with information, opportunities, controversies, and complications.

World population

Billions people	Year reached	Years to next level
7	2011	13
9	2043	18

World population is decreasing → aging population, fewer kids

Global business bottom line: developing and selling products and services to all 7 billion people

3 Largest nation: China, India, United States

Globalization involves the growing interdependence of the world's economies

Global business

1) Global foundation 2) Global engagement 3) Global cultural issues

Personal & Corporate globalization

= the increased mobility of goods, services, labor, technology and capital throughout the world

= process of growing interdependence among elements of the global economy

most correct → array of choice, access to source (capital)

Global economy: resources, markets, and competition are worldwide are worldwide in scope

Globalization: the process of growing interdependence

Insourcing: creation of domestic jobs by foreign employers

Outsourcing: shifts local jobs to foreign locations to take advantage of lower wage labor in other countries

Globalization creates a variety of international business opportunities

International business: conducts commercial transactions across national boundaries

Why business go Global?

- (1) New Market: Profit : gain profits through expanded operations
- (2) Customers : enter new markets to gain customers
- (3) Sourcing Suppliers : get access to: products, services, and materials
- (4) Financing: Capital : get access to financial resources capital: any assets that you can deploy to grow business
- (5) Labor : get access to low- cost, talented workers
- (6) Risk : recession, upturn, natural disaster
- (7) Technology: Economic development: communicate, data

Integration Responsiveness Grid

Pressure for cost-cutting	High	Global	Transnational
	Low	International	multinational
		Low	High
		Pressure for local responsiveness	

Two major pressure → integration and responsiveness

Integration: physically be in other nation

Responsiveness: to alter or change product to local need

1. Global Strategic terms
 - invested and project in many countries
 - coordinate brand image globally
 - single corporate office strategy direction
 - ex) McDonald / fast food company
2. International
 - focusing on importing and exporting
 - strategic direction from home country
 - low to moderate investment inside of home country
 - language can be adjusted
 - ex) Xerox
3. Multinational (local contract rule: you can be here from other country)
 - substantial investment other countries
 - form on adopting products for local needs
 - strategy more home/ host country directed
 - ex) Toyota
4. Transnational
 - substantial investment globally
 - decision making, R&D and marketing distributed locally
 - competitors compete globally
 - ex) Nestle
 - need to be everywhere, adapt,

How Global business is done

Ways to enter a market from the home country Global sourcing, exporting, licensing, franchising	Ways to enter a market in host country Joint ventures, foreign subsidiaries
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From Home country

- 1) Global sourcing: import play: the sourcing of materials or services from around the world for local use
Ex) boeing company: Boeing dreamline airplane global sourcing

Advantage	Disadvantage
Lower cost	Hidden costs
Global learning	Supplier quality
Access to skills & resources	Risk (financial, political)
Increase supply	Lost intellectual property
Expand your capacity	Transportation cost

- 2) Exporting
Selling local home country products outside of the home country

Advantage	Disadvantage
Increase sales/profit	Logistics & service issue
Stabilize business	Cultural knowledge
Gain market share	Government tariffs and regulations
Business expansion	Increased cost (tax on importing good)

- 3) Licensing
Form of business by which the owner (incensor) gives rights to a buyer for specific uses of intangible or tangible property (a license) → Ors: sellers EE: buyers
Ex) Disney and marvel™ tangible is mini figure, intangible is watching movie

advantage	disadvantage
Low to no cost	Potential loss of control
Royalty stream	Damage the brand
Extend profit potential	Getting paid in honestly
Expand the brand	Lower margin
Attracts new customers	

- 4) franchising: form of business by which the owner (franchiser) OR of a product, service or method obtains distribution through affiliated dealers

ex) Yum brand holds other brands
ex) KFC in china → franchise agreement → agree to make,

- 5) Global franchising

Advantages	Disadvantages
Capital expansion	Quality control
Continuing revenue stream	Understanding local culture
Global brand building	Legal/regulation
Economies of scale	Potential loss of control
Managerial talent development	Supply chain complexity →

Host Country

- 1) joint venture: operating in a foreign country through co-ownership with local partners
 - regulated / help to not make mistake
 ex) GM/SAIC: first 50:50 → but later 49:51

Advantage	Disadvantage
Access to new markets	Loss of technology
Leverage local talent	Sharing profits
Understand culture	Imbalance in contribution
Shared risks	Conflict- cultural misunderstanding
May be only option	Political risk
Potential cost advantages (lower regulation fee)	

- 2) Subsidiary: company A know as the parent fully or partially owns a local enterprise
 Ex) FDI: foreign directed investment Ex) budwiser: horse and dog, fireston: japan, etc

Advantage	Disadvantage
Profit	Cultural issue
Market expansion	Legal risk
Control	Political risk
Protects technology	

Global sourcing is a common international business activity

Global sourcing: firms purchase materials, manufacturing, or services around the world for local use.

→ advantage of international wage gaps by contracting for low-cost goods and services in foreign locations

Mainstay and market entry approaches			Direct Investment Approaches	
Global sourcing	Exporting and importing	Licensing and franchising	Joint Venture	Foreign Subsidiaries


 Increasing involvement in ownership and control of foreign operations

Global supply chain: network of a firm's outsourcing suppliers and contractors

Problem: work hours (62%), worker safety (35%), hazardous substance practices (32%)

Reshoring: moves foreign production and jobs back to domestic locations

→ Because of sketchy suppliers, rising labor costs, high transportation costs, expensive energy, better public relations

Export/Import, licensing, and franchising

Exporting: local products are sold abroad

Importing: is the process of acquiring products abroad and selling them in domestic markets

Licensing: one firm pays a fee for rights to make or sell another company's product

→ grants access to a unique manufacturing technology, special patent, or trademark

→ risk is counterfeiting

Franchising: firm pays a fee for rights to use another company's name and operating methods

Joint Ventures and wholly owned subsidiaries are direct investment

Joint venture: operates in a foreign country through co-ownership with local partners

(1) when a foreign partner buys part ownership in an existing local firm

(2) it is formed when the foreign and local partners start an entirely new operation together

Global strategic alliances: foreign and domestic partners cooperate for mutual gains.

Foreign subsidiary: local operation completely owned by a foreign subsidiary by building an entirely new operation in a foreign country.

Greenfield venture: establishes a foreign subsidiary by building an entirely new operation in a foreign country

International business is complicated by different legal and political systems

International business problem: practices and business ownership; negotiation and implementation of contracts with foreign parties; handling of foreign exchange; intellectual property (patents, trademarks, and copyrights)

World Trade Organization: WTO: is a global institution established to promote free trade and open markets around the world

Most favored nation status: gives a trading partner the most favorable treatment for imports and exports

Trade barrier

(1) Tariffs: taxes governments levy on imports from abroad

(2) Nontariff barriers: nontax policies that governments enact to discourage imports, such as quotas and import restrictions