

1. Basic Data on International Economics and Business
2. Theories of Corporate Internationalization
  - 2.1 Theories of International Trade
  - 2.2 Theories of Foreign Direct Investment
- 3. Environment of Multinational Enterprises**
- 4. International Environment and Managerial Decision**

# Some definitions

- International company
  - Different operations
- Multinational enterprise (MNE)
  - Worldwide view
  - Does size matter?
- Why international business differ from domestic?
- Smart companies don't move abroad w/o looking into:
  - Physical (geography) and social factors (politics, law, culture, economy)
  - Competitive factors (suppliers, customers, rivals)

# Physical and social factors

1. Geography
  - Availability of resources and the way to exploit them
2. Economy
  - Economics can determine the impact of business operations
3. Politics
  - Political disputes can disrupt trade and investment
4. Law
  - It can determine how a company operates overseas
5. Culture
  - Different values, attitudes, and beliefs

# Empirical assessment of management's view:

<b>Selected environmental factors</b>	<b>Relevance</b>
Exchange rate changes (Economy)	3.00
Differing legal environment (Law)	2.95
Differing country risks (Politics)	2.95
Internal transfers (Economy)	2.79
Cultural distance (Culture)	2.63
Differing interest rates (Economy)	2.32
Geographic distance (Geography)	2.21
Language problems (Culture)	2.05

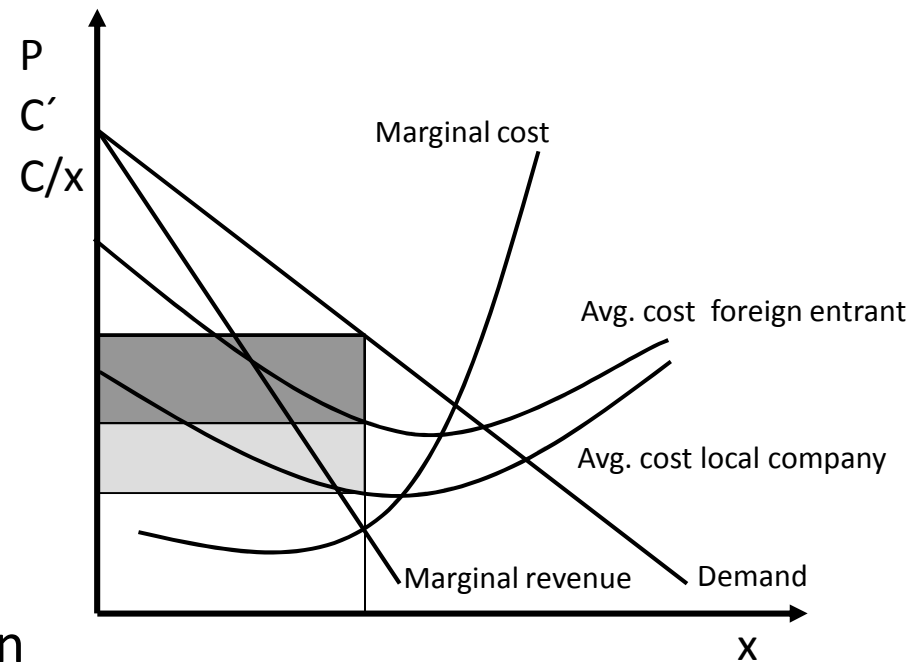
*Scale: 4 = very important, 1 = no importance*

Source: Pausenberger, 1997

# Effects of differing country environments

- Foreign corporations might suffer from a liability of foreignness (LoF) [Hymer and Kindleberger]
- Effect is asymmetric – LoF only relevant for foreign competitors
- LoF will result in higher cost of the foreign company as opposed to its local competitors

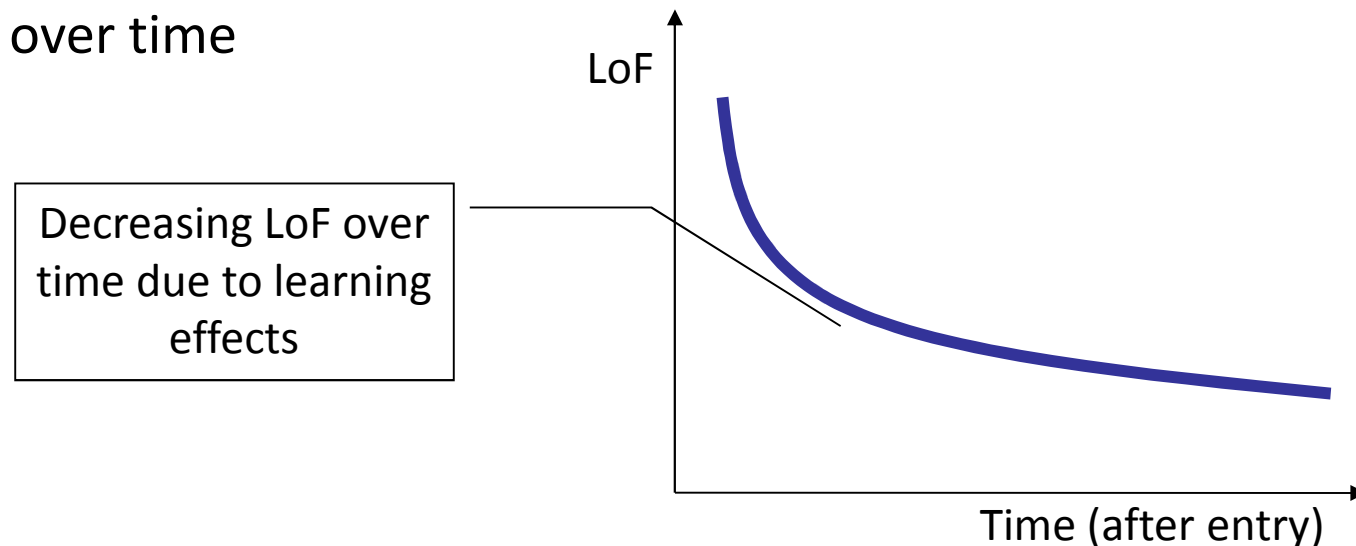
- LoF as market entry barrier
  - LoF assumed as fixed cost
  - Difference in profits (shaded areas)
  - Foreign entrant does not yield avg. market return



Source: Eden / Miller, 2004

# Liability of foreignness – reasons for higher cost

- Liability of foreignness results in:
  1. Higher information and communication cost
  2. Additional learning cost
  3. Cost of false decisions
  4. Adoption cost (products and corporate structures)
  5. Cost of organizational friction (after adoption)
- Within a learning organization liability of foreignness will decrease over time



# Differing economic environments

## Elements of the economic environment

- General economic environment
  - Geographic factors
  - Growth and business cycles
  - Inflation rates
  - Taxes and tariffs
  - Foreign exchange rates
- Industry-specific environment
  - Industry structure
  - Procurement markets
  - Sales markets
  - Industry-specific regulations

More general information,  
comparatively easy to  
retrieve

Specific information sources,  
high information cost

# Illustrative effects of economic environments I

- Geographic factors can influence transport cost
- Growth and business cycles affect income levels and thus product specific demand functions
- Inflation results in differences between real and nominal figures

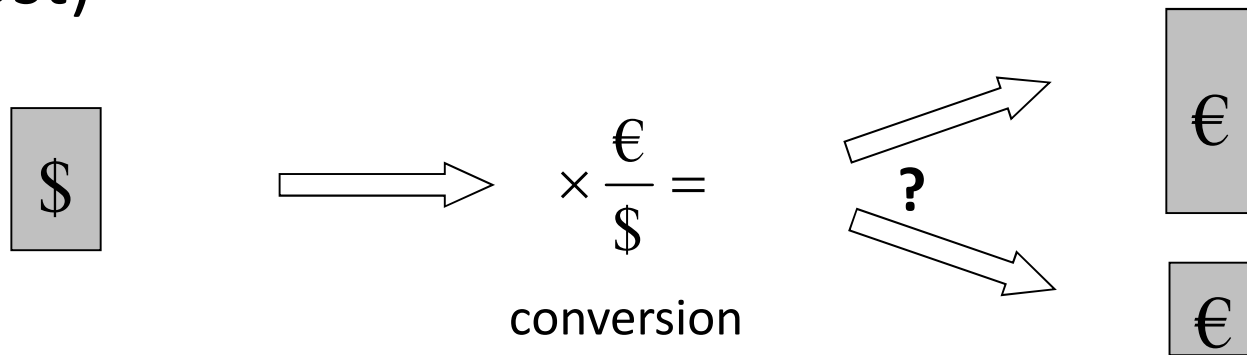
$$\boxed{\$} \times (1 + \text{inflation} [\%]) = \boxed{\$}$$

- Tax burdens profitability ratios



# Illustrative effects of economic environments II

- Changes of the exchange rate alter the value of foreign currency (assets + liabilities and sales + cost)



- Industry structures determine competitive strategies
- Circumstances on procurements and sales markets could change the boundaries of the firm (→ vertical integration)
- Branch specific regulations can result in changes of the product properties or the production process

# Differing political environments

## Elements of the political environment

- (Economic) freedom
  - Property rights protection
  - Public administration, approval and surveillance of economic activities
  - Corruption
- Tax and legal system
  - Tax structure, amount and enforcement
  - Contract law
  - Labor regulations
  - Accounting principles

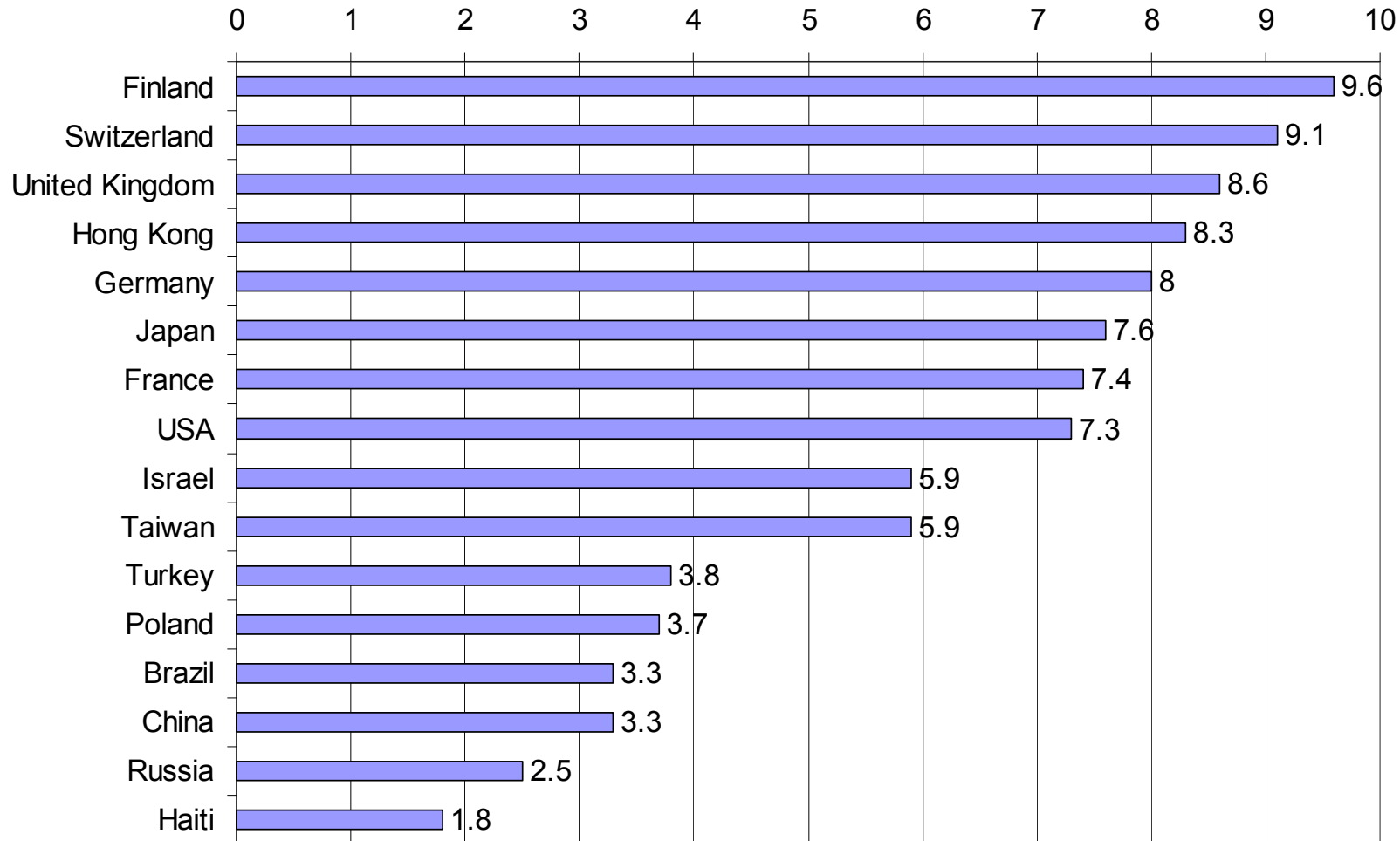
# RANKING THE WORLD BY ECONOMIC FREEDOM

Rank	Country	Overall Score	Rank	Country	Overall Score	Rank	Country	Overall Score
1	Hong Kong	89.7	65	Cape Verde	64.6	130	Bangladesh	53.0
2	Singapore	87.2	66	Slovenia	64.6	131	Papua New Guinea	52.6
3	Australia	82.5	67	Turkey	64.2	132	Algeria	52.4
4	New Zealand	82.3	68	Poland	64.1	133	Haiti	52.1
5	Switzerland	81.9	69	Portugal	64.0	134	Mauritania	52.1
6	Canada	80.8	70	Albania	64.0	135	China	52.0
7	Ireland	78.7	71	Belize	63.8	136	Cameroon	51.8
8	Denmark	78.6	72	Dominica	63.3	137	Guinea	51.7
9	United States	77.8	73	Namibia	62.7	138	Argentina	51.7
10	Bahrain	77.7	74	South Africa	62.7	139	Vietnam	51.6
11	Chile	77.4	75	Rwanda	62.7	140	Syria	51.3
12	Mauritius	76.2	76	Montenegro	62.5	141	Laos	51.3
13	Luxembourg	76.2	77	Paraguay	62.3	142	Seychelles	51.2
14	Estonia	75.2	78	Kazakhstan	62.1	143	Russia	50.5
15	The Netherlands	74.7	79	Guatemala	61.9	144	Ethiopia	50.5
16	United Kingdom	74.5	80	Uganda	61.7	145	Micronesia	50.3
17	Finland	74.0	81	Madagascar	61.2	146	Nepal	50.1
18	Cyprus	73.3	82	Croatia	61.1	147	Bolivia	50.0
19	Macau	73.1	83	Kyrgyz Republic	61.1	148	Burundi	49.6
20	Japan	72.8	84	Samoa	60.6	149	Sierra Leone	49.6
21	Austria	71.9	85	Burkina Faso	60.6	150	São Tomé and Príncipe	49.5
22	Sweden	71.9	86	Fiji	60.4	151	Guyana	49.4
23	Germany	71.8	87	Italy	60.3	152	Central African Republic	49.3
24	Lithuania	71.3	88	Greece	60.3	153	Togo	49.1
25	Taiwan	70.8	89	Lebanon	60.1	154	Maldives	48.3
26	Saint Lucia	70.8	90	Dominican Republic	60.0	155	Belarus	47.9
27	Qatar	70.5	91	Zambia	59.7	156	Lesotho	47.5
28	Czech Republic	70.4	92	Azerbaijan	59.7	157	Equatorial Guinea	47.5
29	Georgia	70.4	93	Morocco	59.6	158	Ecuador	47.1
30	Norway	70.3	94	Mongolia	59.5	159	Guinea-Bissau	46.5
31	Spain	70.2	95	Ghana	59.4	160	Liberia	46.5
32	Belgium	70.2	96	Egypt	59.1	161	Angola	46.2
33	Uruguay	70.0	97	Swaziland	59.1	162	Solomon Islands	45.9
34	Oman	69.8	98	Nicaragua	58.8	163	Uzbekistan	45.8
35	South Korea	69.8	99	Honduras	58.6	164	Ukraine	45.8
36	Armenia	69.7	100	Tunisia	58.5	165	Chad	45.3
37	Slovak Republic	69.5	101	Serbia	58.0	166	Kiribati	44.8
38	Jordan	68.9	102	Cambodia	57.9	167	Comoros	43.8
39	El Salvador	68.8	103	Bhutan	57.6	168	Republic of Congo	43.6
40	Botswana	68.8	104	Bosnia and Herzegovina	57.5	169	Turkmenistan	43.6
41	Peru	68.6	105	The Gambia	57.4	170	Timor-Leste	42.8
42	Barbados	68.5	106	Kenya	57.4	171	Iran	42.1
43	Israel	68.5	107	Sri Lanka	57.1	172	Democratic Republic of Congo	40.7
44	Iceland	68.2	108	Tanzania	57.0	173	Libya	38.6
45	Colombia	68.0	109	Mozambique	56.8	174	Burma	37.8
46	The Bahamas	68.0	110	Gabon	56.7	175	Venezuela	37.6
47	United Arab Emirates	67.8	111	Nigeria	56.7	176	Eritrea	36.7
48	Mexico	67.8	112	Vanuatu	56.7	177	Cuba	27.7
49	Costa Rica	67.3	113	Brazil	56.3	178	Zimbabwe	22.1
50	Saint Vincent and the Grenadines	66.9	114	Mali	56.3	179	North Korea	1.0
51	Hungary	66.6	115	The Philippines	56.2	n/a	Afghanistan	n/a
52	Trinidad and Tobago	66.5	116	Indonesia	56.0	n/a	Iraq	n/a
53	Malaysia	66.3	117	Benin	56.0	n/a	Liechtenstein	n/a
54	Saudi Arabia	66.2	118	Tonga	55.8	n/a	Sudan	n/a
55	Macedonia	66.0	119	Malawi	55.8			
56	Latvia	65.8	120	Moldova	55.7			
57	Malta	65.7	121	Senegal	55.7			
58	Jamaica	65.7	122	Côte d'Ivoire	55.4			
59	Paraguay	64.9	123	Pakistan	55.1			
60	Bulgaria	64.9	124	India	54.6			
61	Kuwait	64.9	125	Djibouti	54.5			
62	Thailand	64.7	126	Niger	54.3			
63	Romania	64.7	127	Yemen	54.2			
64	France	64.6	128	Tajikistan	53.5			
			129	Suriname	53.1			

## ECONOMIC FREEDOM SCORE

	80-100	FREE
	70-79.9	MOSTLY FREE
	60-69.9	MODERATELY FREE
	50-59.9	MOSTLY UNFREE
	0-49.9	REPPRESSED

# Corruption perception in selected countries

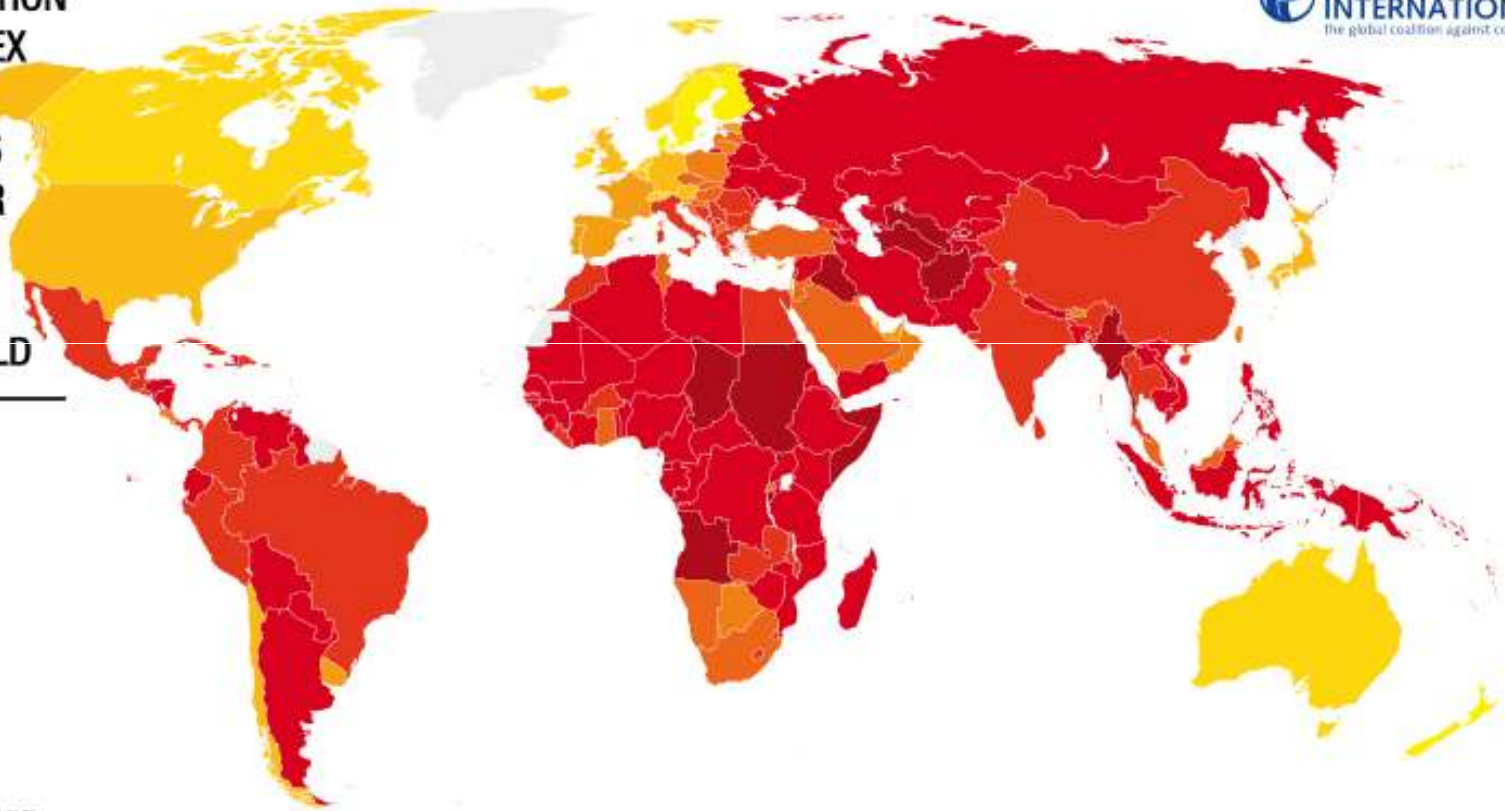
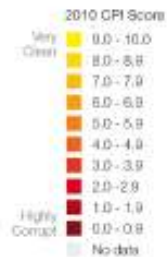


*Scale: 10 = highly clean, 0 = highly corrupt*

Source: [www.transparency.org](http://www.transparency.org), 2006

# Corruption perception in selected countries

THE 2010 CORRUPTION PERCEPTIONS INDEX MEASURES THE PERCEIVED LEVELS OF PUBLIC-SECTOR CORRUPTION IN 178 COUNTRIES AROUND THE WORLD



[www.transparency.org](http://www.transparency.org)

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Source: [www.transparency.org](http://www.transparency.org), 2010

# Illustrative effects of political environments

- Problems in property right protection may be a threat for the monopolistic advantages (→ intangibles)
- Sluggish approval procedures diminish speed-to-market
- Corruption causes higher cost + ethical and legal issues
- Differing tax and legal systems cause higher cost for advisory services
- Country specific labor regulations influence corporate flexibility
- Differing accounting rules complicate performance measurement and comparison

# Differing cultural environments

## Elements of the cultural environment

- Communication related
  - Spoken and written language
  - “Non-verbal” language
    - Gestures
    - Mimics
    - Symbols
- Value related
  - Norms and business conventions
  - Attitudes and conventions
  - Aesthetics

# Competitive environment

1. Competitive strategy for products: products compete by means of cost or differentiation strategies
  - Differentiation requires:
    - Brand image (advertising)
    - Unique features (R&D)
  - Using either approach, a firm may mass-market a good or sell to a target market
  - Different strategies can be used for different products, but a firm's choice plays a big role in determining how and where it will operate



# Competitive environment

2. Company resources and experience (compared to those of competitors)...but, being a leader in one country doesn't guarantee being a leader anywhere else
3. Competitors faced in each market: success in a market often depends on whether your competition is also local or international

Three ways of looking at globalization (Daniels et al.)

1. Further globalization is inevitable
2. International business will grow along regional lines
3. Globalization and international business will slow down due to anti-globalization and nationalistic sentiments