

Department of Business Management

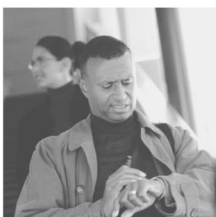
Only study guide for MNI301J



Global Business Environments

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University of South Africa, Pretoria



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FOREWORD

The lecturers in Global Business Environments welcome you to this study module and trust that you will find your learning experience over the next months both stimulating and rewarding.

We will start the discussion of the module with a brief explanation of the importance of understanding the global business environment and why this area of academic endeavour should be regarded as a separate field of study within the broad parameters of management science.

**need for international
business training**

Owing to the growth of international business and the increasing involvement of business enterprises in the global market place, it is clear that there is a need for specific education, to develop and train managers who understand the global business environment. However, the question arises whether existing areas of study in business management — such as strategy, organisational behaviour, marketing, finance, production, purchasing and human resources management — should simply be adapted to provide an international context or whether training in global business management should be offered as a separate field of study.

separate field of study

In this regard we can say that most researchers and practitioners who are involved in global business management now believe that international business relations have expanded so rapidly over the past three decades that traditional fields of study do not provide adequate information on the contemporary international business environment nor on critical global management issues. Thus it is argued that management concepts are not necessarily universal and that global business management requires a recognition of the fact that business environments and business practices differ from country to country. Hence the growing need for global business environments and global business management to be the subject of a separate field of study.

THE AIM OF THIS MODULE

**global business and its
framework**

The aim of this module is to provide you with some insight into and an understanding of the methodology of global business management and strategies, and the global environment framework within which it is conducted. The key objective is to provide training for the managers of those firms — both large and small — that are engaged in global business, or are planning to do so, and who have to tread a wary way through the increasing complexities caused by a rapidly changing external environment and continuing globalisation.

The second objective of the course is to highlight the relevance of global business for South African enterprises and to indicate how these enterprises can contribute to the national economy and help to make South Africa more competitive in the global economy.

The third objective of the module is to discuss recent and expected future developments in the Southern African region and to demonstrate how the South African business community may benefit from the process of increased economic integration of the region.

MODULE OUTCOMES

Once you have studied this module, you should be able to

- understand the process of increasing globalisation within which international business has to be conducted
- gain insight into global trade applications and the ebb and flow of foreign direct investment within the parameters of regional economic integration
- demonstrate the implications of economic integration and the development of regional trade blocs
- plan global business operations within the context of international cultural politico-legal and economic environments
- plan and implement international business strategies including the development of entry strategies and strategic alliances
- develop a global mindset based on international management and leadership principles
- demonstrate how global collaboration and strategic alliances could influence business operations in Africa and Southern Africa
- show how South African business enterprises could benefit from the increasing economic integration of Southern Africa as an emerging regional market
- show how socio-economic development initiatives could enhance economic development in Africa, Southern Africa and South Africa.

OVERVIEW OF THE MODULE

The module consists of four parts. The first part discusses the scope and dynamics of global business with specific reference to international trade, the global investment environment, economic integration and regional trade blocs. The second part provides an overview of global business environments with specific reference to international cultural environments, politico-legal environments, the international technological environment, and the global economic environment. Part three focuses on the international management and leadership principles that influence the development of a global mindset. The importance of the development of international competitive strategies and foreign market entry strategies to attain sustainable competitive advantage concludes our discussions in part three. Part four details global collaboration and strategic alliances and covers Southern Africa as an emerging regional market, outlining Africa's potential and the socio-economic development initiatives to enhance future economic growth.

PRESCRIBED BOOK AND STUDY GUIDE

prescribed book

The following textbook is prescribed for this study module:

Hough, J, & Neuland, EW. 2007. *Global business: environments and strategies*. 3rd ed. Cape Town: Oxford University Press.

This module in 'Global Business Environments' is based on chapters 1 to 6, 8, 9, 13 and 14, unless otherwise indicated in your tutorial letters.

importance of study guide

The study guide is an important tool for studying this module. In general, the assigned chapters in the prescribed book support the syllabus and aims of this module in Global Business Environments. The study guide is divided into the four main parts referred to above and there are various topics under each part. At the beginning of each topic, the topic is summarised by means of a topic chart, which indicates which study units make up the topic. At the end of each topic, you will find self-evaluation questions that have been designed to test your knowledge of the topic. We do not give answers to these questions.

the study guide will lead you

The study guide will lead you through the prescribed book. In the study guide we have omitted certain sections of the prescribed book and added to or emphasised others. At the end of each study unit there is one or more *activities* to help you understand the concepts discussed in the relevant study unit and the prescribed book. It is very important that you use the study guide and the prescribed book together!

METHOD OF STUDY

As a Unisa student your success will be based on how well you are able to study independently. The primary purpose of the study guide is therefore to bring to your attention what we consider to be the most important aspects of the conduct of international business and the parameters of the global framework within which such business operations take place. We believe you will succeed in your studies if you

basis for success

- make an in-depth study of the study guide and the relevant sections of the prescribed book and other course material
- make sure that you read, understand and follow the instructions contained in tutorial material
- do additional reading
- discuss the study material with colleagues and experts
- contact us should you have difficulties with your studies
- do the assignments and activities to the best of your ability
- test your knowledge in practical situations
- work conscientiously from day one to improve your knowledge and insight and also to prepare yourself for the examination

EXPLANATION OF ICONS

Icons are used in the study guide to highlight and bring to your attention important issues. The meaning of each of the different icons is as follows:

Activity



Assessment



Learning outcomes



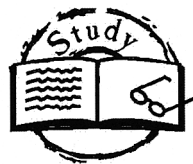
Key concepts



Read icon



Study icon



TUTORIAL LETTER 101

first tutorial letter

The first tutorial letter is very important as it contains general information on academic and administrative matters, as well as the assignments and their due dates. In this tutorial letter we include a study plan as a guideline and timetable for you.

other tutorial letters

Other tutorial letters serve as the main source of information on events and issues that arise during the year. You should read these tutorial letters immediately and not file them away to look at later. The purpose of the tutorial letters is to supply feedback on assignments, give information on examinations and to discuss anything else of importance that may have come up during the academic year.

Your lecturers in Global Business Environments hope that you will enjoy

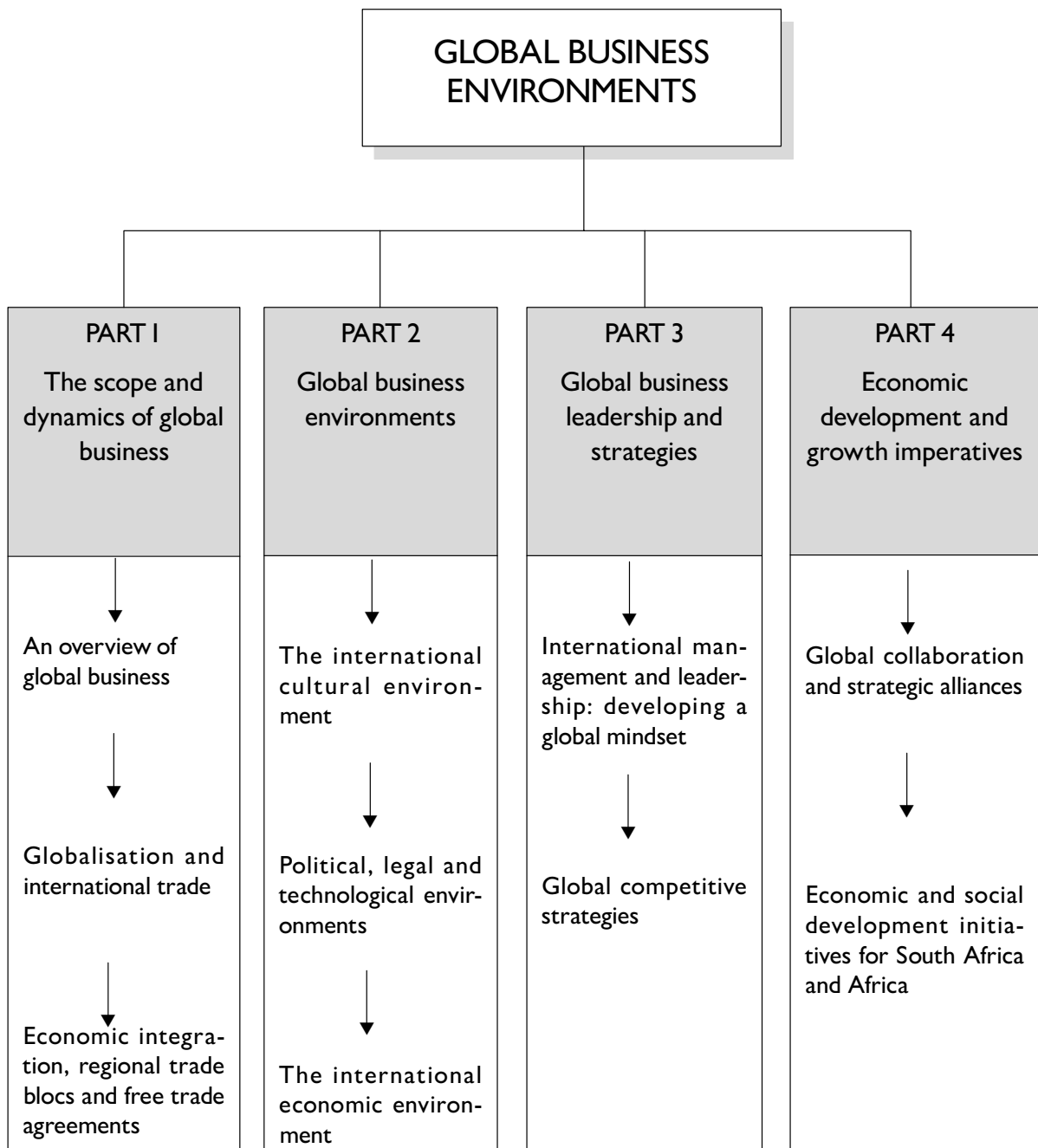
real life business

the study module and that it will encourage you to want to learn more about the best management practices in the global business environment. We believe the module will assist you when you apply what you have learned to real life business situations. We also trust that the module will stimulate your interest in further studies in the field of business management and, specifically, global business management in a competitive environment.

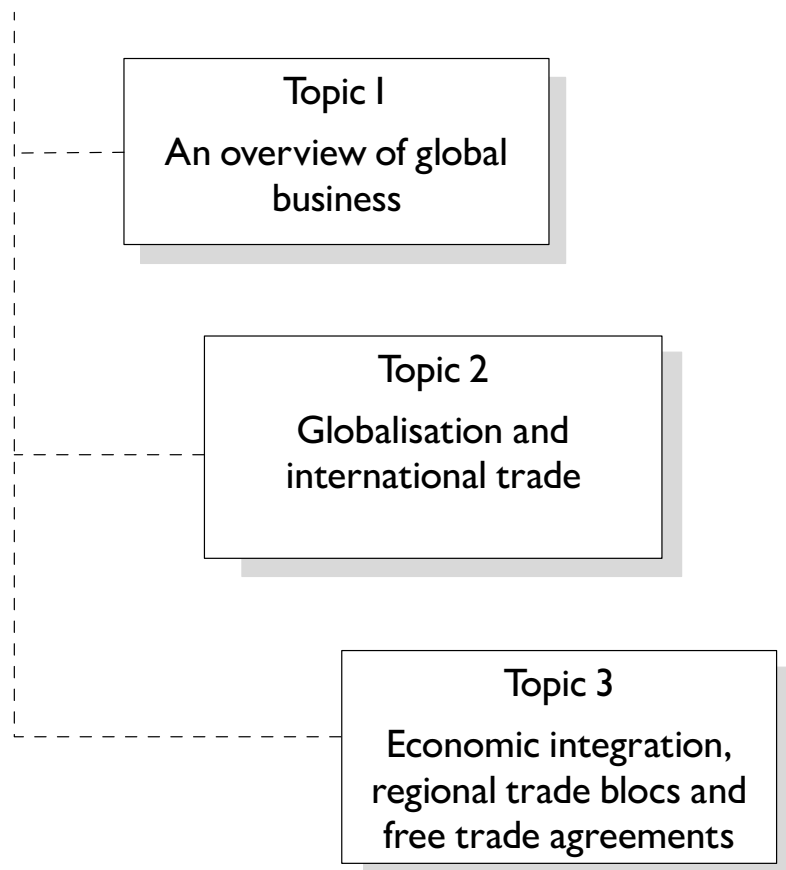
Best wishes and greetings

Lecturers in Global Business Environments

COURSE MAP



THE SCOPE AND DYNAMICS OF GLOBAL BUSINESS

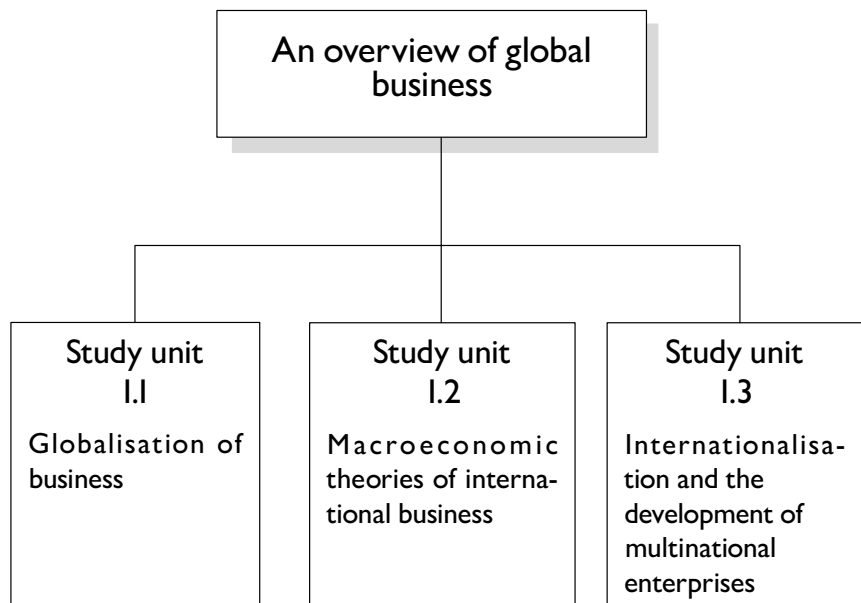


INTRODUCTION TO PART I

Part I of this course deals with the scope and dynamics of global business.

Under topic 1 we provide an overview of global business. In topic 2 international trade, globalisation and trade regulation are discussed. Topic 3 focuses on economic integration, the development of regional trade blocs and the importance of free trade agreements.

AN OVERVIEW OF GLOBAL BUSINESS



AIM

The aim of this topic is to provide you with an overview of global business development. The objective is to create an understanding of the process of the globalisation of business and to identify the macroeconomic theories that impact on the outcome of this process. Within this context the focus is on the process of internationalisation and the development of multinational enterprises.



LEARNING OUTCOMES

After studying this topic you should be able to

- define the concepts of globalisation and the globalisation of business
- identify the specific macroeconomic theories that influence the globalisation of business
- describe the process of internationalisation and how multinational enterprises have developed within the context of the globalisation of business



KEY CONCEPTS

The key concepts identified in this topic are

- global business
 - globalisation of business
 - macroeconomic theories
 - multinational enterprises
 - the process of internationalisation
-

study unit I.1

GLOBALISATION OF BUSINESS

CONTENTS

Study unit learning outcomes

Key concepts

Overview

- I.1.1 Technological change and global business
- I.1.2 Definition of globalisation and global business
- I.1.3 Types of international business
- I.1.4 Trends in the internationalisation of business

Assessment

Summary



STUDY UNIT I.1 LEARNING OUTCOMES

Once you have finished this study unit, you will be able to

- define the concept of globalisation
 - explain what global business is
 - discuss the process of the globalisation of business
 - identify the various types of international business
 - interpret the trends in the internationalisation of business
-



KEY CONCEPTS

globalisation
 global business
 technological change
 types of international business
 trends in the internationalisation of business

OVERVIEW

In study unit 1.1 we focus on the process of the globalisation of business. We define the concepts of globalisation and global business and demonstrate the impact that technological change has had on the development of global business. We also identify the various types of international business that exist and discuss evolving trends in the internationalisation of business.



1.1.1 TECHNOLOGICAL CHANGE AND GLOBAL BUSINESS

(Study section 1 in chapter 1 of the prescribed book.)

The global business environment is changing rapidly for a number of reasons such as those listed in the opening paragraph of chapter 1.

In the emerging global market, successful businesses will be those that compete internationally to meet supply and demand requirements. Globalisation of business is, in itself, not a new concept, but new factors have contributed to its recent prominence. These factors include the crumbling of the ideological edifices that came into existence after the Second World War. This meant that the former Soviet bloc countries and China gradually opened their markets to Western companies and reciprocal trade came into being between former estranged economies. This process was enhanced by rapid and massive changes in communication and transportation technologies. Trade barriers are also becoming more and more obsolete as the countries of the world seek to achieve the expansion of international trade and investment through dialogue in international bodies such as the World Trade Organisation (WTO).

We can therefore say that the liberalisation of markets, the rise of developing countries, technological change and disappearing trade barriers are bringing profound change to the global economic landscape. Companies have a simple but important choice: get on board or get left behind. We live in an increasingly global world. What this means in

**new factors of
 globalisation**

profound global change

practical terms is that if you are the chairman of Mittal Steel in South Africa, you consider Kazakstan as well as Australia when deciding where to locate a new \$500m mini-mill. Similarly, if you are the chairman of Toyota, you enter emerging markets such as China or India with modified versions of existing cars, such as the Corolla or Lexus, rather than designing a new car from scratch.

What is important, however, is that the 2006 and 2007 World Competitive Reports of the World Economic Forum show a decline in South Africa's international competitiveness, relative to other newly-industrialised nations.

technology and poor communities

We should also be aware of the fact that information and communication technologies (ICT) can connect individuals, small companies and artisans in the poorest and most isolated areas of the world by bringing them to national and global markets. Thus ICT could, for instance, help adjust the imbalance between the advantaged and the disadvantaged in the South African market place and from a more level playing field enable all South Africans to benefit from the globalisation process.

global mindset

In summary, the global economic landscape has undergone massive change over the past two decades and the pace of global economic change is quickening. The only certain factor in this new global landscape is change. Therefore, the managers of companies that seek to compete internationally will have to understand what globalisation is, which megatrends will influence globalisation, and ultimately what fundamental factors will drive globalisation. As will become clear in our discussions in Part 3, Topic 7, managers will have to develop a global mind-set or be left behind.

Look at figure 1.1 in the prescribed book. Here we see that research on globalisation shows strong support for positive expectations from this phenomenon over the next few years.



I.1.2 DEFINITION OF GLOBAL BUSINESS

(Study section 2 in chapter 1 of the prescribed book.)

areas of globalisation

Globalisation can be defined in several different ways, depending on the angle from which we choose to look at it. We can speak of the globalisation of the entire world, or of a single country, a specific industry, a specific company or even a particular line of business or function within a company.

definition of globalisation

However, in the international business context the term "globalisation" usually refers to commercial activities in which two or more countries are involved. These commercial activities could be those between private companies with a profit motive or between government organisations where no profit motive is involved.

range of commercial activities

More specifically, globalisation refers to the shift towards a more integrated and inter-dependent world economy, including the globalisation of production and markets.

International commercial activities are defined as the movement of goods, services, capital, people or technology and skills over international borders. The goods could be in the form of raw materials, or half-finished or finished products. Services include accounting, advertising, communications, computer services, advisory services, education and training, legal opinions and banking activities while skills cover management and technical skills.

Have a look at figure 1.2 in the prescribed book to see the important interaction between the operations of international enterprises and their external and competitive environments.

**I.1.3 TYPES OF INTERNATIONAL BUSINESS**

(Study section 3 in chapter I of the prescribed book.)

types or modes of international business

We identify a range of international business modes. They range from basic imports and exports to the sophisticated activities of multinational enterprises which include

- merchandise imports and exports
- service imports and exports
- tourism and transportation
- foreign portfolio and direct investments
- use of assets

These different modes of international business activities are considered in more detail in chapters 9 and 11 where we discuss the options for a business to enter the international market.

I.1.4 TRENDS IN THE INTERNATIONALISATION OF BUSINESS

(Study section 4 in chapter I of the prescribed book.)

trends in internationalisation of business

You will find an overview of the most important current trends in the internationalisation of business in section 4 in chapter I of the prescribed book. Of particular importance are changing demographic patterns, the world-wide growth of market economies following the fall of communism, technological renewal, including the shift in emphasis from manufacturing to services, the evolving global information and knowledge societies, and the development of regional trading blocs.

Refer to Box 1.1 on the joint collaboration between MIT and Nokia for

advanced research into mobile computing and communications technologies.



ACTIVITY 1.1

Read Box 1.1 on the MIT-Nokia collaboration. Do you think this new trend in technological industry-university research will accelerate or slow down in future? Why or why not? What are the potential advantages to international business? Give your answer in a brief written essay and gather facts from the newspapers and financial as well as technology journals you have studied, to substantiate your views.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can answer the following:

- Which businesses will be able to compete successfully in the emerging global market?
 - What are the new key factors that have contributed to the recent prominence of globalisation and the globalisation of business?
 - Do you believe that the managers of companies that seek to compete internationally will have to understand what globalisation is and which megatrends will influence globalisation? If so, why?
 - Why is it important for managers to develop a global mind-set?
 - Write down a definition of the term “globalisation” as we usually encounter it in the international business context.
 - Make a list of the various modes of international business referred to in the prescribed book and provide two different examples of South African companies that you have identified that meet the criteria for one or more of these modes.
-

SUMMARY

In this study unit we defined the concept of global business and showed how technological advancement has impacted on the global economic landscape. We looked at different types or modes of international business and identified the key trends that have emerged in the internationalisation of business. Finally, we said that it was imperative for managers of firms that compete or want to compete internationally to

develop a global mindset, failing which they risk being left behind in the competitive global commercial race.

study unit 1.2

MACROECONOMIC THEORIES OF INTERNATIONAL BUSINESS

CONTENTS

Study unit learning outcomes

Key concepts

Overview

- I.2.1 Why we study macroeconomic principles
- I.2.2 Theory of comparative advantage — comparative cost benefits
- I.2.3 Technological renewal and production expertise
- I.2.4 Theories on FDI
- I.2.5 Multinational agreements and organisations
- I.2.6 The trade cycle
- I.2.7 The oligopoly model
- I.2.8 International transfer of resources
- I.2.9 Balance of payments
- I.2.10 Motives for internationalisation

Assessment

Summary



STUDY UNIT 1.2 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- explain what key macroeconomic theories influence a national economy
 - define the theory of comparative advantage
 - demonstrate the relationship between technological renewal and production expertise
 - discuss the different theories on FDI
 - analyse the importance of multinational agreements and international organisations for increased global trade
 - provide information on and critically assess the trade cycle
 - explain why you think it is important to know about the oligopoly model
 - explain the relationship between the international transfer of resources and the balance of payments
 - explain the proactive and reactive reasons for the internationalisation of business
-



KEY CONCEPTS

macroeconomic
comparative advantage
comparative cost benefits
multinational organisations
oligopoly model
balance of payments

macroeconomic theories
technological renewal
production expertise
trade cycle
international transfer of resources
multinational agreements
motives for internationalisation

OVERVIEW

This study unit covers the macroeconomic factors that influence global business expansion. It explains why we study the macroeconomic theories and frameworks of international business and introduces us to the relevant theories and concepts, such as the theory of comparative advantage, the oligopoly model, and the trade cycle. We also explore the relationship between technological renewal and production expertise and consider the importance of the international transfer of resources and a country's balance of payments.



importance of understanding macroeconomic principles

1.2.1 WHY WE STUDY MACROECONOMIC PRINCIPLES

Macroeconomic factors influence the performance of a country's economy and, by extension, that country's global competitive position. It is therefore of importance for the managers of both domestic firms and those firms that engage in international trade to understand what macroeconomic principles are and how they determine growth or lack of growth in the national economy.

We next consider some important macroeconomic determinants of international business:

1.2.2 THEORY OF COMPARATIVE ADVANTAGE-COMPARATIVE COST BENEFITS

(Study section 5 in chapter I of the prescribed book.)

different resources and cost structures

In this section of the prescribed book the discussion turns to the reason why countries trade with each other rather than being self-reliant and producing goods to meet their own needs. The answer lies in the uneven distribution of resources between countries and the fact that there are different cost structures in different countries. This means that one country may have a comparative cost benefit over another when it comes to the exploitation of a resource or the manufacturing of a product where it has a production cost advantage. The theory of comparative advantage is also discussed in chapter 3, section 3.3.

companies benefit from comparative advantage-comparative cost benefits

Similarly, companies use the principle of comparative advantage to benefit from the exploitation of natural resources or manufacturing and distribution possibilities in countries where they have a comparative advantage over conditions that exist in their domestic markets.

1.2.3 TECHNOLOGICAL RENEWAL AND PRODUCTION EXPERTISE

(Study section 5.2 in chapter I of the prescribed book.)

50 years of revolutionary technological change

Over the last 50 years there have been massive technological changes worldwide. These changes are particularly evident in the radical renewal or improvement of the technology that governs communications, transportation and information processing. For instance, in the fifties and sixties business communication was done mainly by telex. Then came the fax and today we have the World Wide Web and the Internet which not only allows us to send e-mail to friends and family anywhere in the world, but also allows instantaneous business transactions and financial transfers worldwide.

An excellent example of a firm capitalising on advanced technology and innovative business and marketing initiatives is Capitec Bank, as

illustrated in Box I.3. Ensure that you understand the role that technology can play in the new information era.

I.2.4 THEORIES ON FDI

(Study sections 5.3 and 6.2 in chapter I of the prescribed book.)

FDI explained

In section 5.3 of the prescribed book you will learn about foreign direct investment (FDI), and why and how it takes place between countries. In summary it may be said that FDI is usually the outcome of a company moving beyond the borders of its own home country to purchase and control a business activity in another country, which is then referred to as the host country.

According to the general theory of capital flow, capital will move from countries where it is abundant to countries where it is scarce, or from countries where the rate of return on investment is low, to countries where it is high.

increasing importance of FDI

The past 30 years have seen a marked increase in worldwide FDI flows, from 25 billion US dollars in 1975 to a record 1,2 trillion US dollars by 2000. Historically, most FDI has been directed at developed nations up to the late 1990s, with the United States and the European Union being the main recipients. Towards the end of the 1990s, however, the FDI flows to less developed countries had already reached 35 to 40 per cent, which increased to 44 per cent by 2004. Most of these FDI flows were targeted at India, China and other countries in South East Asia, while the United States and the European Union remain the major recipients, and are still the world's largest trade and investment partners.

wealth and jobs

These flourishing economic ties create wealth and jobs in all major regions of the world. An estimated 4,8 million US jobs, 3,5 million of which are directly provided for by EU-owned firms, are supported by European investment in the US, with benefits in this regard also being experienced by many developing countries.

study section 6 of the prescribed book

Now study section 6 in chapter I of the prescribed book to gain an understanding of how and why growth in global business and foreign investment takes place.

I.2.5 MULTINATIONAL AGREEMENTS AND ORGANISATIONS

(Study section 5.4 in chapter I of the prescribed book.)

EU, NAFTA, GATT and WTO

Multinational agreements resulting in free trade areas such as the European Union (EU) and the North American Free Trade Agreement (NAFTA) and organisations such as the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organisation (WTO) have helped to bring about a global reduction in trade barriers. These organisations and

a global trend towards free market economies have also facilitated the development of regional trade blocs, as we will see in greater detail in chapter 3 of the prescribed book.

I.2.6 THE TRADE CYCLE

(Study section 5.5 in chapter I of the prescribed book.)

trade cycle theory

Make sure that you understand the explanation of the trade cycle theory in section 5.5 in chapter I of the prescribed book. You should be able to demonstrate that shifts in world trade can be compared with the stages in the life cycle of a product, and that the location of the production of a product may shift from one country to another as the product moves through its life cycle.

I.2.7 THE OLIGOPOLY MODEL

(Study section 5.6 in chapter I of the prescribed book.)

oligopoly explained

The oligopoly model explains another macroeconomic theory of international business. It helps us understand the characteristics of large scale FDI when an industry or business sector is controlled by a small number of companies. Finally the oligopoly model helps us analyse the motivation and behaviour of businesses and their role in the movement of international capital.

I.2.8 INTERNATIONAL TRANSFER OF RESOURCES

(Study section 5.7 in chapter I of the prescribed book.)

what resources include

We also have to consider the influence on international business of the transfer of resources over national borders. This is an important macroeconomic determinant of international business. These resources could include capital, labour and natural resources, but also technology and management expertise. While the international transfer of resources is generally based on economic and business considerations, governments can also influence the movement of resources.

I.2.9 BALANCE OF PAYMENTS

(Study section 5.8 in chapter I of the prescribed book.)

favourable or unfavourable balance of payments

The final theoretical macroeconomic framework we consider in study unit 1.2 is a country's balance of payments. Thus we say that the trade balance between countries is reflected in a favourable or unfavourable balance of payments. It is obviously very important, particularly in developing countries such as South Africa, to maintain a positive balance of payments so that economic growth can be sustained. (See chapter 6, section 6.4.)

I.2.10 MOTIVES FOR INTERNATIONALISATION

(Study section 6.1 in chapter 1 of the prescribed book)

motives for international involvement

It is important to know why domestic firms would even consider 'going international'. The reasons for internationalisation can be proactive or reactive, as discussed in this section. Ensure that you understand these motives.



ACTIVITY I.2.1

Consult local newspapers and journals as well as the Internet to obtain information on South Africa's current balance of payments. Section 6.4 and Appendices 1, 2 and 3 in chapter 6 of the prescribed book contain information on South Africa's balance of payments. Write a few paragraphs to reflect your findings and indicate whether you believe FDI has played a role or could play a role in securing a positive balance of payments in South Africa. In your assessment of South Africa's balance of payments in recent years, what trend(s) do you observe with regard to trade surpluses or deficits for the period under investigation?



ACTIVITY I.2.2

Read the case example in Box 1.1, 'Capitec Bank: Innovative use of technology in banking'. Evaluate the importance of using technology to attain a competitive advantage. How and why did Capitec succeed in this regard? Motivate your answer.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can answer the following:

- Explain the term, "macroeconomic theories".
- Define the theory of comparative advantage.
- Explain in your own words the interaction between technological renewal and production expertise.
- Explain why FDI is important especially in a developing country like South Africa.
- What is the oligopoly model and does it have any relevance for South Africa?

- Identify an example of the international transfer of resources that has benefitted South Africa. Consult the media and the Internet.

SUMMARY

In this study unit we explained the importance of macroeconomic theories for international business. To illustrate our point, we identified specific macroeconomic principles such as those embodied in the theory of comparative advantage-comparative cost benefits, the trade cycle and the oligopoly model. We also demonstrated the impact of technological renewal on the production expertise of international business. Finally, we discussed how FDI and the transfer of international resources could influence economic growth in the host country and the effect they could have on the balance of payments of the particular host country.

study unit 1.3

INTERNATIONALISATION AND THE DEVELOPMENT OF MULTINATIONAL ENTERPRISES

CONTENTS

Study unit learning outcomes

Key concepts

Overview

1.3.1 Definition of a multinational enterprise (MNE)

1.3.2 Strategies for internationalisation

1.3.3 Evolution of MNEs

Assessment

Summary

Topic summary



STUDY UNIT 1.3 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define what a multinational enterprise is

- explain the different strategies for internationalisation that a business could consider
- identify the different phases of evolution of multinational enterprises



KEY CONCEPTS

multinational enterprise	strategies for internationalisation
evolution of MNEs	international inquiries
export manager	export department
direct overseas sales	overseas brokers
overseas subsidiaries	overseas assembly
overseas manufacturers	licences
investment in manufacturing	integration of subsidiaries

OVERVIEW

This study unit addresses the development of multinational enterprises. First we identify what a multinational enterprise is. Then we discuss the various strategies for the internationalisation of business and in conclusion track the different phases in the evolution of multinational enterprises.



I.3.1 DEFINITION OF A MULTINATIONAL ENTERPRISE

MNE-business operations in two or more countries

A multinational enterprise (MNE) is defined as a firm that owns or controls productive business activities in two or more countries. In fact we can say that a MNE comes into existence as a result of FDI. In other words, when a domestic firm moves outside the borders of its own home country to make its first investment in another country and owns or controls a business activity in that host country, it becomes a multinational enterprise.

I.3.2 STRATEGIES FOR INTERNATIONALISATION

(Study section 7.1 in chapter 1 of the prescribed book.)

study figure I.3

Make sure that you study figure I.3 in chapter 1 to increase your understanding of the various strategies that companies in different industries could implement at different levels of internationalisation. Low

to high international involvement proceeds from the centre to the outside of the circle, indicating the various possible alternatives and opportunities.

1.3.3 EVOLUTION OF MNEs

(Study section 7.2 in chapter I of the prescribed book.)

seven phases of evolution in internationalisation

Section 7.2 in chapter I of the prescribed book identifies seven phases of evolution to demonstrate how a business enterprise could move from being a domestic firm to becoming an MNE. These phases are illustrated in figure 1.4 in chapter I of the prescribed book. However, it should be noted that not all companies move through all seven phases as they go from being a domestic business to an international business. The seven phases can be summarised as follows:

- Phase 1 occurs when a company receives an inquiry about one of its products from a foreign business entity or from a domestic exporter.
- In phase 2 an export manager is appointed to expand the search for foreign markets for the company's products.
- Phase 3 occurs when an export department or division is established at the same level as the domestic sales department.
- In phase 4 a sales branch is established abroad to handle sales and promotional work in a host country and this sales branch then evolves into a sales subsidiary incorporated in the host country.
- In phase 5 the company expands the sales activity of the subsidiary in the host country to include an assembly operation so that a disassembled product rather than the whole product can be exported from the home country.
- Phase 6 is the establishment of actual production in the host country. Ensure that you understand the three methods that are generally available to MNEs to commence foreign production with reference to figure 1.5 in chapter I which explains the relationship between 'product diversity' and 'market complexity' in this regard.
- Finally, in phase 7 the parent company integrates the various foreign subsidiaries into one multinational enterprise system.



ACTIVITY 1.3.1

Select a company with international operations that is listed on the Johannesburg Securities Exchange (JSE). From newspaper and financial journal reports, as well as the company's website and annual report(s), establish the types of international operations and its phase of internationalisation, where possible. Write a brief report on your findings.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define a multinational enterprise.
 - list, discuss and evaluate the different strategies that companies use for internationalisation
 - evaluate the different phases of evolution through which a domestic company could progress to become a multinational enterprise (MNE).
-

SUMMARY

In this study unit we reviewed the development of multinational enterprises (MNEs). In particular we asked how one could define a MNE. In conclusion we discussed the various strategies for internationalisation in business and we identified the seven different phases that a domestic company may go through to become a MNE.

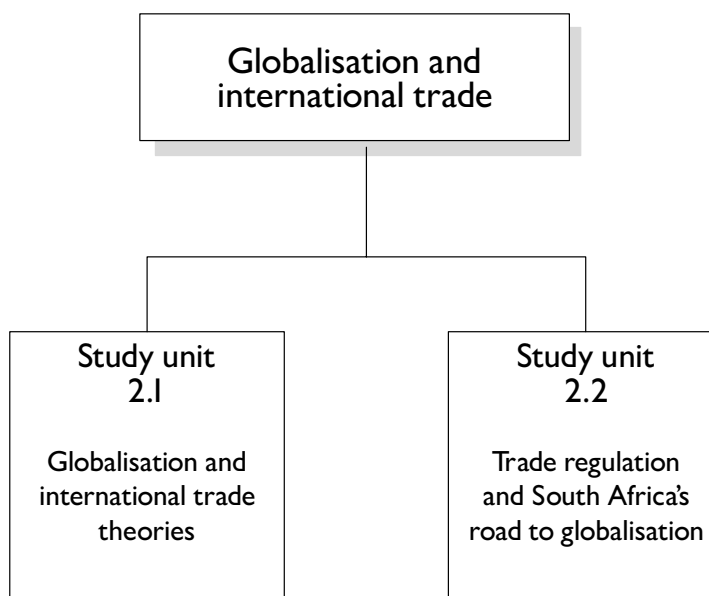
TOPIC SUMMARY

In study unit 1.1 we defined the concept of the globalisation of business. We then reviewed the impact of technological change on global business and identified the various types of international business. Finally, we evaluated the current trends in the internationalisation of business.

In study unit 1.2 we continued the discussion of the globalisation of business by referring to the various macroeconomic theories that impact on the globalisation of business. In this respect our discussion included the theory of comparative advantage-comparative cost benefits and the state of a country's balance of payments.

In study unit 1.3 we looked at the development of multinational enterprises. In particular we reviewed the various strategies for internationalisation and evaluated the different phases through which a domestic firm could evolve to become a MNE.

GLOBALISATION AND INTERNATIONAL TRADE



AIM

The aim of this topic is to further expand our views on the globalisation of the world economy and within this context discuss international trade theories, free trade and trade regulation in the context of the ongoing globalisation of the world economy. The topic is concluded with a brief overview of South Africa's road to globalisation.



LEARNING OUTCOMES

After studying this topic, you should be able to

- evaluate globalisation as a frame of reference for international trade
- explain what international trade is
- identify and explain the various international trade theories
- explain the forces driving globalisation
- define and describe economic integration
- discuss, evaluate and explain tariff barriers in the context of international trade
- discuss, evaluate and explain non-tariff barriers in the context of international trade

- explain and critically evaluate the case for and against government intervention
 - explain and evaluate the role of trade remedies
 - discuss and evaluate South Africa's road to globalisation
-



KEY CONCEPTS

The key concepts identified in this topic are

globalisation	global business
international trade	internationalisation
international trade theories	free trade
trade regulation	world economy
globalisation institutions	economic integration
national competitive advantage	market entry barriers
government intervention	tariff barriers
infant industries	non-tariff barriers
trade remedies	trade patterns

study unit 2.1

GLOBALISATION AND INTERNATIONAL TRADE THEORIES

CONTENTS

Study unit learning outcomes

Key concepts

Overview

2.1.1 Globalisation as a basis for international trade

2.1.2 The modern globalisation institutions

2.1.3 International trade theories

2.1.4 Economic integration

Assessment

Summary



STUDY UNIT 2.1 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- evaluate globalisation as a frame of reference for international trade
 - explain what international trade is
 - identify and explain the international trade theories
 - explain the forces driving globalisation
 - define and describe economic integration
-



KEY CONCEPTS

globalisation	globalisation institutions
international trade	global business
international trade theories	free trade
economic integration	international trade barriers
world economy	national competitive advantage

OVERVIEW

In study unit 2.1 we discuss international trade and the globalisation of business. We then discuss the important modern globalisation institutions, international trade theories, the forces driving globalisation and the place of economic integration in the international trade environment.



2.1.1 GLOBALISATION AS A BASIS FOR INTERNATIONAL TRADE

(Study sections 1 and 2 in chapter 2 of the prescribed book.)

the globalisation process

In section 1 in chapter 2 of the prescribed book the argument is proposed that globalisation is the economic restructuring of the world economy. By implication, the question also posed is whether the global goal of better living standards for all will be achieved through the process of globalisation or whether globalisation will merely exacerbate gaps between rich global blocs and the poor regions.

**develop your own
opinions**

You should, at this early stage of your studies in global business environments and based on the discussions in topic 1 above, already start forming your own opinion on the process of globalisation that we are seeing all around us. See which arguments in favour or against you agree with, but make sure you are always in a position to fully substantiate and defend the arguments you select. The views of Stiglitz towards the end of section 1 in chapter 2 of the prescribed book are quite revealing in this regard.

2.1.2 THE MODERN GLOBALISATION INSTITUTIONS

(Study section 2 in chapter 2 of the prescribed book.)

**main institutions
governing globalisation**

The three main institutions governing globalisation worldwide are the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the World Bank. Study this section to identify their role, as well as that of other organisations in this regard.

2.1.3 INTERNATIONAL TRADE THEORIES

(Study sections 3 and 4 in chapter 2 of the prescribed book.)

**the different trade
theories**

Section 3 of the prescribed book explains the different theories we need to know about to understand international trade (see, too, figure 2.1). The first attempt at explaining international trade became known as ‘mercantilism’. It was centred on the nation state and aimed at increasing exports over imports. However, the first important theory that explained international trade was published by Adam Smith in *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776. It is known as the “theory of absolute advantage”. Study this theory closely and then compare it with Ricardo’s important theory of comparative advantage. Next we need to consider the Heckscher-Ohlin theory of factor endowments and the so-called Leontief paradox. Now, acquaint yourself with Raymond Vernon’s product life cycle theory and the New Trade Theory. Finally, there is the very important theory on the competitive advantage of nations, known as “Porter’s diamond model”. Porter’s theory is not a trade theory in the strict sense of the word, but rather a unique and valuable framework for the analysis of the competitiveness of industries and firms within industries, which helps to explain why international trade takes place.

**Porter’s theory of
national competitive
advantage**

**evolution of trade
theories**

When we analyse these different trade theories we can see an evolutionary process. Each theory was built on the previous one until we get to Porter’s diamond, which currently offers the best explanation of why international trade takes place in the global economy. Section 4 in chapter 2 of the prescribed book briefly summarises four drivers of globalisation. Based on our discussion in this section, and other relevant sources, compile your own summary of the various trade theories.

2.1.4 ECONOMIC INTEGRATION

(Study section 5 in chapter 2 of the prescribed book.)

increasing importance of economic integration

In recent years there has been an increasing trend amongst countries in certain geographic areas to align themselves economically with neighbouring countries to create trade blocs and free trade areas. Study Box 2.4, '400 Trade Agreements by 2010' in this regard.

Economic integration typically evolves through the following phases:

- Free trade zone
- Free trade area
- Customs union
- Common market
- Economic union
- Political union

regional economic integration enhances international trade

Ensure that you understand the basic characteristics of each of these stages, which are explained in greater detail in chapter 3 of the prescribed book.

In the context of international trade, economic integration is important because it increases trade between member countries as a result of eliminating trade barriers.



ACTIVITY 2.1.1

In a brief report, compare the theory of comparative advantage of trade, the Heckscher-Ohlin theory and Porter's diamond theory, and comment on the merits and usefulness of each of these theories for international management.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- evaluate globalisation as a frame of reference for international trade
- explain what international trade is
- identify and explain the international trade theories
- explain the forces driving globalisation
- define and describe economic integration

SUMMARY

In this study unit we defined the concept of international trade within the context of the globalisation of business. We then shifted our focus to international trade theories and briefly explained how economic integration and the formation of trade blocs and free trade areas enhance international trade.

study unit 2.2

TRADE REGULATION AND SOUTH AFRICA'S ROAD TO GLOBALISATION

CONTENTS

Study unit learning outcomes

Key concepts

Overview

2.2.1 Market entry barriers

2.2.2 The case for government intervention

2.2.3 Trade remedies

2.2.4 South Africa's road to globalisation

Assessment

Summary

Topic summary



STUDY UNIT 2.2 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- discuss, evaluate and explain tariff barriers in the context of international trade
 - discuss, evaluate and explain non-tariff barriers in the context of international trade
 - explain and critically evaluate the case for and against government intervention in international trade
 - explain and evaluate the role of trade remedies
 - discuss and evaluate South Africa's road to globalisation
-



KEY CONCEPTS

globalisation	government intervention
market entry barriers	infant industries
tariff barriers	trade patterns
non-tariff barriers	trade remedies

OVERVIEW

In study unit 2.1 we discussed the theories of international trade and their evolution to the present day. The message derived from the theory of comparative advantage of international trade and the more recent trade theories is that potential world production and consumption is greater with unrestricted or free trade than it is with restricted trade.

In study unit 2.2 we examine market entry barriers with specific reference to tariff barriers and non-tariff barriers as measures of trade regulation. We also look at the case for government intervention in international trade and the role of trade remedies, and conclude our discussion with a brief overview of South Africa's road to globalisation.



**free trade versus
protectionism**

**trade protection and
retaliation**

2.2.1 MARKET ENTRY BARRIERS

(Study section 6 in chapter 2 of the prescribed book.)

Modern economists generally support free trade because it is seen as the best way of ensuring economic growth worldwide. However, there are also opponents of free trade who favour protectionist policies based on trade barriers as the best way of protecting the economic welfare of individual countries. Apart from the argument of protecting infant or growing industries, those who favour protectionist policies often base their arguments on non-economic factors which include political, social, moral and ethical issues.

A worrying part of the process of global trade expansion has been the retaliatory measures invoked by different countries to protect vulnerable sectors of their national economies. Examples in this regard include:

- The ongoing quarrel between the US and the EU about steel and agricultural subsidies
- The ongoing battle between the two giant aircraft manufacturers, Boeing and Airbus, about alleged unfair government subsidies
- The discontent of some 20 developing countries with the US, the EU and Japan about agricultural subsidies that have largely derailed the WTO's Doha Round of international trade negotiations

With regard to market entry barriers, we now briefly look at the two types of measures that governments use to protect their economies or stem the flow of imports:

- tariff barriers
- non-tariff barriers (NTBs)

2.2.1.1 Tariff barriers

(Study section 6.1 in chapter 2 of the prescribed book.)

nature of tariff barriers

Tariff barriers are created when governments put financial levies on the importation of goods — either in the form of specific taxes or tariffs, or as ad valorem tariffs. Tariffs generally generate revenue for governments, and discourage the importation of specific goods for various reasons. Now study the general implications of tariffs listed in this section.

In the sub-sections that follow the more general and often-used tariff barriers are discussed. These include

- Customs duties
 - Ad valorem duties
 - Specific duties
 - Formula or rated duties

types of tariff barriers

- Levels of duties
 - Applied rates
 - Bound rates
 - Nominal rates
 - Effective rates
- Other forms of customs duties
 - Ad valorem customs duties (luxury tax)
 - Specific customs duties (sin taxes)
 - Surcharge
 - Environmental levies
 - Fuel levies and Ordinary levies

Study these forms of tariffs and their characteristics thoroughly with reference to Boxes 2.5 and 2.6 in chapter 2 of the prescribed book.

2.2.1.2 Non-tariff barriers (NTBs)

(Study section 6.2 in chapter 2 of the prescribed book.)

nature of non-tariff barriers

NTBs are more refined than tariff barriers, but arguably also more effective in restricting international trade or the free flow of goods. Study the nature of NTBs and their implications as described in this section, noting that the flow of goods which are tariff-free or duty-free may still

be restricted by imposing NTBs, and that NTBs are less easy to detect than tariff barriers.

Now study the rest of this section on NTBs with reference to Box 2.7, under the following headings:

types of non-tariff barriers

- Import and export control
- Import licences
- Quotas
- Prohibitive goods
- Restricted goods
- Standards (quality and health)
- Embargoes and sanctions
- Other NTBs
- Environmental trade barriers
- Infrastructural trade barriers

In closing, it should be clear that importers and exporters need to be aware of the existence of NTBs in those countries with which they trade, or run the risk of significant detrimental exposures and losses.

2.2.2 THE CASE FOR GOVERNMENT INTERVENTION

(Study sections 7 and 8 in chapter 2 of the prescribed book.)

reasons for government intervention

Study the following arguments advanced for government intervention in international trade:

- Protecting industries and jobs
- Protecting 'infant industries' (also see Box 2.8 and section 8 in chapter 2)
- Protecting consumers
- Protecting foreign exchange reserves
- Trade remedies
- Retaliation
- National security
- Food security

As stated in the Overview above, the main argument against government intervention is that the potential for world production and consumption is greater with free trade than restricted trade.

2.2.3 TRADE REMEDIES

(Study section 9 in chapter 2 of the prescribed book.)

defining trade remedies

Governments can use trade remedies in instances of unfair trade practices, notably dumping and subsidies. Safeguards can also be used in cases of disruptive competition due to increased imports. Two categories of safeguards are:

types of trade remedies

- Unfair trade remedies (anti-dumping and countervailing)
- Fair trade remedies (industrial safeguards; agricultural safeguards; and special safeguards (Chinese accession)).

Ensure that you understand these trade remedies, their implications for international trade, and when they can be used.

2.2.4 SOUTH AFRICA'S ROAD TO GLOBALISATION

(Study section 10 in chapter 2 of the prescribed book.)

SA's future prospects of international involvement

This section discusses South Africa's road to globalisation and the factors that affect the country's trading patterns under the following headings:

factors affecting foreign trade

- A brief history of South Africa's globalisation
- Factors affecting South Africa's foreign trade patterns
 - Abundance of natural resources
 - Degree of sophistication
 - Emergence of service-oriented economies
 - Economic conditions in foreign markets
 - Size of foreign markets
 - Traditional markets and new market opportunities
 - Political factors
- Opportunities and problems facing South African exporters

Familiarise yourself with the content of this section as outlined above since it provides an invaluable frame of reference to assess South Africa's future international involvement and serves as a basis for the remaining topics in this module.



ACTIVITY 2.2.1

Write a brief report on and evaluate South Africa's current status of trade regulation on industrial/manufactured products. Apart from newspapers and financial journals, access the websites of the Department of Trade and Industry and of the International Trade Administration Commission of South Africa (ITAC) (www.thedti.gov; www.itac.org.za).





ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- discuss, evaluate and explain tariff barriers in the context of international trade
 - discuss, evaluate and explain non-tariff barriers in the context of international trade
 - explain and critically evaluate the case for and against government intervention in international trade
 - explain and evaluate the role of trade remedies
 - discuss and evaluate South Africa's road to globalisation
-

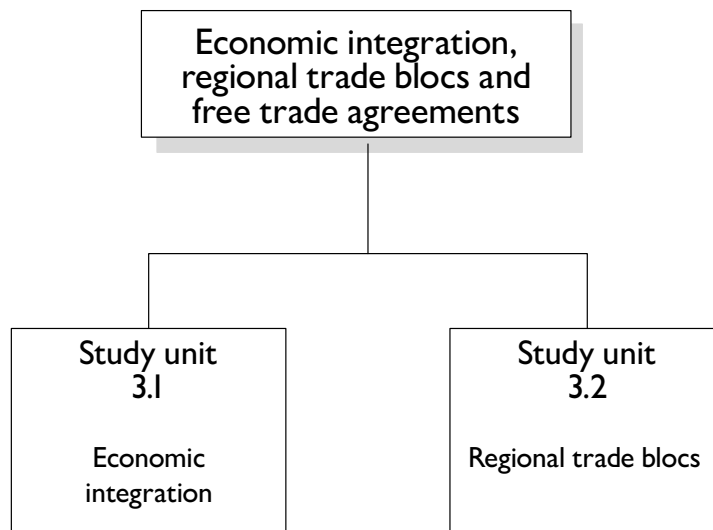
SUMMARY

In this study unit we discussed and explained trade regulation with specific reference to tariff barriers and non-tariff barriers — the main elements of market entry barriers. We then looked at the case for government intervention in trade, and the nature and use of trade remedies. An overview of South Africa's road to globalisation concluded our discussion.

TOPIC SUMMARY

Study unit 2.1 focused on international trade, international trade theories, modern globalisation institutions and concluded with an overview of the importance of economic integration in international trade. Study unit 2.2 dealt with the regulation of international trade with specific reference to tariff and non-tariff barriers. The case for government intervention and the role of trade remedies were discussed next. South Africa's road to globalisation rounded off the discussions in this topic.

ECONOMIC INTEGRATION, REGIONAL TRADE BLOCS AND FREE TRADE AGREEMENTS



AIM

The aim of this topic is to provide you with an overview of regional economic integration and the development of regional trade blocs within the context of globalisation. The discussion is therefore about the concept of economic integration both in its global and in its regional sense with specific reference to the characteristics of today's most important regional trade blocs. Finally, we seek to establish what the costs and benefits are for South Africa to be part of the SADC regional trade bloc in Africa.



LEARNING OUTCOMES

After studying this topic you should be able to

- define the concept of economic integration
- define and discuss the process of regional economic integration
- describe the characteristics of a regional trade bloc
- identify today's most important regional trade blocs
- analyse and interpret the implications of economic integration and regionalisation for SADC and South Africa



KEY CONCEPTS

The key concepts identified in this topic are

economic integration	regionalisation
regional economic integration	regional trade blocs
SADC	forms of trade blocs

study unit 3.1

ECONOMIC INTEGRATION

CONTENTS

Study unit learning outcomes

Key concepts

Overview

3.1.1 Definition of economic integration

3.1.2 Analytical basis for measuring the effects of economic integration

3.1.3 Forms of trade blocs

3.1.4 Advantages and disadvantages of free trade areas

Assessment

Summary



STUDY UNIT 3.1 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define the concept of economic integration
 - explain the analytical basis for measuring the effects of economic integration
 - discuss the difference between trade creation and trade diversion
 - identify the various forms of trade blocs
 - evaluate the advantages and disadvantages of free trade areas
-



KEY CONCEPTS

economic integration	regional economic integration
trade blocs	regional trade blocs
trade creation	trade diversion
free trade area	customs union
common market	economic union
political union	principle of economic integration

OVERVIEW

In study unit 3.1 we define economic integration and other relevant concepts and demonstrate that such economic integration often takes the form of the development of regional trade blocs. In this context we discuss the analytical basis for measuring the effects of economic integration with specific reference to the effects of trade creation and trade diversion, and explain the principle of economic integration. We also delineate the various forms that regional trading blocs can take and evaluate the most important advantages and disadvantages of free trade areas.



3.1.1 DEFINITION OF ECONOMIC INTEGRATION

(Study sections 1, 2 and 3 in chapter 3 of the prescribed book.)

economic integration

This section commences with the definition of a few key concepts, and then defines economic integration as the grouping of countries by agreement or treaty, usually on a regional basis, to form a trade bloc that secures trade benefits for the participating member states through the tariff-free or tariff-reduced cross-border movement of goods, services, capital and labour in that particular trade bloc. The share in world merchandise and commercial services trade in the major geographical regions of the world is illustrated in table 3.1 in chapter 3 of the prescribed book, which indicates that Europe dominated global exports and imports in 2005. However, there are different degrees as well as forms of economic integration. Make sure, therefore, that you understand the statement by Czinkota, Ronkainen and Moffett (2002) in section 3 in chapter 3 of the textbook on the degrees or spectrum of economic integration and refer to section 3.1.3 below where we discuss the forms of economic integration.

degrees and forms of economic integration

3.1.2 ANALYTICAL BASIS FOR MEASURING THE EFFECTS OF ECONOMIC INTEGRATION

(Study section 3 in chapter 3 of the prescribed book.)

trade creation and trade diversion

The analytical basis for measuring the effects of economic integration was developed by the American scholar, Jacob Viner (1892–1970). We therefore have to understand this economic theory to be able to discuss the role and characteristics of the various regional trade blocs that came into existence after the Second World War. In particular, we need to understand the difference between the concepts of trade creation and trade diversion.

principle of economic integration

Ensure that you understand the principle of economic integration, which states that greater world production and trade would be possible if fewer trade restrictions existed, as manifested in trade blocs, notably free trade areas and the other forms of trade blocs.

3.1.3 FORMS OF TRADE BLOCS

(Study section 4 in chapter 3 of the prescribed book.)

degrees of economic integration

In section 4 of the prescribed book the different forms of trade blocs are discussed and the characteristics of each of these forms of trade blocs are delineated. You will see that the degree of economic integration increases as one moves from a free trade area through to a customs union, then to a common market and, ultimately, to an economic and conceivably a political union.

3.1.4 ADVANTAGES AND DISADVANTAGES OF FREE TRADE AREAS

(Study section 7.4 in chapter 3 of the prescribed book.)

economic impact of free trade areas

It is true to say that most modern economists support free trade. They argue that it increases consumption possibilities, is beneficial to general economic wellbeing, and leads to higher living standards. However, it is also true to say that just as there are arguments in favour of free trade there are arguments against its impact on the economies of, particularly, less developed countries. You should therefore carefully study section 7.4 on the advantages and disadvantages of free trade and free trade areas in order to form a frame of reference within which you may evaluate free trade, economic integration and regional trade blocs.



ACTIVITY 3.1.1

Tabulate the characteristics of the various forms of trade blocs, namely free trade areas, customs unions, common markets, economic unions and political unions. This will enable you to evaluate and discuss the degree of

economic integration of the different regional trade blocs we will discuss in study unit 3.2.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define the term “economic integration”
 - evaluate the relative value of trade creation and trade diversion for economic integration
 - list the different forms of trade blocs and assess their characteristics
 - explain, in your opinion, the most important benefit of a free trade area (Give reasons for your answer.)
 - list a significant disadvantage of a free trade area (Give reasons for your answer.)
-

SUMMARY

In this study unit we defined the concept of economic integration. We also reviewed the analytical basis for measuring the effects of economic integration with specific reference to trade creation and trade diversion. We then considered the different forms of trade blocs and demonstrated the incremental growth in the economic integration process as one moves from a primary free trade area to the more complex and sophisticated level of economic union and, ultimately, to a political union. Finally, we analysed the advantages and disadvantages of free trade areas with specific reference to less developed countries.

REGIONAL TRADE BLOCS**CONTENTS**

Study unit learning outcomes

Key concepts

Overview

3.2.1 Economic integration and regional trade blocs

3.2.2 The EU

3.2.3 NAFTA

3.2.4 MERCOSUR

3.2.5 Andean Common Market, Central American Common Market, Latin American Integration Association, CARICOM and the ACP Group

3.2.6 ASEAN

3.2.7 Asia-Pacific Economic Co-operation (APEC)

3.2.8 Cairns Group

3.2.9 Indian Ocean Rim Association

3.2.10 Africa

3.2.11 Free trade agreements

Assessment

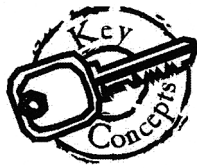
Summary

Topic summary

**STUDY UNIT 3.2 LEARNING OUTCOMES**

Once you have studied this study unit, you will be able to

- define a regional trade bloc
- identify the most important regional trade blocs that exist in the world today
- evaluate the characteristics of regional trade blocs in general
- list the regional trade blocs that provide specific value to the South African economy
- discuss specific examples of free trade agreements
- demonstrate the implications of important regional trade blocs for Southern Africa, South Africa and South African business



KEY CONCEPTS

economic integration	regional trade blocs
trade characteristics	structure and governance
political integration	expansion to the East
EU	ECB
euro	euro and dollar zones
NAFTA	MERCOSUR
CARICOM	ASEAN
Cairns Group	ACP Group
Indian Ocean Rim Association	ECOWAS
COMESA	SADC
TDCA agreement	bilateral agreement
open economy	economic dependence

OVERVIEW

In this study unit we review the most important trading blocs, economic co-operation groups and free trade areas that exist in the world today. We also identify the potential benefits and some of the drawbacks that free trade areas have for the global community and for individual countries. We pay specific attention to those regional trade blocs, such as the EU, NAFTA and SADC, which have major trade benefits for South Africa.



global distribution of regional trade blocs

study selectively

3.2.1 ECONOMIC INTEGRATION AND REGIONAL TRADE BLOCS

Section 5 in chapter 3 of the prescribed book deals with specific examples of regional trade blocs. These regional trade blocs have all been created since the Second World War and can be said to have a global distribution (ie they are distributed across the world's main geographical regions — Europe, the Americas, Asia and Africa). We will deal with examples of trade blocs in each of these geographical regions.

As you work your way through this chapter of the prescribed book you should not allow yourself to become confused by the number of existing regional trade blocs or the detail in which they are sometimes discussed. You should study this chapter selectively. To assist you, we will identify the specific trade blocs of which you need to be aware and indicate into how much detail you need to go. The sections that you are required to read for background information only will be marked with the “Read” icon where convenient. In general, the rule is that you should be able to say which regional trade blocs are important for South Africa and why, what their

organisational and trade characteristics are, and how specifically they impact on South African trade or the South African business community.

As a general introduction table 3.4 and figure 3.1 in chapter 3 of the prescribed book clearly illustrate the increasing importance of regional trade blocs in world trade in recent years.

3.2.2 THE EU

importance of the EU

The European Union (EU) is the largest trade bloc in the world and South Africa's most important trading partner. You should study the following sections of the prescribed book:



STUDY

study sections 5.1.1.1 to 5.1.1.6 in section 5.1.1

- This section describes the global importance of the EU as a trade bloc.
- The section also describes the trade characteristics of the EU.
- Finally the section discusses the euro — specifically its operational factors and the relative size of the euro and dollar zones.



read the other sections, sections 5.1.1.7 to 5.1.1.9 and 5.1.2

READ

The rest of section 5.1.1 makes interesting reading and is useful as background information. Make a note of the European Central Bank (ECB) and be aware of the existence of the European Free Trade Area (EFTA). Section 5.1.2 is also assigned for reading.

importance for South Africa

When you have studied and read the relevant sections of the prescribed book, make a few notes on what you regard as the importance of the EU for South Africa.

3.2.3 NAFTA

second largest regional trade bloc

The North American Free Trade Agreement (NAFTA) is the second largest regional trade bloc in the world and constitutes South Africa's second largest trade partner.



study sections 5.2.1.1, 5.2.1.2 and 5.2.1.5

STUDY

Study section 5.2.1 in chapter 3 of the prescribed book on the increase of trade that resulted from the creation of NAFTA. This section also delineates the NAFTA trade characteristics. Read sections 5.2.1.3 and 5.2.1.4.

importance for South Africa

When you have studied and read the relevant sections of the prescribed book, make a few notes on what you regard as the importance for South Africa of its trade relationship with NAFTA.

3.2.4 MERCOSUR



Read the entire section 5.2.2 in chapter 3 of the prescribed book. You should be aware that the Southern Common Market (MERCOSUR) is growing in importance as a regional trade bloc in the Americas and that links are being increasingly formed between MERCOSUR and the EU and between MERCOSUR and NAFTA.

3.2.5 ANDEAN COMMON MARKET, CENTRAL AMERICAN COMMON MARKET, LATIN AMERICAN INTEGRATION ASSOCIATION, CARICOM AND THE ACP GROUP



CARICOM has global political clout

Read sections 5.2.3 to 5.2.6 and 5.4.1 in chapter 3 of the prescribed book. The Caribbean Community and Common Market (CARICOM) is the regional trade grouping of the Caribbean and an important role player in the decision-making process of the Africa, Caribbean and Pacific (ACP) group. In fact, in the past, although relatively unimportant in global terms, CARICOM dictated policy for the ACP group against the wishes of the numerically more important African countries, including South Africa, that make up the bulk of the ACP group.



study the ASEAN trade characteristics in section 5.3.2

3.2.6 ASEAN

Read section 5.3.1 in chapter 3 of the prescribed book, but study the trade characteristics of the Association of South East Asian Nations (ASEAN) in section 5.3.2 so that you are able to compare these with the trade characteristics of other regional economic trade blocs.



read section 5.3.3

3.2.7 ASIA-PACIFIC ECONOMIC CO-OPERATION (APEC)

Read section 5.3.3 in chapter 3 of the prescribed book.



importance for South Africa

3.2.8 CAIRNS GROUP

(Study section 5.3.4 in chapter 3 of the prescribed book.)

When you have studied and read the relevant sections of the prescribed book, make a few notes on what you regard as the importance for South Africa of its relationship with the Cairns Group. Focus on the importance of the World Trade Organisation (WTO) negotiations the Cairns Group conducts for its 18 member countries, including South Africa, all of whom rely heavily on agricultural exports. (Read section 5.3.5 on the Gulf Co-operation Council (GCC).)

3.2.9 INDIAN OCEAN RIM ASSOCIATION

(Study section 5.3.6 in chapter 3 of the prescribed book.)

importance for South Africa

When you have studied and read the relevant sections of the prescribed book, make a few notes on what you regard as the importance for South Africa of its trade relationship with the Indian Ocean Rim Association.



3.2.10 AFRICA

(Study the introduction to sections 5.4 and 5.4.2.6 in chapter 3 of the prescribed book. Read sections 5.4.2.1, 5.4.2.2, 5.4.2.3, 5.4.2.4, 5.4.2.5 and 5.4.2.7.)

SADC

Study SADC's role in economic development, its objectives, and organisational structure in section 5.4.2.6 in chapter 3 of the prescribed book, with reference to Box 3.

focus on the link with the EU

3.2.11 FREE TRADE AGREEMENTS

We will approach the regional trade blocs in Africa by focusing on the EU and South and Southern Africa and then looking a bit wider. This approach is based on the fact that the EU, as the largest global regional trade group, is the agreement partner of the ACP group, which includes all the African countries. The EU also has important bilateral trade and aid relationships with many African countries, including South Africa.



**free trade
agreements
sections to study**

STUDY

Study the following sections in chapter 3 of the prescribed book:

- section 6 on free trade agreements and, specifically, the entire section 6.3 on the trade relationship between the EU and South Africa
 - section 6.3.9 on the implications for Southern Africa of the Trade, Development and Cooperation Agreement (TDCA) between the EU and South Africa
 - section 7 on the implications of regional trade blocs for South Africa including the criteria for successful regional trade blocs in section 7.1
 - section 7.2 on the implications of regional trade blocs for South African business
 - section 7.2.2 on the importance of the EU and NAFTA
 - section 7.3 on the role of the WTO
-

**importance for South
Africa**

In the previous sections of the study guide you were asked to study and read certain sections of the prescribed book and then to make notes on the importance for South Africa of its trade relationship with NAFTA, the Cairns Group, and the Indian Ocean Rim Association. Now complete these notes by adding in the reasons why the EU-South Africa trade relationship is very important for the South African economy and for South African business.



ACTIVITY 3.2.1

You intend to deliver a paper at a local Chamber of Commerce meeting. Review the notes you have made on the importance of the EU, NAFTA, the Cairns Group, and the Indian Ocean Rim Association for South Africa. Then draw up a comparative table in which you rate the trade relationship of each group with South Africa. Finally, extend your findings to include Southern Africa. You will need to consult national newspapers and journals as well as the Internet for facts to include in your report.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define a regional trade bloc
- describe and compare the trade characteristics of the EU and NAFTA

- evaluate the implications of the euro for South African business
 - summarise the relative importance of the euro and dollar zones in the global context
 - discuss the relative importance of the Cairns Group and the Indian Ocean Rim Association for South Africa
 - make a critical analysis of the importance of regional trade blocs for the South African economy
-

SUMMARY

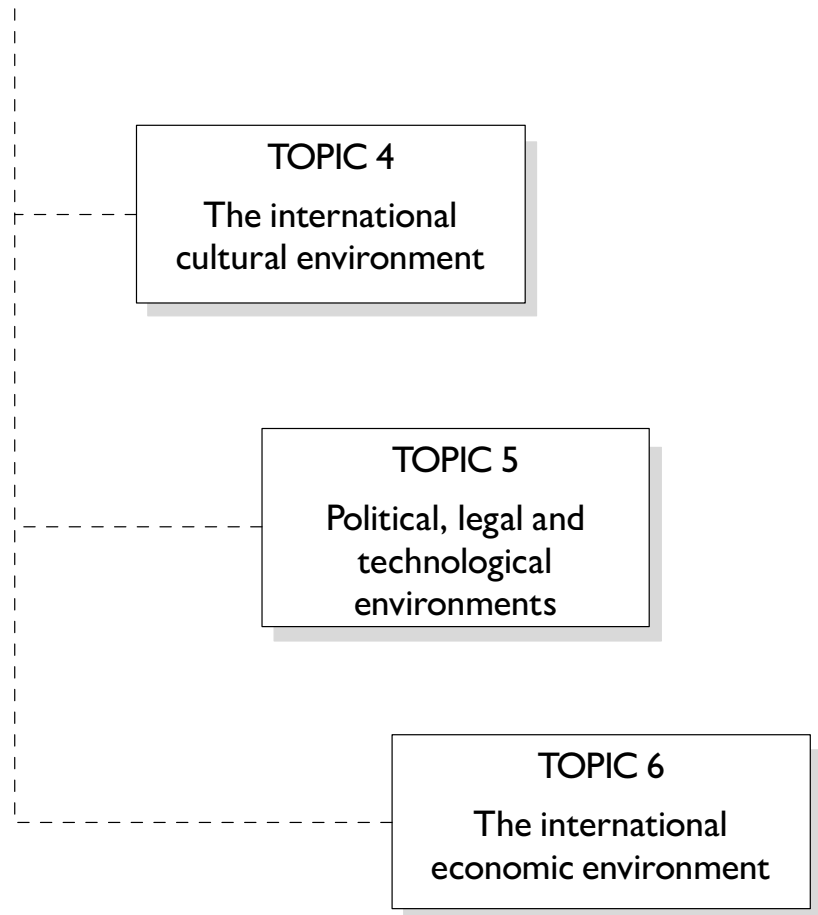
In this study unit we identified the most important regional trade blocs that exist in Europe, the Americas, Asia and Africa. We then paid particular attention to the importance of the trade relationships between South Africa and the EU, NAFTA, the Cairns Group, the Indian Ocean Rim Association and SADC, with specific reference to the South African economy and for South African business. Finally, we looked at the implications of the TDCA and of regional trade blocs for South and Southern Africa.

TOPIC SUMMARY

In study unit 3.1 we defined economic integration and reviewed the analytical basis for measuring the effects of economic integration. We also discussed the various forms of trade blocs and identified the key advantages and disadvantages of these regional trade blocs.

In study unit 3.2 we continued the discussion of economic integration by studying the most important regional trade blocs that exist in the different geographical areas of the world today. We focused on the EU in Europe, NAFTA in the Americas, the Cairns Group and the Indian Ocean Rim Association in Asia, and SADC in Africa. In each case, we identified the significance of the trade relationship between these trade blocs and South Africa. Finally, we looked at the implications of regional trade blocs for the South African economy and for South African business in general.

GLOBAL BUSINESS ENVIRONMENTS



INTRODUCTION TO PART 2

Part 2 of this course deals with the global cultural, political, legal, technological and economic environments facing business, and with the implications of the various forces inherent in these environments for international business in general and international business management in particular.

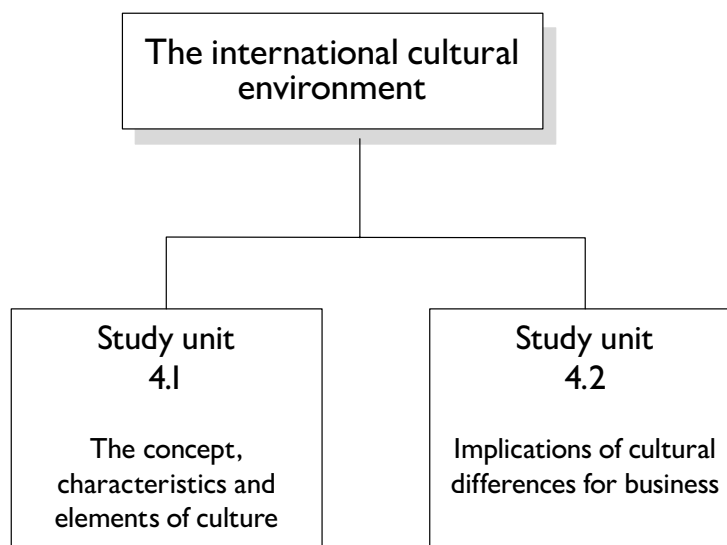
Under topic 4 we discuss the international cultural environment with which international businesses have to contend. In study unit 4.1 we define the concept of culture and discuss the characteristics and the elements of

culture in general as a frame of reference for our study of culture and its implications for business and international management in study unit 4.2.

In topic 5 we discuss the political, legal and technological environments in which international businesses have to compete. In study unit 5.1 we look at the political systems of countries, the nature and characteristics of these systems, and their implications for international business. The legal systems of countries, how they differ, and the implications of these differences are covered in study unit 5.2. In study unit 5.3 we briefly explore the international technological environment in the context of international business.

Topic 6 focuses on the international economic environment in which international businesses have to operate. In study unit 6.1 we explore economic systems of countries, the concept and importance of 'economic freedom' of countries, the classification of countries, important macroeconomic issues and how all these impact on international business operations. In study unit 6.2 we look at economies in transition, and the importance of such transitions for international business.

THE INTERNATIONAL CULTURAL ENVIRONMENT



AIM

The aim of this topic is to provide you with an overview of the meaning of culture, to discuss the importance of culture with reference to its characteristics and elements, and to highlight these in the context of international business in study unit 4.1. With this frame of reference, we then go on to discuss culture and its implications for business and management in study unit 4.2.



LEARNING OUTCOMES

After studying this topic you should be able to

- define the concepts of culture, society, and nation state
- understand the importance of culture in international business
- identify the characteristics of culture
- identify, describe and evaluate the elements of culture
- describe and discuss culture in the workplace
- analyse and interpret the implications of culture for international business and management



KEY CONCEPTS

The key concepts identified in this topic are

international business	political philosophy
culture	economic philosophy
society	social structure
nation state	social stratification
individualism	religion
collectivism	ethical systems
democracy	language
totalitarianism	education
characteristics of culture	culture in the workplace
elements of culture	management and culture
levels of culture	business implications of culture

study unit 4.1

THE CONCEPT, CHARACTERISTICS AND ELEMENTS OF CULTURE

CONTENTS

Study unit learning outcomes

Key concepts

Overview

4.1.1 The importance of culture in international business

4.1.2 Definition of culture

4.1.3 The characteristics of culture

4.1.4 The elements of culture

Assessment

Summary



STUDY UNIT 4.1 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define the concepts of culture, society and the nation state
- understand the importance of culture in international business
- identify and describe the characteristics of culture
- identify, describe and evaluate the elements of culture
- describe and evaluate the levels of culture



KEY CONCEPTS

international business
culture
society
nation state
individualism
collectivism
democracy
totalitarianism
language
ethical systems

characteristics of culture
elements of culture
levels of culture
political philosophy
economic philosophy
social structure
social stratification
religion
education

OVERVIEW

In study unit 4.1 we define the meaning of culture, society and nation state, and discuss the importance of culture in international business. We explore the characteristics of culture, and discuss and evaluate the elements and levels of culture in the international business context. The implications of all these issues for international business are discussed in study unit 4.2.



4.1.1 THE IMPORTANCE OF CULTURE IN INTERNATIONAL BUSINESS

(Study sections 1 and 2 in chapter 4 of the prescribed book.)

International business differs from domestic business in that it has to contend with differences between countries. Domestic businesses operating within the national borders of a single country only have to contend with the local culture and practices, political and legal systems, and economic policies. In study unit 4.1 and in study unit 4.2 we explore

**why international
business is different**

the concept and characteristics of culture, the implications of cultural differences between countries and the implications of these differences for international management.

knowledge of foreign cultures

To be successful in the international business arena, international managers and leaders should broaden their perspective and their knowledge of foreign cultures to adapt their business practices to the unique cultures of those countries with which they do business. This imperative for successful international management is explored further in study unit 7.2 where we consider the importance of and the need for developing a global mindset, and in topic 8 where the importance of cultural differences in developing international strategies is discussed.

global business practices

Understanding the cultures of groups of people is necessary because business employs, sells to, buys from, is regulated by, and is owned by people. An international company must consider these differences in order to predict, plan, organise, control and manage its global relationships and operations.

cultural competence

Cultural competence is recognised as a key managerial skill in international management because it explains many important facets of individual and group behaviour. It also allows international managers to capitalise on their knowledge of consumer behaviour in foreign markets, and to manage effectively foreign employees under their supervision, which could result in the firm achieving a sustainable competitive advantage in both these important operational areas.

adapting to foreign cultural environments

In this section, it should be clear that the accustomed (home country) or ethnocentric way of doing business may not always be the best way, and that the international manager should be competent enough to decide what adjustments might be necessary for efficient operation in foreign markets, based on identified cultural, and other, differences.

4.1.2 DEFINITION OF CULTURE

(Study section 3 in chapter 4 of the prescribed book.)

In this section we look at the meaning of the concepts of culture, society and the nation state.

meaning of culture

The culture of a group or society basically comprises the values, norms, beliefs and attitudes that characterise the behaviour of individuals in that group or society. Note the definitions of culture provided in this section, and ensure that you understand the meaning of the concepts of values, attitudes, beliefs, norms and symbols, traditions and rituals as they relate to the concept of culture. Specifically note the differences in prioritisation of cultural values in the United States, Japan and Arab countries in table 4.1.

meaning of society

The concept of a society may have more than one meaning. In some instances, a society may be the equivalent of a particular country. However, a society may comprise of several sub-cultures within the national borders of a particular country, or may even span across more

than one country. It is imperative that international managers understand the meaning of society to know how to demarcate and segment their foreign markets.

While there does not seem to be a satisfactory definition of a society, Daniels and Radebaugh (2000:187) contend that the concept of a nation provides a workable definition for society.

culture, society and the nation state

In using the nation state as a point of reference, remember that some countries have

- much greater geographical, economic and internal variation than others
- decentralised laws and government programmes, which may increase regional separation
- various linguistic, religious, and ethnic differences within them
- many possible relationships between human variables and business functions
- different attitudes and values, which may affect how any business function should be conducted

Ensure that you understand the meaning of the concepts discussed in this section and their interrelated nature.

4.1.3 THE CHARACTERISTICS OF CULTURE

(Study section 4 in chapter 4 of the prescribed book.)

characteristics of culture

Thus far we have seen that culture is learned, and gradually changes over time. Note the seven characteristics of culture outlined in this section and how they supplement the meanings of culture and society, which we discussed in previous sections. Could this information provide any additional insights to a would-be international manager? Substantiate your answer.

4.1.4 THE ELEMENTS OF CULTURE

(Study section 5 in chapter 4 of the prescribed book.)

4.1.4.1 Introduction

A number of factors that impact on and shape cultural values and norms have been identified. These factors are referred to as 'elements of culture' and include

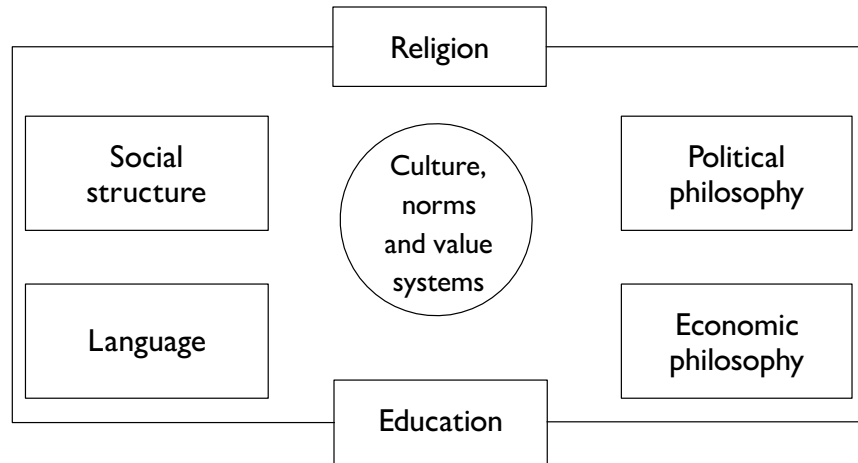
elements and levels of culture

- the prevailing political philosophy in a society
- the prevailing economic philosophy in a society
- the social structure of a society
- the religion and ethical systems of a society
- language and communication in a society
- education in a society

The way in which these elements shape the values, norms, attitudes and beliefs which characterise a specific culture, is illustrated in exhibit 4.1.

FIGURE 4.1

THE ELEMENTS OF CULTURE



Source: Hill (2007:93)

interrelatedness of culture and its elements

It is important to note that while, over time, these elements influence and shape the value systems and therefore the culture of a society, the emergent values and norms may, in turn, influence some or all of these elements in a number of ways.

importance of the elements of culture

In studying each one of the elements in this section, identify and summarise the aspects and issues of importance to international business in general, and to the international business manager in particular. As previously mentioned, a *superior* knowledge of cultural differences and issues, and appropriate information on such issues for decision-making purposes, may be regarded as sources of competitive advantage for international businesses. Study the following elements of culture which are only referred to briefly here, thoroughly. Note that culture also manifests itself at different levels in a country or nation state, as discussed in section 6 in chapter 4 of the prescribed book.

levels of culture

dimensions of political philosophy

4.1.4.2 Political philosophy

(Study section 5.2 in chapter 4 of the prescribed book.)

Political philosophy influences the values, norms, beliefs and attitudes of a society in very specific and definite ways. Note the way in which political systems can be evaluated in terms of the following interrelated sets of dimensions:

- collectivism as opposed to individualism
- democracy as opposed to totalitarianism

impact of political philosophy on culture and international business Analyse and evaluate these dimensions to determine why and to what extent they impact on the culture of a country. Of what importance are your findings for a firm involved in international business?

4.1.4.3 Economic philosophy

(Study section 5.3 in chapter 4 of the prescribed book.)

economic systems and culture

It is evident that there is a strong relationship between political ideology and economic systems. Study and evaluate the following four types of economic systems (which are discussed in more detail in section 3 in chapter 6 of the prescribed book) and the main characteristics of each:

- a market economy
- a command economy
- a mixed economy

impact of economic philosophy on culture and international business

Assess and summarise the characteristics and cultural issues of each of these economic systems, as well as the potential benefits, costs and risks associated with doing business in each of these economic systems. Of what significance are your findings for international business and international managers?

4.1.4.4 Social structure

(Study section 5.4 in chapter 4 of the prescribed book.)

characteristics of societal structure

In general, societies are characterised by the extent to which they are stratified and have class systems which influence the mobility of individuals within them.

individuals, families and groups

In all societies, individuals live in family units, work together in groups and are members of numerous other social groups. Study the importance of the individual and family-based groups in the context of the culture of a society. We also find gender-based and aged-based groups in societies. Evaluate the importance of all these groups in the context of their influence on culture and their importance to international business.

social stratification

Societies are typically stratified into classes based on factors such as family background, birth, occupation, education and income. Why is this knowledge, including an understanding of the extent of stratification, the difference between a class system and a caste system, and the influence of stratification on the mobility of individuals of such importance to the international manager?

importance to international business

As we have seen, the social structure of a society or nation state is an important determinant of cultural values, norms and beliefs that the international manager must understand and manage effectively.

4.1.4.5 Religion and ethical systems

(Study section 5.5 in chapter 4 of the prescribed book.)

influence of religion on culture

We know, just by observing our own communities, that religion has a profound influence on lifestyles, values, beliefs, attitudes, ethical issues and interpersonal relationships. Note the definitions of religion and of ethical systems provided in the prescribed book. It is generally agreed that the relationship between religion, ethics, and society is profound and complex. Yet the international business manager must understand the importance and influence of religion and ethical systems in other countries to succeed in doing business in foreign cultures.

It is well known that the influence or impact of religion varies from country to country, depending on

differences in religion

- the country's legal system
- the degree of the homogeneity of religious beliefs in the country
- the tolerance of other religious viewpoints

major religious and ethical systems

Even though there are many religions in the world, we briefly consider the four dominant religions, namely Christianity, Islam, Hinduism and Buddhism, as well as Confucianism as an ethical system.

Study these religions and Confucianism in the prescribed book in terms of

implications of religion for economics and business

- their origins and current status in the world
- the structure and dominant characteristics of each
- their cultural, social, economic and business implications
- the importance of a profound knowledge of religion as an element of culture in international management with specific reference to implications regarding
 - marketing
 - finance
 - human resources, including career opportunities and mobility of individuals
 - management and control issues
 - encouragement of an entrepreneurial orientation and culture
 - collaboration, including international joint ventures and strategic alliances
 - international relations, integrity and trust
 - the potential benefits, costs and risks of doing business in countries with specific religious and ethical orientations.

Summarise your findings in a report that would be suitable for the planning purposes of an international manager.

4.1.4.6 Language and communication

(Study section 5.6 in chapter 4 of the prescribed book.)

Language is and remains the most important way that people communi-

importance of languages

cate with one another. There are more than 4 000 languages and more than 10 000 dialects spoken worldwide. As such, it is obvious that effective communication with people from different cultures who also have different languages poses a daunting challenge for the international business manager.

lingua franca of international business

Despite the fact that Chinese (mainly Mandarin) is the most widely spoken first language with 20 per cent of the world speaking it, followed by English with 6 per cent; Hindi with 5 per cent, Russian with 4 per cent and Spanish with 3 per cent, English is the most widely spoken business language internationally, followed by French, Spanish and Chinese. Many countries also have more than one official language and in addition could have numerous dialects, all of which complicate effective international communication in business.

importance of language in international business

Increased internationalisation and the continuous increase in MNEs worldwide, have made effective communication across national borders imperative. There are many examples of poor proficiency in a foreign language resulting in business disasters. On the other hand, a skill in foreign languages may be a source of competitive advantage in the global marketplace.

guidelines for effective communication

Study the importance of language proficiency as well as of verbal and non-verbal communication in international business with reference to

- the underlying principles and requirements for effective international business communication
- the examples of communication provided in the prescribed book as guidelines for effective international communication, with specific reference to areas such as international negotiation, marketing and advertising

Consult information sources other than the prescribed book and summarise your findings on the importance of language as an element of culture in international business.

4.1.4.7 Education

(Study section 5.7 in chapter 4 of the prescribed book.)

importance of education

Education influences many aspects of culture and in every culture formal education plays a key role in society. It is an accepted fact that educated people read more widely and have a better understanding of what is happening in the world, which results in greater economic productivity and technological innovation. According to Porter (1980:395–7), education is an important determinant of national competitive advantage. Formal education is the medium through which individuals may learn many of the language, conceptual, mathematical and technical skills that are indispensable for economic growth in a modern society. In this way, formal education also shapes the cultural values and norms in a society.

**international emphases
on education**

Different countries emphasise different aspects of education. In South Korea and Japan there is a strong emphasis on engineering and the sciences at university level. In Europe, the number of MBAs has increased sharply in recent years, as is the case in the US.

4.1.4.8 Summary

In this section we investigated the six elements of culture in terms of their nature and characteristics. From this overview we conclude that cross-cultural literacy is of the utmost importance in international business management.



ACTIVITY 4.1.1

Study the newspapers and financial journals to identify a country where leadership, power and authority are concentrated in the hands of only a few people. What type of political and economic structure would this situation reflect? What are the possible implications for a South African company wanting to do business in such a country? Provide your answer in a brief, written report.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define the concepts of culture, society, and nation state
 - understand the importance of culture in international business
 - identify and describe the characteristics of culture
 - identify, describe and evaluate the elements of culture
 - identify and discuss the implications of culture for international business
 - describe and evaluate the levels of culture
-

SUMMARY

In this study unit we discussed the meaning of culture and the importance of culture in international business as a frame of reference for international management and decision making. A profound understanding of the characteristics and the elements as well as the levels of culture is imperative for any degree of success in international business. The

cultural and cross-cultural literacy of international management is regarded as a source of competitive advantage in the global market place. In study unit 4.2 we take a closer look at the implications of culture for business and international management.

study unit 4.2

IMPLICATIONS OF CULTURAL DIFFERENCES FOR BUSINESS

CONTENTS

Study unit learning outcomes

Key concepts

Overview

4.2.1 Introduction

4.2.2 Culture in the workplace

4.2.3 Hall's low-context high-context approach

4.2.4 Ronen and Shenkar's cultural cluster approach

4.2.5 Hofstede's cultural dimensions

4.2.6 Trompenaars' 'cultural parameters'

4.2.7 Implications of culture for business and management

Assessment

Summary

Topic summary



STUDY UNIT 4.2 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- describe and discuss culture in the workplace
- explain Hall's approach to the contextualisation of culture
- explain Ronen and Shenkar's approach to cultural analyses
- explain Hofstede's and Trompenaars' approach to cultural analysis
- understand, discuss and evaluate the importance of culture with regard to competitive advantage
- understand, discuss and explain culture and entrepreneurship

- understand, discuss and explain culture and business ethics
- discuss and evaluate the implications of culture for business and management



KEY CONCEPTS

international business	collectivism
culture in the workplace	uncertainty avoidance
low-context cultures	masculinity
high-context cultures	femininity
cultural dimensions	competitive advantage
power distance	business ethics
individualism	international management
cultural clusters	entrepreneurial orientation

OVERVIEW

This study unit builds on study unit 4.1 and addresses the importance of culture in the workplace in the context of international business by looking at Hall's approach to the contextualisation of cultures, Ronen and Shenkar's approach to cultural clustering of countries, Hofstede's cultural dimensions, Trompenaars' cultural parameters, culture and competitive advantage and business ethics. The discussion is concluded by looking at the implications of cultural differences for business and international management.



importance of adapting to culture

4.2.1 INTRODUCTION

(Study section 7.1 in chapter 4 of the prescribed book.)

International managers must develop a global cultural awareness to enhance the likelihood of success when operating in different cultures. Given the international cultural differences, which were explored in study unit 4.1, managers of international companies also have to evaluate their business practices to ensure that the cultural values and norms of the countries they do business with are taken into account.

4.2.2 CULTURE IN THE WORKPLACE

(Study section 7.1 in chapter 4 of the prescribed book.)

values in the workplace It is extremely important for international businesses with operations in different countries to know how and to what extent a society's culture may impact on and affect the values found in the workplace. In this study unit we will briefly look at the classification and clustering of cultures, Hofstede's work on how culture relates to values in the workplace, culture and competitive advantage, culture and business ethics, and the implications of cultural differences for international business and management.

4.2.3 HALL'S LOW-CONTEXT HIGH-CONTEXT APPROACH

(Study section 7.2 in chapter 4 of the prescribed book.)

contextual approach to characterise culture There is general agreement that perceptions and non-verbal behaviour occur within, and should be analysed in relation to, a specific context. Hall (1976:101) developed the low-context high-context approach to characterise differences in cultures.

high-context and low-context cultures Hall found that in low-context cultures, the words used by a speaker explicitly convey the speaker's message to the listener. Examples of low-context countries are Germany, the United Kingdom, the United States and some Anglo-Saxon countries like Canada. In high-context cultures, the context in which a conversation takes place is just as important as the words actually spoken, and cultural clues are important to understand what is being communicated. Examples of high-context countries are Japan, China, Korea and the Arab countries.

cultural literacy Study this section to determine how and to what extent business behaviours differ in the above-mentioned two cultural contexts. Identify the areas of international business where this knowledge of the context of cultures could be invaluable to the international manager.

4.2.4 RONEN AND SHENKAR'S CULTURAL CLUSTER APPROACH

(Study section 7.3 in chapter 4 of the prescribed book.)

cultural clusters In their research, and as illustrated in figure 4.3 in chapter 4 of the prescribed book, Ronen and Shenkar (1985:435–454) grouped or clustered nearly 50 countries according to how employees in each country responded to the following four sets of questions about

- the importance of various work goals
- the extent to which various needs at work were satisfied
- autocratic versus democratic management styles
- work roles and interpersonal relations

Eight country clusters emerged, with four countries classified as independent of any other particular cluster. Note that richer, more

merits and limitations of clustering

developed countries are closest to the centre of the diagram. Of what value would this cultural cluster approach be to an international manager for planning and other purposes? What are the limitations of this approach? Summarise your answers to these questions in the form of a brief report.

4.2.5 HOFSTEDE'S CULTURAL DIMENSIONS

(Study section 7.4 in chapter 4 of the prescribed book.)

culture and the workplace

Still one of the most influential studies on how culture relates to the workplace was undertaken by Geert Hofstede, a Dutch researcher, between 1967 and 1973, involving some 116 000 people in 40 countries. Hofstede initially identified four important dimensions along which people seem to differ across cultures. These are

- power distance
- uncertainty avoidance
- individualism versus collectivism
- masculinity versus femininity

Hofstede's cultural dimensions

Hofstede subsequently added a fifth dimension, namely time orientation.

Power distance basically focuses on how a society deals with the fact that people are unequal in physical and intellectual capacities. Uncertainty avoidance essentially refers to the extent to which different cultures allow their members to accept ambiguous situations and tolerate uncertainty. Individualism versus collectivism focuses on the relationship between the individual and his or her fellow workers. Masculinity versus femininity refers to the relationship between gender and work roles. Time orientation refers to the extent to which members of a culture adopt a long-term or a short-term outlook on work and life.

cultural change

It should also be kept in mind that culture is not constant, and that it evolves and change over time. Cultural change in different countries, therefore, is also an important factor for international businesses to consider.

differences and similarities in culture

We know that the culture of a society is unique. Although no two cultures are identical, there are certain similarities. Hofstede illustrated this by examining the effect of the pairs of dimensions on culture. Study this section, compile your own summary on each one of the pairs of dimensions, and critically evaluate Hofstede's findings in terms of its usefulness for international management and decision making, taking into account the limitations of Hofstede's study.

4.2.6 TROMPENAARS' 'CULTURAL PARAMETERS'

(Study section 7.5 in chapter 4 of the prescribed book.)

Study the implications of Trompenaars' 'cultural parameters', as listed in Box 4.6 in this section of the prescribed book:

cultural parameters

- Universalism vs Particularism
- Collectivism vs Individualism
- Neutral vs Emotional relationships
- Specific vs Diffuse relationships
- Achievement vs Ascription
- Sequential vs Synchronic
- Inner-directed vs Outer-directed

4.2.7 IMPLICATIONS OF CULTURE FOR BUSINESS AND MANAGEMENT

(Study section 8 in chapter 4 of the prescribed book.)

4.2.7.1 Introduction

implications of culture for international business

We know that international business is different because countries are different, also with regard to their cultures. There are four important implications for international business and international management: the connection between culture and competitive advantage, culture and business ethics, the need for cross-cultural literacy, and the connection between culture and entrepreneurial orientation. We briefly discuss the implications of each of these.

4.2.7.2 Culture and competitive advantage

effectively managing cultural-related costs and risks

In the course of our discussions it has become clear that there is a connection between culture and competitive advantage of a firm in the international marketplace. Hill (2007:117–18) analyses this relationship in the following way: Cultural values and the norms of a country influence the costs, and often also the risks, of doing business in that country. The costs and risks of doing business in a country influence the ability of a firm to attain a competitive advantage. Stated in another way, the firm that manages the cost and risk implications of culture better than its competitors should have a competitive advantage over its rivals in the marketplace.

potential for competitive advantage

There are two reasons why the connection between culture and competitive advantage is important in international business. Firstly, this connection suggests in which countries we are likely to find the most viable competitors. Secondly, this connection has important implications when deciding on countries in which to locate production facilities. Can you think of other benefits for international business emanating from this connection between culture and competitive advantage? Study this section, noting the examples which provide further guidelines in this regard.

4.2.7.3 Culture and business ethics

In our discussion of religion and ethical systems in study unit 4.1 we only provided you with a cursory view of business ethics. However, although many ethical principles are universal, not all of them are culturally bound. Where this is the case, international business may be faced with serious

business ethics is important

ethical dilemmas. Questions that arise here include: “Whose ethical systems do you use in international business”? Study the rest of this section, also with reference to the United Nations Declaration of Human Rights, to establish acceptable and consistent guidelines for ethical behaviour in the international marketplace.

achieving cross-cultural literacy

4.2.74 Cross-cultural literacy

It is of the utmost importance that international managers develop a cultural awareness by acquiring cross-cultural literacy to avoid being ill informed about the practices of other cultures — especially when venturing abroad for the first time. Ways of enhancing cross-cultural literacy include employing host country nationals in certain key areas, developing a cadre of cosmopolitan executives, appointing foreigners on the company’s board of directors, and using multi-cultural task teams whenever possible.

entrepreneurship and culture

4.2.75 Culture and entrepreneurial orientation

It is well known that some societies are generally more entrepreneurial and, as a result, more competitive than others largely owing to cultural factors. In their research, Lee and Peterson (2000:401–415) found a stronger relationship between culture and entrepreneurial orientation in some societies than in others. More specifically, their research suggests that a culture that is low on power distance, weak in uncertainty avoidance, masculine in nature, individualistic and achievement oriented will encourage a strong entrepreneurial orientation that will ultimately lead to increased entrepreneurship and global competitiveness.

4.2.76 Summary

In this section we briefly covered the implications of cultural differences for international business. We briefly discussed the important aspects of the connection between culture and competitive advantage as well as business ethics, the importance of cross-cultural literacy and the relation between culture and entrepreneurial orientation in countries. We highlighted the important implications of the above for business and management.



ACTIVITY 4.2.1

Using the information in both study units 4.1 and 4.2, as well as in other sources, explain why the culture of a country may influence the benefits, costs and risks of doing business in that country. Substantiate all arguments in a brief report to management.





ACTIVITY 4.2.2

It is unreasonable to expect Western businesses active in developing countries characterised by less than optimal ethical systems to adhere to the same ethical standards that they use at home? Discuss this statement critically.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- describe and discuss culture in the workplace
 - explain Hall's approach to the contextualisation of culture
 - explain Ronen and Shenkar's approach to cultural analysis
 - explain Hofstede's approach to cultural dimensions
 - understand, discuss and evaluate culture and competitive advantage
 - understand, discuss and explain culture and business ethics
 - understand, discuss and explain culture and entrepreneurship
 - discuss and evaluate the implications of culture for business and management
-

SUMMARY

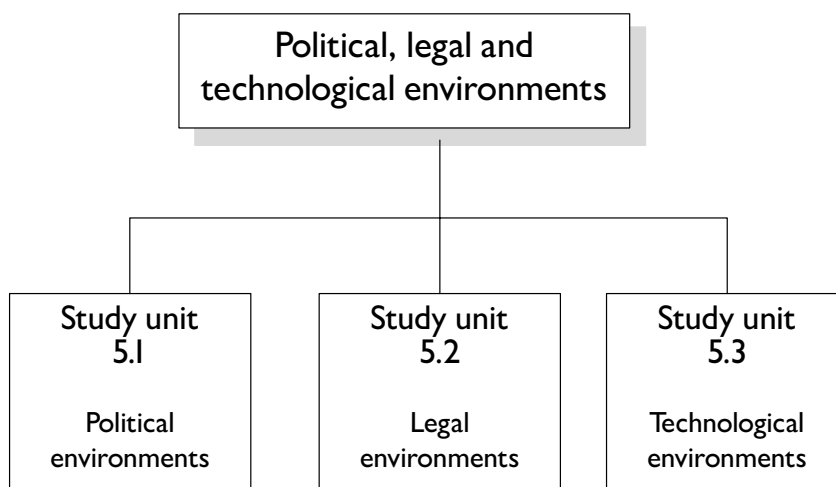
In this study unit we looked at the importance of culture in the workplace. More specifically, we considered Hall's approach to the contextualisation of cultures, Hofstede's cultural dimensions and Trompenaars's cultural parameters in the context of international business. We concluded our discussion by reviewing the implications of cultural differences for business, specifically in relation to competitive advantage, business ethics, and cross-cultural literacy and entrepreneurial orientation.

TOPIC SUMMARY

This topic dealt with the cultural environments facing international business. In study unit 4.1 we defined the meaning of culture and discussed the importance of culture in international business with reference to the characteristics and elements of culture and their implications for international business.

In study unit 4.2 we continued our discussion by looking at culture in the workplace, the classification and dimensions of culture, culture and competitive advantage and business ethics. The discussion was concluded by looking at the implications of cultural differences for business and management in the international arena.

POLITICAL, LEGAL AND TECHNOLOGICAL ENVIRONMENTS



AIM

The aim of this topic is to provide you with an overview of the international political, legal and technological environments, to discuss their nature and characteristics, and to identify the implications of these environments for international business.



LEARNING OUTCOMES

After studying this topic you should be able to

- define political systems and their functions
- explain the relationship between collectivism and totalitarianism
- explain the relationship between individualism and democracy
- discuss political involvement and its impact
- define and discuss political risk
- analyse and interpret the political spectrum
- assess the importance of the international legal environment
- define and describe the different legal systems
- discuss the importance of legal contracts and international law
- assess the legal environment and its impact on investment strategies

- define the concepts of technology and technological innovation
 - discuss the classification of technology
 - discuss and explain the economic importance of technology
 - discuss and explain the merits of technology transfer
-



KEY CONCEPTS

The key concepts identified in this topic are

political systems	political functions
totalitarianism	collectivism
democracy	individualism
political risk	political spectrum
international legal environment	legal systems
common law	civil law (codified legal system)
theocratic law	international law
legal contracts	investment strategies
technology	technological innovation
classification of technology	technology transfer
economic importance of technology	

study unit 5.1

POLITICAL ENVIRONMENTS

CONTENTS

Study unit learning outcomes

Key concepts

Overview

5.1.1 Importance of the international political environment

5.1.2 Political systems and their functions

5.1.3 Political involvement and its impact

5.1.4 Political risk

5.1.5 The political spectrum

Assessment

Summary



STUDY UNIT 5.1 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define political systems and their functions
 - explain the relationship between collectivism and totalitarianism
 - explain the relationship between individualism and democracy
 - discuss political involvement and its impact
 - define and discuss political risk
 - analyse and interpret the political spectrum
-



KEY CONCEPTS

political systems
totalitarianism
democracy
political risk

political functions
collectivism
individualism
political spectrum

OVERVIEW

In study unit 5.1 we define political systems and their functions, discuss political involvement and its impact, political risk and the political spectrum, and the implications of these issues for international business.



**analysing international
business environments**

5.1.1 IMPORTANCE OF THE INTERNATIONAL POLITICAL ENVIRONMENT

(Study sections 1 and 2 in chapter 5 of the prescribed book.)

To be successful, international managers must analyse the various global environments to determine if, and to what extent, company policies, strategies and procedures have to be adapted to these foreign environments. In this study unit we explore the interaction between international business and the political environments in the countries in which they operate.

5.1.2 POLITICAL SYSTEMS AND THEIR FUNCTIONS

(Study section 3 in chapter 5 of the prescribed book.)

The various international environments are illustrated in figure 1.2 in

functions, inputs and outputs in a political system

chapter 1. In studying this section, note the diverse nature of foreign political environments, the interconnected global political order that transcends national boundaries, the potential risk of unanticipated political events, and the factors that influence political systems over time. In this regard, refer to figure 5.1 that illustrates the interaction between the process, functions, inputs and outputs in any political system.

political ideology and philosophy

As already referred to in sections 5.2 and 5.3 in chapter 4 of the textbook, political systems can be evaluated according to the following two interrelated dimensions from which a country's political ideology and political philosophy emerge:

- the degree to which it emphasises collectivism as opposed to individualism
- the degree to which it is democratic or totalitarian

Collectivism emphasises collective goals as opposed to individual goals as in the case of individualism. There is general agreement that systems which emphasise collectivism tend to be totalitarian, and systems placing a high value on individualism tend to be democratic. A key element of democracy is freedom in the areas of political rights and civil liberties as illustrated in Appendix I in chapter 5. (See also sections 6.1 and 6.2 in chapter 5 of the prescribed book.) Refer to figure 5.2 for the ideologies underlying democracy and totalitarianism.

5.1.3 POLITICAL INVOLVEMENT AND ITS IMPACT

(Study section 4 in chapter 5 of the prescribed book.)

government involvement in the economy

Governments in foreign countries have been known to encourage foreign business involvement in some cases, but also to discourage international business involvement by imposing restrictions in other cases. Governments also seem to play various roles in the economies of countries, ranging from having relatively high involvement in the previously centrally planned economies of central and eastern Europe, to having relatively little involvement in most capitalistic, free market economies. A political factor of grave concern, however, is frequent changes in government. Although such changes may be non-violent, each change to a country's government may result in a change in policy with regard to international business involvement — a potential source of political risk and uncertainty. Study this section, noting the implications of political involvement on marketing activities.

5.1.4 POLITICAL RISK

(Study section 5 in chapter 5 of the prescribed book.)

Political risk is defined as the impact of political change on an international firm's operations and decision-making processes.

importance of political risk analysis

Note that developed and developing countries generally are not subject to the same types of risk. In this regard, study Box 5.1, 'Stable regimes lead to foreign investment'. Study the check list for assessing political risk in a country. Could you add any items to this list? Access the Internet or academic and trade journals for information in this regard. Refer also to the discussion of political risk in study unit 7.1.

political spectrum**5.1.5 THE POLITICAL SPECTRUM**

(Study section 6 in chapter 5 of the prescribed book.)

Political ideologies worldwide are many and varied. Study the ideologies underlying democracy and totalitarianism, as illustrated in figure 5.2, noting that these two ideologies should ideally be seen as being at the two ends of a continuum, which implies that mixed political systems can be found anywhere along this continuum, depending on the political stance of the country in question. As previously stated in section 5.1.2 above, freedom in the areas of political rights and civil liberties are key elements of democracy. Appendix I ranks countries according to these two elements.

**ACTIVITY 5.1.1**

Based on this study unit and additional information from other sources including the Internet, summarise the important characteristics and aspects of the various political systems, and compile a written report on your findings.

**ACTIVITY 5.1.2**

Study newspapers, financial journals and the Internet to find examples where political issues in a country have influenced the benefits, costs, and risks of business involvement in that country. Would a country like Zimbabwe be a good example in this regard? Substantiate your answer in a written report.

**ACTIVITY 5.1.3**

Identify a company listed on the Johannesburg Securities Exchange (JSE) involved in international business, and determine to which markets it

exports. Ranks the countries in which these markets are located in terms of the two elements in Appendix I.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define political systems and their functions
 - explain the relationship between collectivism and totalitarianism
 - explain the relationship between individualism and democracy
 - discuss political involvement and its impact
 - define and discuss political risk
 - analyse and interpret the political spectrum
-

SUMMARY

This study unit briefly dealt with the importance of the international political environment, political systems and their functions, political risk and the spectrum of political systems. Of importance to international business are that

- political systems between countries differ significantly
- political systems are not constant or permanent, but are evolving and changing over time, for any number of reasons
- countries are characterised by various degrees of government involvement in their economies, resulting in various approaches to and degrees of international business restrictions and protectionism
- countries are characterised by various degrees of political risk, and the more frequently governments in a country change, the higher the uncertainty of those considering international business involvement
- democracy and totalitarianism are two political ideologies which do not essentially exist in their purest form — the political systems of most countries contain elements of both, though in various proportions
- systems that emphasise collectivism tend to be totalitarian, and systems that emphasise individualism tend to be democratic

The international manager should be aware of the potential political impact and risk that may be inherent in the political systems of the countries with which his firm conducts business and should plan effective strategies to cope with such uncertainties. Study all the sections in this study unit thoroughly.

CONTENTS

Study unit learning outcomes

Key concepts

Overview

5.2.1 Importance of the international legal environment

5.2.2 The legal environment and its impact on investment strategies

Assessment

Summary

**STUDY UNIT 5.2 LEARNING OUTCOMES**

Once you have studied this study unit, you will be able to

- assess the importance of the international legal environment
- define and describe the different legal systems
- discuss the importance of legal contracts and international law
- assess the legal environment and its impact on investment strategies

**KEY CONCEPTS**

international legal environment

common law

civil law (codified legal system)

international law

legal systems

theocratic law

legal contracts

investment strategies

OVERVIEW

This study unit covers the international legal environment, the importance of this international legal environment, the different legal systems, legal contracts and international law. We conclude this discussion by looking at the legal environment and its impact on investment strategies.



relevant legal environment

5.2.1 IMPORTANCE OF THE INTERNATIONAL LEGAL ENVIRONMENT

(Study section 7 in chapter 5 of the prescribed book.)

International managers should have a knowledge of the legal systems in the countries with which they do business. The international legal environment has the following three dimensions:

- the domestic legal system of the parent company
- the legal systems of each of the host countries with which the parent company conducts business
- international law

It is imperative that the international manager is knowledgeable on and has access to legal practitioners familiar with all three of the above dimensions.

5.2.1.1 Different legal systems

(Study section 7.1 in chapter 5 of the prescribed book.)

Legal systems are normally classified into one of the following three categories:

legal systems

- common law
- civil law (also referred to as a codified legal system)
- theocratic law

Study the characteristics of these three systems. In which countries would we usually find these legal systems? What legal system does South Africa have?

5.2.1.2 Legal contracts

In this section we look at the purpose of legal contracts, and the importance of written contracts with regard to international business activities.

importance of contracts

The importance of accurate and binding legal contracts is obvious when we consider

- the loss of time, money and credibility in the case of disputes
- the high costs of arbitration
- the length of time it normally requires to settle international disputes

If you were involved in international business, how would you minimise these potential disadvantages related to international legal contracts?

international law**5.2.1.3 International law**

International business activities may be subject to international law. The principal sources of international law are treaties and conventions. Other sources of international law may be custom (international practices accepted as law) and the general principles of law or natural law (the basis of human co-existence). While no organised, official body exists to “enforce” international law, it may fall under the jurisdiction of the International Court of Justice at The Hague in the Netherlands, although all actions are voluntary.

Costly errors and potential financial loss can be avoided if international managers are informed of all the legal and contractual issues related to their firm’s international business activities.

investment strategies**5.2.2 THE LEGAL ENVIRONMENT AND ITS IMPACT ON INVESTMENT STRATEGIES**

(Study section 8 in chapter 5 of the prescribed book.)

International firms involved solely in exporting have little exposure to the political, economic and legal environments of the foreign countries to which they export. However, environmental risks in these areas become important when investing directly in foreign countries. In countries with inadequate legal systems and poor law enforcement, the risks may be extremely high. Situations like these would obviously require thorough analysis and risk evaluation prior to any decision to invest.

**ACTIVITY 5.2.1**

Study newspapers, financial and academic journals, and access the Internet for an example of the impact of a country’s legal system on the international trade or investment transactions of a company. Analyse and explain the type of impact, the reasons for this impact, and the way in which the issue was resolved. Compile a brief written report. (As an example, Standard Bank and ABSA have introduced arrangements to accommodate Islamic banking requirements, the latter emanating from Islamic Law.)

**ASSESSMENT**

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- assess the importance of the international legal environment

- define and describe the different legal systems
 - discuss the importance of legal contracts and international law
 - assess the legal environment and its impact on investment strategies.
-

SUMMARY

In this brief exposition on the international legal environment we looked at the importance of the international legal environment for international business, the different legal systems commonly found in countries worldwide and the importance of legal contracts and international law. We concluded the discussion by looking at the legal implications of foreign direct investments, and the importance to assess and evaluate the potential benefits, costs and risks involved in doing business with or investing in a specific country.

Sound and binding legal contracts, a profound knowledge of the legal systems and extent of law enforcement in other countries, and pre-emptive political and economic risk analyses are imperative for any degree of success in international business.

study unit 5.3

TECHNOLOGICAL ENVIRONMENTS

CONTENTS

Study unit learning outcomes

Key concepts

Overview

5.3.1 Introduction

5.3.2 Defining technology

5.3.3 The classification of technology

5.3.4 Economic importance of technology

5.3.5 Technology transfer

Assessment

Summary

Topic summary



STUDY UNIT 5.3 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define the concepts of technology and technological innovation
- discuss the classification of technology
- discuss and explain the economic importance of technology
- discuss and explain the merits of technology transfer



KEY CONCEPTS

technology

classification of technology

technology transfer

technological innovation

economic importance

OVERVIEW

In this study unit we define technology and technological innovation, discuss the classification and economic importance of technology, and explore the reasons for and implications of international technology transfer.



5.3.1 INTRODUCTION

(Study section 9 in chapter 5 of the prescribed book.)

In the past two decades we have witnessed major technological advances in the fields of electronics, aerospace, telecommunications, transportation, biotechnology, production, logistics, and in many more instances. In study unit 1.1 we saw that technology is one of the drivers of the process of globalisation. In this study unit we define the concepts of technology and technological innovation, and look at technology and competitive advantage, and technology transfer. Information technology, and more specifically its application in international marketing, is discussed in section 8.5.3 in chapter 11 of the prescribed book.

technological progress

5.3.2 DEFINING TECHNOLOGY

(Study section 9 in chapter 5 of the prescribed book.)

technology

Technology is defined as a method or technique for converting inputs to

outputs, in accomplishing a specific task. Note the importance of the terms “method” and “technique” in this regard.

technological innovation

Technological innovation refers to the increase in knowledge, the improvement in skills, or the discovery of a new or improved means that extends a person’s ability to perform a given task.

5.3.3 THE CLASSIFICATION OF TECHNOLOGY

(Study section 9 in chapter 5 of the prescribed book.)

classification of technology

Technology can be classified in several ways, such as the distinction between hard technology and soft technology, and between labour-intensive and capital-intensive technologies. Stonehouse et al (2000:231) classify technology as being either base, key, pacing or emerging, as illustrated in table 5.1.

TABLE 5.1

TECHNOLOGY CATEGORIES

Category	Description	Investment level
Base	Technological foundation of business; widely available to competitors	Needs little investment
Key	Technologies with the greatest impact on competitive performance	Systematically built
Pacing	Technologies in early development which have the demonstrated potential to alter the basis of competition	Selective investment
Emerging	Technologies with long-term promise to alter the basis of competition	Monitored investment

Source: Stonehouse et al (2000:231) (adapted)

What is also important in this regard is the purpose of classification, since technology can be classified in different ways as indicated above, depending on the purpose of the classification and the information required from such classification.

5.3.4 ECONOMIC IMPORTANCE OF TECHNOLOGY

(Study section 9 in chapter 5 of the prescribed book.)

technology and economic development

The importance of technology for economic development is explained in this section, and the relationship between technology and economic development is highlighted.

competitive advantage

The link between technology and competitive advantage is well

established, the major areas for competitive advantage being design and process technology.

5.3.5 TECHNOLOGY TRANSFER

(Study section 9 in chapter 5 of the prescribed book.)

reasons for technology transfer

Technology transfer has taken place from developed to developing countries, to achieve a variety of economic and social objectives. Study this section and summarise the various reasons for and methods of technology transfer. Of what importance is technology transfer for the international business?



ACTIVITY 5.3.1

Consult newspapers, journals and the Internet to identify any new product that has recently appeared on the market. Evaluate the role of technology in the entire process of getting the product on the market, and explain your findings in a brief written report.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define the concepts of technology and technological innovation
 - discuss the classification of technology
 - discuss and explain the economic importance of technology
 - discuss and explain the reasons for technology transfer
-

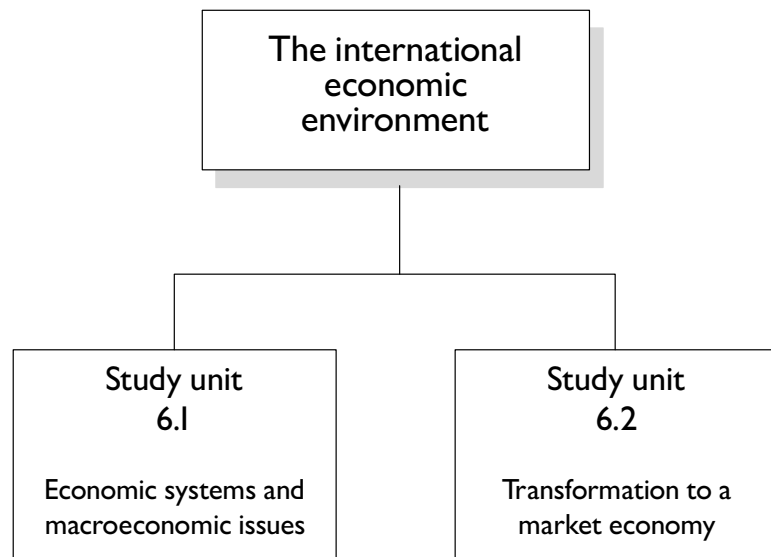
SUMMARY

This study unit briefly touched on the concepts of technology and technological innovation, and the classification and economic importance of technology. We concluded this study unit with a discussion of technology transfer.

TOPIC SUMMARY

In study units 5.1, 5.2 and 5.3 of this topic we explored the political, legal and technological environments. We explained the nature of these environments and discussed the implications of each environment for international business.

THE INTERNATIONAL ECONOMIC ENVIRONMENT



AIM

The aim of this topic is to provide you with an overview of the international economic environment for international business. In study unit 6.1 we explain the importance of the international economic environment, look at existing economic systems, the concept of economic freedom and the classification of countries. The discussion is concluded with an overview of key macroeconomic issues of importance to international management. In study unit 6.2 we discuss the transformation to a market economy of countries previously characterised by command and mixed economic systems.



LEARNING OUTCOMES

After studying this topic you should be able to

- define the concept economic environment
- explain the importance of the international economic environment
- describe national economies

- define the concept economic system
 - define, evaluate and compare economic systems
 - define and evaluate the concept of economic freedom
 - describe levels and phases of economic development
 - discuss the classification of countries
 - discuss and evaluate macroeconomic issues in international business
 - describe and explain economic transition
 - explain the transition of command economies to market economies
 - define a market economy
 - discuss and explain privatisation
 - describe the process of transition to a market economy
 - discuss and evaluate the requirements for successful transition to a market economy
-



KEY CONCEPTS

economic environment	inflation
economic systems	balance of payments
command economy	external debt
market economy	privatisation
mixed economy	innovation and entrepreneurship
economic freedom	economic transition
classification of countries	purchasing power parity
levels of economic development	economic growth
phases of economic development	requirements for economic transition

study unit 6.1

ECONOMIC SYSTEMS AND MACROECONOMIC ISSUES

CONTENTS

Study unit learning outcomes

Key concepts

Overview

6.1.1 Introduction

- 6.1.2 Importance of the economic environment
- 6.1.3 Economic systems
- 6.1.4 Economic freedom
- 6.1.5 Classifying countries
- 6.1.6 Macroeconomic issues in international business
- Assessment
- Summary



STUDY UNIT 6.1 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define the concept economic environment
 - explain the importance of the international economic environment
 - define the concept economic system
 - define and evaluate the concept of economic freedom
 - define, evaluate and compare economic systems
 - describe levels and phases of economic development
 - discuss the classification of countries
 - discuss and evaluate macroeconomic issues in international business
-



KEY CONCEPTS

economic environment	inflation
economic systems	balance of payments
market economy	external debt
command economy	privatisation
mixed economy	innovation
economic freedom	entrepreneurship
levels of economic development	classification of countries
purchasing power parity	economic growth
phases of economic development	

OVERVIEW

In study unit 6.1 we discuss the international economic environment, as well as existing economic systems and the concept of economic freedom in the context of international business. We look at the classification of countries according to economic criteria, and conclude our discussion by

identifying a number of macroeconomic issues of importance to international business.



political economy

6.1.1 INTRODUCTION

(Study section 1 in chapter 6 of the prescribed book.)

It is generally accepted that there is a strong relationship between the political, economic and legal systems of a country. The term “political economy” was first defined in study unit 2.1, and the international political and legal environments with which business is faced were discussed in study units 5.1 and 5.2 respectively. In this study unit we explain the different economic systems, the concept and importance of economic freedom, the classification of countries according to levels as well as phases of economic development, and briefly look at the macroeconomic issues of importance to international business. In study unit 6.2 we investigate economies in transition and their implications for international business.

6.1.2 IMPORTANCE OF THE ECONOMIC ENVIRONMENT

(Study section 2 in chapter 6 of the prescribed book.)

The importance of and primary reason why international managers analyse the economic environment is to assess the opportunities for marketing a company’s products or services abroad, and to evaluate the costs and risks involved.

importance of the economy

The potential benefits of doing business with another country are largely determined by

- the market size (essentially the population)
- its current wealth (in terms of purchasing power)
- its future economic growth prospects

The political ideology, legal environment and economic system will largely determine the potential benefits costs and risks of doing business in a particular country. It is also known that a country’s political system influences the type of economic system it has. The level of economic development of a country, the size and purchasing power of the population, the potential for social unrest, political instability, and the prospects for economic growth are important factors that influence the economic attractiveness of countries for international business. Information that is typically important for international managers when scanning the economic environments of other countries is presented in Box 6.2, ‘South Africa: Economic growth, domestic demand and

consumption trends? There are four broad types of economic systems, which we discuss below.

6.1.3 ECONOMIC SYSTEMS

(Study section 3 in chapter 6 of prescribed book.)

nature of economic systems

A country's economic system encompasses all the mechanisms and institutions that have been established to facilitate the making and implementation of decisions concerning production, consumption, expenditure and income within an economic framework.

types of economic systems

There are three broad types of economic systems. They are

- market economies
- command economies
- mixed economies

economic systems

These systems range from market economies, based on free market principles and private ownership at the one extreme, and command economies, characterised by state-owned assets and central planning by the government at the other extreme. A mixed economy has elements of both a free market economy and a command economy. It is clear that each of these systems will have a different effect on the way in which business is conducted in the economy concerned. Study these types of economic systems and summarise the main characteristics of each, also indicating the implications of each system for international business.

6.1.4 ECONOMIC FREEDOM

(Study section 4 in chapter 6 of the textbook.)

The Index of Economic Freedom has been published since 1995, with the primary goal of 'developing a systematic empirical measure to rank countries worldwide in terms of economic freedom, based on objective economic criteria.'

defining economic freedom

Economic freedom is defined as 'the absence of government coercion or constraint on the production, distribution or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself' (Miles et al 2006:56).

Even at this point it is obvious that international management would prefer doing business with countries that are highly ranked in terms of economic freedom.

composition of the Index of Economic Freedom

In section 4.1 in chapter 6 of the prescribed book, note the ten broad categories on which the assessment of economic freedom is based, and how factors within these categories are scored to arrive at the overall score for economic freedom of a country.

Importance of Economic Freedom

The final Index of Economic Freedom score is then grouped into one of the four broad categories of economic freedom:

- Free — countries with an average overall score of 1,99 or less
- Mostly free — countries with an average overall score of 2,00 to 2,99
- Mostly unfree — countries with an average overall score of 3,00 to 3,99
- Repressed — countries with an average overall score of 4,00 or higher.

Research has confirmed that countries with most economic freedom measured in terms of the 10 broad categories of variables have

- higher rates of economic growth
- higher standards of living
- and are relatively more prosperous

than those countries with less economic freedom. See table 6.1 on the relationship between economic freedom and per capita income in this regard.

Implications for international business

Now study the list of institutional factors or determinants of economic freedom that are addressed and accommodated in the overall index and rankings. The weighted average score for each major region appears in the table on p. 125, and the top 12 countries ranked by economic freedom in 2006 in table 6.2. In summary, the Index of economic freedom provides a valuable framework for evaluating economic success.

6.1.5 CLASSIFYING COUNTRIES

(Study section 5 in chapter 6 of the prescribed book.)

difficulty of classifying countries

A country's economic scope, level of development, and international competitiveness is influenced by numerous factors which complicate the decision on which criteria to use in classifying countries. It is difficult because there are various methods of classification. However, it is most important to decide on the purpose of the classification, in order for the international manager to be provided relevant and usable information for decision making. Often, once the purpose for classification has been decided, the criteria and method to be used become apparent.

criteria for classifying countries

In section 6.1.2 above, we noted that market size (ie market demand) is very important for international strategic and market planning. In this regard, population size and per capita income are important indicators. They are expressed by two widely used measures for classifying countries: per capita gross national product (GNP) and per capita gross domestic product (GDP). Ensure that you understand these concepts as defined in section 5.2 in chapter 6 of the textbook.

In the World Development Report, the World Bank classifies countries into the following five categories according to their GNP (also referred to as Gross National Income, GNI) per capita:

- low-income
- middle-income*

- lower-middle-income
- upper-middle-income
- high-income

(* Middle-income comprises both lower-middle-income and upper-middle-income categories.)

economic classification of countries

Low-income and middle-income countries are often referred to as less developed or developing countries, and upper-middle and especially high-income countries as developed, and sometimes, industrialised countries. The World Bank classification of countries appears in table 6.3 of chapter 6 of the prescribed book. Classification of countries according to phases of development is discussed and explained in section 5.3.3 in chapter 6 of the prescribed book. Box 6.2, 'The two Koreas — worlds apart' illustrates the value of the economic classification for international businesses. Study this section, noting specifically the methods (and their criteria) of classification, as well as the purpose of the classification.

6.1.6 MACROECONOMIC ISSUES IN INTERNATIONAL BUSINESS

(Study section 6 in chapter 6 of the prescribed book.)

In this section we briefly refer to key macroeconomic issues of importance to international business.

purchasing power parity

The measures of GNP and GDP per capita between countries do not make provision for differences in the cost of living of those countries, and can therefore be misleading. To accommodate such differences, the GNP and GDP per capita can be adjusted by introducing purchasing power — generally referred to as purchasing power parity (PPP), which allows for a more accurate comparison of living standards, and therefore also of economic growth in different countries, as discussed in section 5.2.2 in chapter 6 of the prescribed book.

economic growth

Both GNP and GDP measures, even when adjusted for PPP, provide static data at a specific point in time. South Africa's real GDP between 2001 and 2006 is illustrated in figure 6.2 in chapter 6 in the prescribed book indicating the volatility of these growth rates in the short term in particular. Table 6.4 indicates sectoral contribution to GDP in 2005. Economic growth rates of countries have to be compared over time, using trend or time-series analyses, to determine whether the difference in economic growth between two or more countries is increasing or decreasing over time — which would obviously be of importance to the international manager (see section 6.2 in chapter 6 of the prescribed book). The expected growth rates in GDP for selected regions in 2007 appear in table 6.5, the lowest rate of 1.8 expected for the Eurozone (EU of 12), and the highest rate of 7.2 for South Asia. The top growth countries in terms of GDP in 2007 are presented in table 6.6, Azerbaijan at 17,5 per cent occupying the top position.

innovation and entrepreneurship

It is widely accepted that innovation and entrepreneurship drive the economic growth in a country. Innovation is related to new products, services, processes, organisations, practices and strategies. Furthermore, innovation is an important element in entrepreneurial behaviour and activity. The political economy and concomitant economic system in a country will largely determine its entrepreneurial spirit as discussed in section 6.7 in chapter 6 of the prescribed book. You should recall that certain elements of a country's culture, such as its political and economic philosophy, social structure and religion will either encourage or discourage its entrepreneurial orientation.

impact of inflation

Inflation is known to affect interest rates, exchange rates, the cost of living and the general political and economic confidence in a country. It is therefore of critical importance that the international manager assess countries targeted for potential international business in terms of their economic policies, which include their monetary and fiscal policies. In part, determining a country's "real" disposable income requires that monetary values be adjusted for inflation. Changes in the consumer and production price indices for South Africa between 2003 and 2006 appear in table 6.7 in the prescribed book. Changes in consumer prices for selected high-income and middle-income countries for 2006 and 2007 are in table 6.8. Ensure that you understand how inflation is defined, the various measures of inflation, and the importance of this information for the international manager as outlined in section 6.3 in chapter 6 of the prescribed book.

balance of payments

The balance of payments is an important component of any country's national accounts, since it reflects the value of a country's economic relations with the rest of the world. The balance of payments is defined as a systematic record of all transactions between the residents of a country and the rest of the world during a given period of time (usually a year, a quarter or a month). Its operation is comparable to that of an income and expenditure account or income statement, rather than a balance sheet. Study this section and section 6.4 in chapter 6 of the prescribed book to establish how the balance of payments is structured, and the importance of the current account of the balance of payments. The format of South Africa's balance of payments including the current account and financial account appear in Appendices 1, 2 and 3 in chapter 6 of the prescribed book. South Africa's balance of payments on current account for 2005 and 2006 is included in table 6.9.

external debt

External debt is typically measured in two different ways. When it is expressed as a percentage of GNP, it provides a useful measure of whether a country's external debt levels are acceptable. Study this section in terms of this important measure in international economic analyses with reference to section 6.5 in chapter 6 of the prescribed book, and determine the extent to which the demise of the Asian Tigers in the late 1990s — Korea, Taiwan, Singapore and Indonesia — was due to unrealistically high external debt levels. Table 6.10 in the prescribed book contains information on major international debtor countries.

privatisation

Privatisation involves the movement of ownership from the public to the private sector, and holds many advantages, amongst them the attracting of foreign direct investment from abroad. (See section 6.6 in chapter 6 of the prescribed book.) Study this section and consult the newspapers, journals and the Internet to find out which South African institutions have been recently privatised, or have been targeted for privatisation, and the reasons for the decision to privatise.

This brief overview highlighted a number of key macroeconomic issues of vital importance to the international manager in analysing foreign economic and market potential.

**ACTIVITY 6.1.1**

Describe and discuss a typical political, economic, legal and cultural environment that will encourage entrepreneurial behaviour and innovation (consult the material in study units 4.1, 4.2, 5.1, 5.2 in compiling your answer). Substantiate your answer.

**ACTIVITY 6.1.2**

Study the newspapers and financial journals and access the Internet to find information on a South African organisation that has recently been privatised. Outline the theoretical arguments for and against privatisation, and summarise the reasons why the organisation was privatised. Put down your findings in a brief written report.

**ACTIVITY 6.1.3**

Compile a list of the top ten countries in terms of their rankings with regard to 'political rights', 'civil liberties' (both from Appendix I in chapter 4 of the prescribed book, and 'economic freedom' (see section 6.1.4 above). Comment on your findings in terms of their importance for international business. (For information on the Index of Economic Freedom, you can access the following websites: www.heritage.org and www.wsj.com)



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define the concept economic environment
 - explain the importance of the international economic environment
 - define the concept of an economic system
 - define and evaluate the concept of economic freedom
 - define, evaluate and compare economic systems
 - describe levels and phases of economic development
 - discuss the classification of countries
 - discuss and evaluate macroeconomic issues in international business
-

SUMMARY

We began this study unit by looking at the concept of a political economy, and then explained the importance of economic analysis to identify new international markets. We considered the three types of economic systems, explained the concept of economic freedom and its implications for international business, and explained the rationale for and problems involved in classifying countries thus. In closing, we discussed a number of key macroeconomic issues of importance to the international manager.

TRANSFORMATION TO A MARKET ECONOMY

CONTENTS

Study unit learning outcomes

Key concepts

Overview

6.2.1 Introduction

6.2.2 Transition and international business

6.2.3 Realities of transition to a market economy

6.2.4 Transition from state-owned to private enterprises

6.2.5 Requirements for successful transition to market economies

Assessment

Summary

Topic summary



STUDY 6.2 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- describe and explain economic transition
- explain the transition of command economies to market economies
- define a market economy
- discuss and explain the role of privatisation in economic transition
- discuss and evaluate the requirements for successful transition to a market economy



KEY CONCEPTS

economic transition
command economy
market economy
mixed economy

economies in transition
transition and international business
privatisation
process of transition

ideological and economic issues requirements for successful transition
deregulation democracy

OVERVIEW

This study unit covers the phenomenon of transition from command and mixed economies to market economies. The realities of a transition to a market economy, the privatisation of state-owned enterprises, the process of transition and the requirements for successful transition are then discussed.



6.2.1 INTRODUCTION

(Study sections 7.1 and 7.2 in chapter 6 of the prescribed book.)

Since the fall of the Berlin Wall in 1989, most of the centrally planned economies of the former East Bloc countries and Soviet Union have been involved in a transition process to market economies. These countries include the Russian Federation, Poland, Hungary, Romania, the Czech Republic, Belarus, Ukraine, Latvia, Estonia and Lithuania. They are often referred to as countries with economies in transition (CEITs). Although since 1989, the Central and East European countries and Russia have received a lot of attention as economies in transition, a complete list of countries in transition would have to include Asian states such as China and Vietnam, as well as African countries such as Angola, Ethiopia, and Mozambique. In other countries in Asia, Latin America and even Western Europe, privatisation and deregulation have also resulted in a move towards freer markets for both ideological and economic reasons as discussed in section 7.2 of the prescribed book.

economies in transition

In this study unit we look at some of the realities of the transition to a market economy, the role of privatisation in the transition from state-owned to private enterprises, the process of transition, and the requirements for successful transition.

aspects of transition

6.2.2 TRANSITION AND INTERNATIONAL BUSINESS

(Study section 7.3 in chapter 6 of the prescribed book.)

The importance of the transition of former centrally planned or command economic systems and mixed economic systems to market economies lies in the accessibility of previously closed markets, given that these economies are not all transforming at the same rate, nor are they all characterised by the same types of transformation, or the same types and levels of risk.

importance of transition to market economies

implications of transition to market economies

Some of the implications of the above transition to market economies for international businesses are

- opportunities for expansion into new (previously closed) markets
- access to natural and other resources not previously accessible
- new opportunities for knowledge and technology transfer
- new destinations for foreign direct investment, given acceptable risk levels
- new opportunities for expatriate managers to acquire cross-cultural literacy
- new opportunities for international collaboration through joint ventures and strategic alliances

These implications and opportunities will become clearer in the discussions that follow.

6.2.3 REALITIES OF TRANSITION TO A MARKET ECONOMY

(Study section 7.4 in chapter 6 of prescribed book.)

The political changes after 1989 were accompanied by far-reaching economic shifts in a number of important areas. Czinkota et al (2002: 229–230) identify several shortcomings and opportunities for international business wanting to expand into countries involved in the process of making a transition to a market economy. Some of the main shortcomings are

shortcomings and opportunities

- the severe limitations in infrastructure of these countries, including a dearth of market intermediaries
- major shortages of capital primarily because investors often perceive these markets as risky and would rather invest in more attractive investment opportunities elsewhere
- demand conditions characterised by vague and undefined consumer needs
- largely inaccurate or, at times, non-existent market information
- a general lack of managerial skills
- less than optimal commitment by both managers and employees to their work
- resistance to change
- an environment and culture that complicates decision making
- poor planning and resource allocation

On the positive side, these emerging democracies often have abundant knowledge resources, for example in their researchers and engineers, whose skills are not optimally utilised. Study this section for a perspective on the realities of change in these economies and how these realities influence international business. Why should the international manager have an informed knowledge of these issues?

6.2.4 TRANSITION FROM STATE-OWNED TO PRIVATE ENTERPRISES

(Study section 7.5 in chapter 6 of the prescribed book.)

privatisation

In study unit 6.1 (section 6.1.6) we briefly looked at privatisation of state-owned enterprises as a key macroeconomic factor for international business. Here we consider privatisation in the context of economies in transition where most of the assets and the means of production were, and to an extent still are, state-owned.

benefits and risks of privatisation

Given the advantages of privatisation, including private ownership and the potential for increased efficiency, it is clear that there is a great need for privatisation in countries in transition and that the benefits thereof are enormous. You should recall, however, that privatisation often requires foreign direct investment (FDI) in the countries in transition, which means that before potential investors become involved in privatisation, they must first consider the risks of such a prospect. This underlines the importance of privatisation but also its complex nature.

6.2.5 REQUIREMENTS FOR SUCCESSFUL TRANSITION TO MARKET ECONOMIES

(Study section 7.6 in chapter 6 of the prescribed book.)

The rationale for economic transformation worldwide is that countries with command, and even mixed economic systems to a certain degree, did not live up to expectations, leaving their people relatively poorer. Transformation processes generally involve these steps:

- deregulation
- privatisation
- creation of legal systems to protect property rights.

requirements for transition

It is accepted that successful transition to a market economy requires the following conditions:

- the development and implementation of sound policies
- easing up on protectionism and barriers to entry, and the extensive liberalisation of prices and trade regimes
- importance of privatisation and an effective system of property rights
- the development of sound and effective legal and financial systems for reforms to succeed
- a commitment to the development of human capital to cope with the market economy

Ensure that you know why these requirements exist, and how transformation could be affected by the absence of one or more of these conditions.

A country's transition to a market economy does not guarantee economic success, as may be illustrated by the fact that the majority of the world's

factors influencing transition

developing and poorer countries qualify as countries with economies in transition. These countries vary widely in terms of the factors that may affect their growth, irrespective of their degree of transformation. These factors include

- the educational level of the population
- the quality and distribution of natural resources
- the degree of national cohesiveness
- access to investment capital
- the extent of existing industrial structures
- entrepreneurial experience among the population
- the development of infrastructure

As we saw in section 6.2.3 above, most of the shortcomings in East and Central Europe and Russia relate to the above.

**ACTIVITY 6.2.1**

Study the newspapers and financial journals and access the Internet to establish how any one of the countries currently involved in making a transition to a market economy is progressing. Write a brief report on your findings.

**ACTIVITY 6.2.2**

Select a country in the process of economic transition. Write a brief report on the potential benefits, costs and risks for a South African international business considering direct foreign investment in the selected country. Substantiate your views in this regard.

**ASSESSMENT**

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- describe and explain economic transition
- explain the transition of command economies to market economies
- define a market economy

- discuss and explain the role of privatisation in economic transition
 - discuss and evaluate the requirements for successful transition to a market economy
-

SUMMARY

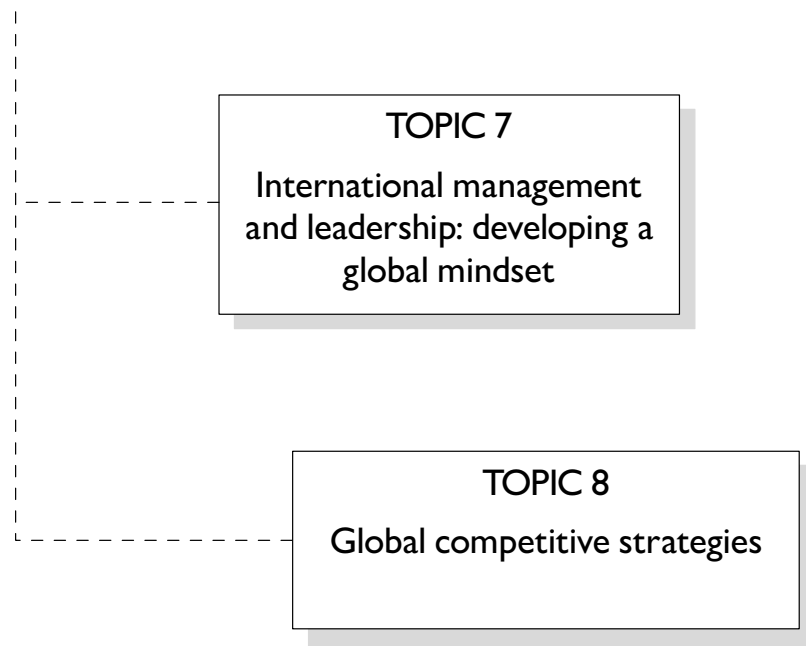
In this study unit we investigated the transition of former centrally planned economies to market economies. We looked at the realities, as well as requirements for successful transition to market economies, and the implications of such transition for international business.

TOPIC SUMMARY

In study unit 6.1 we discussed the international economic environment, existing economic systems, the concept of economic freedom and the classification of countries. In conclusion, we identified a number of macroeconomic issues of importance to international business.

In study unit 6.2 we discussed the phenomenon of transition from centrally planned economic systems to market economies. We highlighted the realities of the transition to a market economy, the privatisation of state-owned enterprises, and discussed the requirements for successful economic transition.

GLOBAL BUSINESS LEADERSHIP AND STRATEGIES



INTRODUCTION TO PART 3

Part 3 of this course deals with global business leadership and strategies to attain a sustainable competitive advantage in the international business arena.

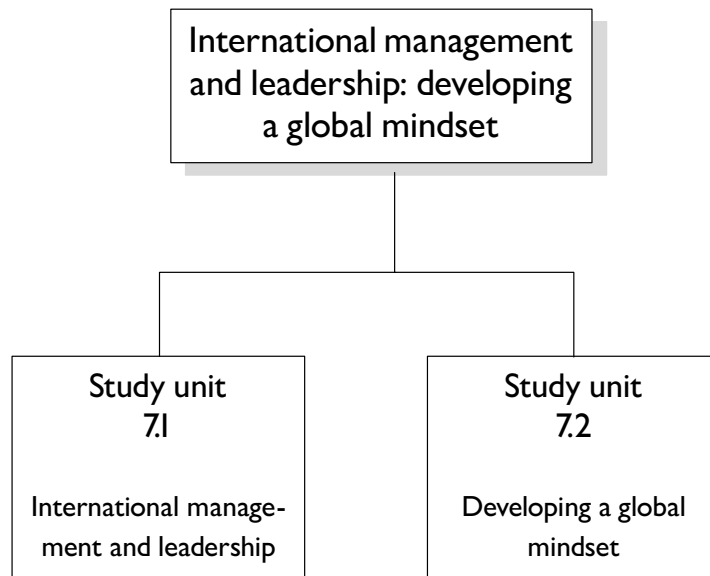
In topic 7, we discuss the important issues of global business management and leadership. Study unit 7.1 opens with the definition of a number of important concepts related to international business and management. We discuss these concepts and draw a distinction between their meanings. We cover the cultural dimensions of global leadership in study unit 7.2. In addition, we define the concept of a global mindset, indicate the need for this global mindset in cross-cultural leadership and how it must be fostered through appropriate education and training, and conclude with the requirements for global leadership.

The aim of topic 8 is to examine, within the context of globalisation and the rapidly-changing global business environments, the strategic options available to firms that want to expand their operations internationally.

Study unit 8.1 commences with a brief reference to globalisation and highlights relevant elements of the global business environment as a frame of reference for identifying sources of competitive advantage and the development of appropriate international strategies.

Study unit 8.2 focuses on the selection of appropriate international strategies, taking account of the strategic orientation of international firms, the relationship between competitive advantage and strategy, and the various pressures that influence the choice of strategy. The study unit is concluded by looking at modes of foreign market entry, and combining these with the competitive business strategies in developing an integrated, international strategic management framework.

INTERNATIONAL MANAGEMENT AND LEADERSHIP: DEVELOPING A GLOBAL MINDSET



AIM

The aim of this topic is to provide you with an overview of the fundamentals underlying, and the importance of, international management and leadership. We do this in study unit 7.1, and then go on to draw a distinction between management and leadership, and explore their importance in the context of the global cultural environment. In study unit 7.2 we define a global mindset and emphasise how important this is to global management and leadership. We also discuss how to develop and cultivate a global mindset. In conclusion, we look at the importance of cross-cultural leadership and socialising the global manager in the multinational enterprise (MNE).



LEARNING OUTCOMES

After studying this topic, you should be able to

- define the relevant concepts related to international management, leadership and strategy
- compare and evaluate the concepts of management and leadership
- discuss international management in the context of its various environments
- define and discuss risk in international business
- discuss and evaluate the concepts of leadership and culture
- define a global mindset
- identify and discuss the need for a global mindset
- discuss how to develop and cultivate a global mindset
- evaluate the relationship between a global mindset, culture, and cross-cultural leadership
- explain the requirements for effective global cross-cultural leadership
- explain the importance of mindset for global leadership
- discuss the need for and importance of training and development



KEY CONCEPTS

The key concepts identified in this topic are

international business	international business enterprise
multinational enterprise (MNE)	global enterprise
transnational enterprise	international strategy
multidomestic strategy	global strategy
transnational strategy	international management
international leadership	cross-cultural leadership
international risk	global mindset
need for a global mindset	transactional leadership
developing and cultivating a global mindset	transnational capabilities
charismatic leadership	transformational leadership
education and training for global managers	training and development in a global context

INTERNATIONAL MANAGEMENT AND LEADERSHIP

CONTENTS

Study unit learning outcomes

Key concepts

Overview

7.1.1 The importance of international management and leadership

7.1.2 Basic concepts in international management

7.1.3 The context of international management

7.1.4 International management challenges

7.1.5 Cross-cultural leadership

Assessment

Summary



STUDY UNIT 7.1 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define the relevant concepts related to international management, leadership and strategy
- compare and evaluate the concepts of management and leadership
- discuss international management in the context of its various environments
- define, discuss and evaluate risk in international business
- discuss and evaluate the concepts of leadership and culture



KEY CONCEPTS

international business
multinational enterprise
transnational enterprise
multidomestic strategy
transnational strategy

international business enterprise
global enterprise
international strategy
global strategy
international management

international leadership
international risk

cross-cultural leadership

OVERVIEW

In study unit 7.1 we discuss the fundamental principles and the importance of international management and leadership. International management and leadership are compared in the context of international business. In closing, we discuss the role of international management in the context of the global business environment how risk is managed in this turbulent environment, and the importance of cross-cultural leadership in this regard.



7.1.1 THE IMPORTANCE OF INTERNATIONAL MANAGEMENT AND LEADERSHIP

(Study section 1 in chapter 8 of the prescribed book.)

The above topic lies at the heart of international business. Given the dynamics and scope of international business, and the various international institutions of international business that we discussed in part 1, and the environments in which international businesses operate that we discussed in part 2, it should be clear that international management and leadership are responsible for initiating and executing the strategies and actions of international businesses.

But how important is management and leadership in international business really? In this study unit, we will attempt to provide the answer to this question, and then go on to show why business leaders need to cultivate a global mindset to ensure continued success in international business. In this study unit, we first define a number of important concepts in the context of international management and leadership, then discuss the requirements for effective international management and leadership and finally explore the importance of cross-cultural leadership. The development of a global mindset is the subject of study unit 7.2.

7.1.2 BASIC CONCEPTS IN INTERNATIONAL MANAGEMENT

(Study sections 2, 2.1 and 2.2 in chapter 8 of the prescribed book.)

In addition to the concepts and terminology that you have come across in the module thus far, we shall now define a number of concepts which are extremely important for the remainder of the topics in this module. Ensure that you understand the difference between management in a purely domestic sense and international management, as well as the difference between management and leadership.

international management and leadership

management versus leadership

necessity of leadership

In his groundbreaking work, *The leadership mystique*, Manfred Kets de Vries (2001:210) poses the following incisive question:

Why do people need leaders anyway — political leaders, business leaders, cultural leaders?

His own succinct answer to this question is

... because we live in a world of change.

Study these sections thoroughly to establish how international leadership differs from international management and what the requirements for effective international leadership are. Global leadership abilities are discussed in study unit 7.2 (section 7.2.4).

basic concepts

Also ensure that you understand the other concepts in this section. These include terms such as “affiliates and subsidiaries”; “international, multidomestic, global and transnational enterprises and strategies”; “international, global and worldwide activities”.

7.1.3 THE CONTEXT OF INTERNATIONAL MANAGEMENT

(Study section 2.3 in chapter 8 of the prescribed book.)

environments and management

While the international environment, in its broadest sense, comprises the total world environment, the relevant international environment for an MNE would be the sum total of the environments of each of the nation-states or countries with which the enterprise trades or in which it has invested.

In studying this section, take note of the numerous political, legal, economic, social, cultural and technological issues and forces that a MNE faces, with specific reference to the following key areas:

global environmental forces

- the changing nature of the international business environment, including major demographic shifts, ever growing urbanisation, and growth in what we have come to know as “minority groups”
- changing consumer behaviour reflecting increasing demands for and insistence on value
- trade liberalisation, deregulation and privatisation
- exploding information, communication and biological technologies, that are totally changing the global competitive environment and resulting in key new competitive forces
- the emerging “new economy” (including the “old economy” with new technology), as reflected in e-business which is changing the way we look at traditional business models
- the emergence of the EU as an economic force, and the euro as a currency of note
- changing political systems, including the dramatic changes in Eastern and Central Europe as well as in Russia after the demise of communism

- increasing economic integration and the formation of viable trade blocs
- critical health, finance, education and government issues in the Pacific Rim, the Far East and in Africa, and the way in which these issues are being dealt with
- an increasing consolidation of business through mergers and acquisitions
- management becoming increasingly globalised, including extensive restructuring, downsizing and rightsizing of organisations and outsourcing of activities
- unacceptable levels of corruption and social disorder worldwide
- the need to scan the competitive environment continuously and systematically search for business opportunities (Kets de Vries 2001:211–212; Hough & Neuland 2000:202)

**environmental scanning
and competitive
intelligence**

Effective international management requires that these key issues be dealt with appropriately. The relevant environments and their implications for international business were discussed in topic 4. Gathering appropriate and timely information for market and competitor analyses, as well as for other strategic purposes through environmental scanning and competitive intelligence (CI) is imperative for continued success, survival and growth. Whereas environmental scanning is a well-established technique in strategic analysis, CI has recently emerged as an indispensable aid to obtain vitally important pre-emptive intelligence on major political, economic, social and market trends as well as on emerging competitive forces. Hence, we explain the CI approach and the evolution of CI programmes in this section. In the section that follows we briefly look at the management of risk in the international environment.

**risk in the international
environment**

It is generally accepted that the international business environment is characterised by continuous change, uncertainty and risk. The international manager needs to identify and manage these risks effectively. In this section, note the elements of both internal and external risk, and how to deal with them. Study Box 8.1, 'Risk factors in South African business' in this regard. Political risk is an important element of external risk and almost always occurs without any prior warning, as evidenced by the terror attacks on the US World Trade Center and the Pentagon on 11 September 2001. Sectors such as the insurance, air transportation, tourism, hospitality, finance and real estate industries, to name but a few, were dramatically affected by this tragic and unexpected event.

7.1.4 INTERNATIONAL MANAGEMENT CHALLENGES

(Study section 2.4 in chapter 8 of the prescribed book.)

We know that international managers need to cope with and manage a host of global issues such as those that we summarised in section 7.1.3 above.

demands on international management

Study the issues, discussed in section 7.1.3 above, the groups of competing factors identified by Coade, Miller's requirements for successful South African managers, and the issues that multinational managers face as pointed out by Beamish. To illustrate some of these developments, study Box 8.2, 'Developing to meet changing demands.' Summarise these issues to obtain a profile of the major environmental trends and issues in international business. Given this background, we now look at the important topic of cross-cultural leadership.

7.1.5 CROSS-CULTURAL LEADERSHIP

(Study section 2.5 in chapter 8 of the prescribed book.)

culture and leadership

In study units 4.1 and 4.2 we defined the concept of culture, discussed the characteristics and determinants of culture, and highlighted the implications of culture for international business. In this section we seek to identify how culture impacts on leadership internationally. In this regard, Kets de Vries (2001:223–228) makes the following observation:

With the increasing globalisation of business, we can no longer ignore the fact that there's a strong cultural dimension to leadership — that is, that there are variations in what's acceptable as a leadership style depending on one's national culture.

He sees the cultural values of a nation or society as the building blocks for behaviour, action, leadership practices and institutional arrangements, and argues that if we understand the building blocks of culture, it will help to explain the differences in leadership styles among cultures. Aspects of leadership are affected by cultural differences because of the fact that:

- attitudes toward authority may differ from country to country and may affect how leadership is perceived (by both leaders and followers).
- in global corporations in particular — which often attempt to “streamline” behaviour patterns in the organisation— the interface between national and corporate culture is “tightly interwoven”
- styles of decision making that vary from one culture to another
- motivation and control can be understood only in the context of cross-cultural management
- the management of multicultural teams requires a cooperative blending of elements from various cultures

analysing cultural patterns

Based on the above, study the approaches that are used to simplify cultural patterns. In this regard, review Hall's low-context-high-context approach and Hofstede's cultural dimensions in study unit 4.2.

differences in the meaning of leadership across cultures

As already mentioned, the culture in which leaders grow up strongly influences their values, attitudes and behaviours, which means that the meaning of leadership may vary across countries. Study the examples in this section which evidently confirm this view. Of what importance is this information to the international manager?

extent to which the values of leaders may vary across countries

It has been found that the following cultural distinctions can affect the values associated with leadership:

- traditionalism and modernism
- particularism and universalism
- outer-directed versus inner-directed world values

We conclude this discussion of the attributes and skills relevant to cross-cultural leadership with reference to the research by Yeung and Ready (1995:529–547), as well as Chow et al (1997:6–7).

Study these findings with reference to tables 8.1, 8.2 and 8.3 in chapter 8 of the prescribed book. In closing, take note of the management development model that McFarlin and Sweeney (1998:23) propose for South Africa. Compile your own summary of the necessary attributes and requirements for effective cross-cultural leadership in general.

Study this section, noting once again the importance of this information for effective leadership in international business.

These discussions on cross-cultural leadership form the basis for our discussion of the attributes and competencies of cross-cultural global leadership in study unit 7.2 (section 7.2.5).



ACTIVITY 7.1.1

Compare management and leadership critically in terms of roles, functions and attributes. Summarise your findings in a brief written report.



ACTIVITY 7.1.2

Write a brief report to management, outlining the types of risks that international businesses face, and how these risks should be managed.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define the relevant concepts related to international management, leadership and strategy
- compare and evaluate the concepts of management and leadership
- discuss international management in the context of its various environments
- define, discuss and evaluate risk in international business
- discuss and evaluate the concepts of leadership and culture

cross-cultural leadership for success

SUMMARY

In this study unit we highlighted a number of important issues related to international management and leadership, and the importance of cross-cultural leadership for any degree of success in the global marketplace. In fact, recent research in this field confirms the direct relationship between effective cross-cultural management and the possession of attributes and skills in culture-based cross-cultural management. Cross-cultural proficiency requires, amongst other things, that managers and leaders cultivate and develop a global mindset. This issue is dealt with in study unit 7.2.

study unit 7.2

DEVELOPING A GLOBAL MINDSET

CONTENTS

Study unit learning outcomes

Key concepts

Overview

7.2.1 Introduction

7.2.2 Defining a global mindset

7.2.3 The need for a global mindset

7.2.4 Developing a global mindset

7.2.5 Mindset and cross-cultural global leadership

7.2.6 Socialising the new breed of global managers in multinational enterprises

Assessment

Summary

Topic summary



STUDY UNIT 7.2 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define a global mindset
- identify and discuss the need for a global mindset
- discuss how a global mindset is developed and cultivated
- evaluate the relationship between a global mindset, culture and cross-cultural leadership
- explain the requirements of effective global cross-cultural leadership
- explain the importance of a global mindset for global cross-cultural leadership
- discuss the need for and importance of training and development



KEY CONCEPTS

- | | |
|--|--|
| global mindset | individual mindset |
| organisational mindset | need for a global mindset |
| developing a global mindset | transactional leadership |
| charismatic leadership | transformational leadership |
| transnational capabilities | education and training |
| developing global managers | leadership development in a global context |
| training and development in a global context | |

OVERVIEW

This study unit covers the concept of a global mindset, and emphasises the importance of a global mindset for global and transnational leadership in a rapidly changing global business environment. We look at the meaning of a mindset, the need for a global mindset, and how to develop this global mindset. The importance of cross-cultural leadership is explained, and the study unit is concluded by identifying educational and training needs for global managers.



7.2.1 INTRODUCTION

(Study section 3.1 in chapter 8 of the prescribed book.)

In study unit 7.1 we discuss international management and leadership, and the increasing importance of cross-cultural leadership. In this study unit,

new business challenges

we broaden our perspective to focus on the importance of a global mindset for both companies and individuals in order to meet the challenges of an increasingly global business world. Here we build on the aspects of leadership, and cross-cultural leadership in particular, that we discussed in study unit 7.1.

transition to a global economy

Pucik (1992:3) states that successful global organisations will increasingly need to develop individuals who can think, lead and act from a global perspective, and possess a global “mind” and “global skills”. As the pressure mounts for more South African firms to move from domestic to global markets, these firms will have to learn how to overturn traditional assumptions about how business should be conducted in order to ensure a successful transition to international business. In the discussions that follow, we first look at the need for a global mindset, the link between a global mindset and personal characteristics, developing and cultivating a global mindset, the development of cross-cultural leadership, and socialising the new breed of global managers in MNEs.

7.2.2 DEFINING A GLOBAL MINDSET

(Study section 3.1 in chapter 8 of the prescribed book.)

defining global mindset for individuals

Political and economic restructuring in places like Eastern and Central Europe, China, some Latin American countries and in Southern Africa pose tremendous challenges to businesses in those countries and regions to remain competitive. If we consider that such restructuring occurs over and above the increasing globalisation of the world economy, one of the requirements for businesses in these areas to remain competitive is that the organisations as well as the managers and leaders develop “a global mindset”.

Before elaborating on the need for a global mindset, we first need to define this important concept. Govindarajan and Gupta (2001:11) define a global mindset as

a mindset that combines an openness to and awareness of diversity across cultures and markets with a propensity and ability to synthesise across this diversity.

Jeannet (2000:11) provides the following definition of a mindset in the context of global business:

a state of mind able to understand a business, an industry sector, or a particular market on a global basis to see across multiple territories and focus on commonalities across many markets rather than emphasising the differences among countries.

Essentially, a mindset refers to the way in which a person receives and interprets information. This process is illustrated in section 3.1 of chapter 8 in terms of the following three key concepts:

- openness to diversity across cultures and markets
- knowledge about diversity across cultures and markets
- the ability to integrate diversity across cultures and markets

defining a global mindset for organisations

An organisation's mindset, on the other hand, comprises the aggregate mindset of a collective of individuals, adjusted for the distribution of power and mutual influence among the people making up this collective of individuals (Gupta & Govindarajan 1999:1). Now study Box 8.3, 'Does your organisation have a global mindset?' for specific requirements in this regard. Note the implications of these two concepts both for management and organisations.

7.2.3 THE NEED FOR A GLOBAL MINDSET

(Study section 3.1 in chapter 8 of the prescribed book.)

During the past two decades, the world economy has been affected by several significant changes, the most important of which were listed in section 7.1.3. These changes have forced both businesses and government to adapt to the changing world environment, and have required far-reaching changes in the practice of management (Jeanett 2000:17).

the need for global mindsets

Govindarajan and Gupta (2001:105) contend that any company that wants to emerge as a global leader in its industry has to be a leader in

- discovering new market opportunities
- establishing presence in key markets
- converting such a presence into global competitive advantage

According to Yip (2003:6–16), the globalisation of the world economy requires global managers to service their global customers by means of a variety of processes. These include

- orientating market focus
- redistributing resources
- readjusting organisational structures
- carefully selecting appropriate communication modalities

Study the rest of this section on the need for and importance of a global mindset, while noting the differences between an individual and an organisational mindset.

the value of a global mindset

Thinking globally and developing a global mindset is imperative for industry leadership. Without it, management tends to pursue only those obvious opportunities it, and one would assume its competitors, discern. It is argued that the central value of a global mindset lies in enabling the company to combine speed with accurate response. Study the rest of this section on the need for developing a global mindset. In section 7.2.4 below we look at the differences between a traditional and a global mindset.

7.2.4 DEVELOPING A GLOBAL MINDSET

(Study sections 3.2, 3.3 and 3.4 in chapter 8 of the prescribed book.)

important personal characteristics

Note the most important personal characteristics linked to a global mindset as discussed in sections 3 and 4 of chapter 8 of the prescribed book. As an interesting example, study Box 8.4, 'Developing a competency to deal with Chinese diversity'.

Rhinesmith (1993:28–29) developed six competencies as a basis for developing a global mindset. These are based on the following relationships:

- global mindsets as they are linked to personal characteristics
- global competencies as they are linked to personal characteristics

Study the elements involved in the above two relationships as a basis for the development of a global mindset in sections 3 and 4 in chapter 8 of the prescribed book.

In table 7.1 below we compare a number of broad current and future traits of executives — the latter important in respect of acquiring a global mindset.

TABLE 7.1

EXECUTIVE TRAITS NOW AND IN THE FUTURE

Now	The future
All knowing	Leader as learner
Domestic vision	Global vision
Predicts future from past	Intuits the future
Caring for individuals	Caring for institutions and individuals
Owens the vision	Facilitates vision of others
Uses power	Uses power and facilitation
Dictates goals and methods	Specifies processes
Alone at the top	Part of an executive team
Value order	Accepts paradox of order amidst chaos
Monolingual	Multicultural
Inspires the trust of boards, shareholders	Inspires the trust of owners, customers, and employees

Source: Beamish, et al (1997: 182–184).

Govindarajan and Gupta (2001:122) state that even if an organisation decides to stay local, having a global mindset has at least two advantages. A global mindset

- will enhance its ability to compete against international competitors in its own domestic market

- will allow the organisation to benchmark itself against leading international firms

developing mindsets

They state that the cultivation and development of a global mindset has a number of phases (series of s-curves) as illustrated in figure 8.3 in chapter 8 of the prescribed book. It appears that the speed with which organisations or individuals can cultivate a global mindset is driven by the following four factors:

- curiosity about the world and a commitment to becoming smarter
- an explicit and self-conscious articulation of a current mindset
- exposure to diversity and novelty
- a disciplined attempt to develop an integrated perspective and knowledge about foreign cultures and markets

Given the significant changes in the global business environment in recent years, it appears that the need to develop a global mindset is clearly justified.

7.2.5 MINDSET AND CROSS-CULTURAL GLOBAL LEADERSHIP

(Study section 4.4 in chapter 8 of the prescribed book.)

global demands on leadership

From our previous discussions it is clear that the changing business environment (section 7.1.3) and continuing globalisation demand a global perspective with regard to international management and leadership, and as illustrated in section 7.2.3 above, a global mindset to succeed in the competitive international business arena.

leadership styles

Based on our discussion in section 7.3.4 above, we can identify three generic leadership styles. They are

- charismatic
- transactional
- transformational

Of these three leadership styles, transformational leadership has been proved to be generally most effective in international management. Amplifying on this view, Kets de Vries identifies the following five cross-cultural leadership models, which are dependent on cultural differences (the countries in which each model is predominant appear in brackets):

- the consensus model (Scandinavia, the Netherlands and Japan)
- the charismatic model (Anglo-Saxon and Latin countries)
- the technocratic model (Germanic countries)
- the political process model (France)
- the democratic centralism model (Russia, some Middle Eastern and African countries)

Kets de Vries (2001: 239–240) accordingly identifies the following characteristics and abilities which have been shown to be indispensable for effective cross-cultural leadership:

**cross-cultural global
leadership characteris-
tics**

- charismatic qualities
- an openness to change
- an interest in the socioeconomic and political life of other countries
- an ability to relate well to people from other cultures
- good nonverbal communication skills
- an interest in and an understanding of the way cultural differences affect the way people function
- a willingness to listen to and attempt to understand different views
- relative fluency in a second language (and an interest in languages generally)
- a desire to travel, learn new things, and try various cuisines
- a sense of ease in culturally ambiguous situations
- the ability to work well in (and enjoy) multicultural teams
- proficiency in teambuilding skills
- a willingness to take risks when the potential for payoff is high
- a high tolerance for frustration and ambiguity
- an adaptability to new situations
- an internal orientation (having a perception of control over one's own life)
- a sense of humor

Adler and Bartholomew (1992:52–65) list five transnational competencies needed by global leaders. All the perspectives on a global mindset and cross-cultural leadership that we have presented thus far are neatly encapsulated in these following five competencies:

**transnational compe-
tencies**

- Global leaders must understand worldwide business, political and cultural environments from a global perspective.
- Global leaders must learn about many cultures' perspectives, tastes, trends, technologies and approaches to conducting business.
- Global leaders must be skillful at working with people from many cultures simultaneously and should no longer deal with each country's people on a separate, and therefore, sequential basis.
- Global leaders must be able to adapt to living in other cultures and need cross-cultural skills on a daily basis throughout their career, and not only during expatriate assignments.
- Global leaders must interact with international colleagues as equals, rather than from within clearly defined hierarchies of structural or cultural dominance and subordination.

Study the rest of this section to acquire a clear understanding of the global cross-cultural competencies and skills that successful global managers should have.

7.2.6 SOCIALISING THE NEW BREED OF GLOBAL MANAGERS IN MULTINATIONAL ENTERPRISES

(Study sections 5 and 6 in chapter 8 of the prescribed book.)

phasing in of global managers

It has been established that human resource development and management should be a balance between strategic considerations (investment in junior staff resources and individual careers) and managerial considerations (ensuring effective and smooth expatriation and repatriation), with a decided emphasis on education and training. Study section 5 in chapter 8 of the prescribed book on the training and development of global managers and leaders, as well as this section with specific reference to the way in which newcomers should be treated, and why successful international managers should not be relegated to the “slow track” after repatriation to their home country.



ACTIVITY 7.2.1

Briefly compare traditional management and leadership with the global management and cross-cultural leadership required in our globalised economy. Provide reasons why this transition has become necessary. Present your findings in a brief written report.



ACTIVITY 7.2.2

Consult relevant sources, including books, journals, company reports and the Internet to identify a local or foreign company that has adopted the approach of global mindsets in management and leadership. Explain how this came about. Summarise your findings in a brief written report.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by ensuring that you can

- define a global mindset
- identify and discuss the need for a global mindset
- discuss how a global mindset is developed and cultivated

- evaluate the relationship between a global mindset, culture and cross-cultural leadership
 - explain the requirements for effective global cross-cultural leadership
 - explain the importance of a global mindset for global leaders
 - discuss the need for and importance of training and development
-

SUMMARY

In this study unit we defined the concept of a global mindset, for both individuals and organisations, identified and illustrated the need for a global mindset in international business, and explored the relationship between a global mindset, required leadership attributes and successful cross-cultural leadership. We concluded our discussions by identifying appropriate education and training methods to cultivate a global mindset, and how global managers should be socialised in a multinational enterprise. Underlying this entire study unit is the extreme importance of a global mindset for success in international business.

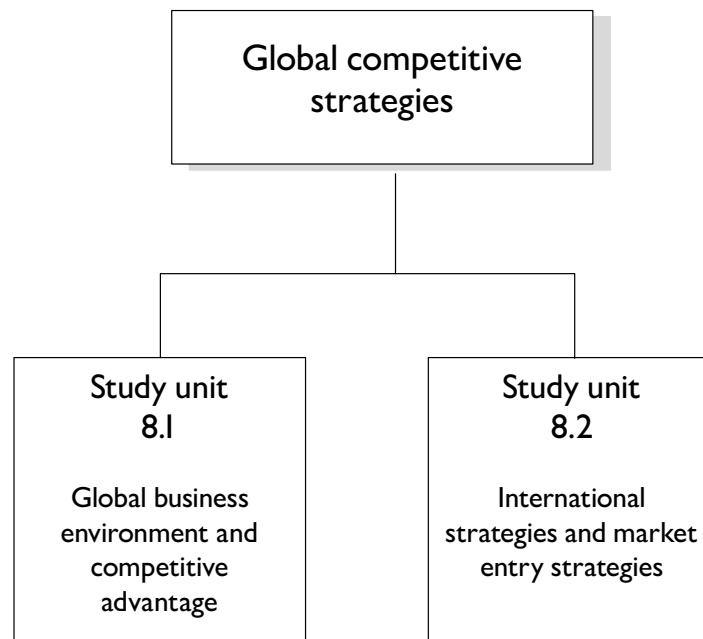
TOPIC SUMMARY

In topic 7 we looked at international business management, leadership and strategy.

In study unit 7.1 we defined important concepts related to management and leadership. The two concepts of management and leadership were compared in the context of the global business environment, and with reference to the cultural dimensions of this environment.

In study unit 7.2 we continued our discussion by identifying the importance of a global mindset, defining a global mindset, and indicating how a global mindset can be developed and cultivated. We looked at cross-cultural global leadership, and how global leaders can be trained.

GLOBAL COMPETITIVE STRATEGIES



AIM

The aim of this topic is to examine, within

- the context of globalisation; and
- rapidly-changing, volatile global business environments,

the strategic options available to firms that want to expand their operations to foreign markets.

Our focus thus far in this module has been on globalisation and the process of internationalisation discussed in chapter 1, the dynamic global business environments discussed in chapters 2 to 6, and global management and leadership discussed in chapter 8.

The focus in this topic now shifts from the environment and the requirements for effective global leadership and management to the firm itself. In particular, we now focus on the actions that leaders and managers can take to compete more effectively in international business and increase their profitability by adopting appropriate competitive strategies and foreign market entry strategies for sustainable competitive advantage.

In study unit 8.1 we commence with a brief reference to globalisation and highlight relevant elements of the global business environment merely as a frame of reference for and background to identifying sources of sustainable competitive advantage and the development of appropriate international strategies.

Study unit 8.2 focuses on and explains the selection of appropriate international competitive strategies, taking into account the importance of the strategic orientation of a firm, the relationship between competitive advantage and strategy, and the influence of pressures for cost reductions and customisation on the choice of strategy. Assessing the importance of alternative foreign market entry strategies, and combining these with competitive business strategies in an integrated, international strategic management framework concludes our discussion.



LEARNING OUTCOMES

After studying this topic you should be able to

- assess the importance of the global business environment as a frame of reference for appropriate international competitive strategy selection
- explain the importance of industry analysis in international strategy development
- define the concept of competitive advantage in the context of international business
- explain the importance of the strategic orientation of an international firm
- discuss and evaluate the two main pressures that impact on international strategy development and selection
- distinguish between the four possible international competitive strategies on the basis of their characteristics and appropriateness in specific circumstances
- define foreign market entry modes and distinguish between the various alternative entry modes
- develop an integrated international strategic management framework



KEY CONCEPTS

The key concepts identified in this topic are

globalisation	international competitive strategy
global business environment	international strategy
industry environment	multidomestic/localisation strategy
global competitive advantage	global strategy
national competitive advantage	transnational strategy
competitive advantage at firm level	modes of foreign market entry
strategic orientation	global strategic management

study unit 8.1

GLOBAL BUSINESS ENVIRONMENT AND COMPETITIVE ADVANTAGE

CONTENTS

Study unit learning outcomes

Key concepts

Overview

8.1.1 Introduction

8.1.2 Globalisation: The context of international business strategy

8.1.3 The global business environment

8.1.4 The industry environment

8.1.5 Global competitive advantage

Assessment

Summary



STUDY UNIT 8.1 LEARNING OUTCOMES

Once you have studied this study unit, you should be able to

- assess the importance of the global business environment as a frame of reference for appropriate international competitive strategy selection
- explain the importance of industry analysis in international strategy development
- define the concept of competitive advantage in the context of international business



KEY CONCEPTS

globalisation

global business environment

industry environment

national competitive advantage

competitive advantage at firm level

global competitive advantage

OVERVIEW

In study unit 8.1 we refer to globalisation and the global business environment as the context within which international competitive strategies have to be developed. Competitive advantage is generally associated with a specific firm in terms of core competencies and capabilities. However, in international business, competitive advantage may also originate from foreign countries and markets. A brief overview of competitive advantage concludes our discussion.



international business expansion

global and environmental influences

8.1.1 INTRODUCTION

(Study section 1 in chapter 9 of the prescribed book.)

As is evident from chapter 1, firms primarily expand their business operations internationally to increase profitability and growth. This generally happens reactively when firms respond to saturated domestic markets, or proactively as part of a firm's deliberate strategic initiatives to expand its market.

To develop appropriate sustainable international strategies, all relevant strategic factors and issues, trends and events should be considered by management. This includes a profound knowledge of global environmental as well as industry trends. This topic on global competitive strategies accordingly commences with reference to globalisation and some environmental factors as the context for international strategy development.

In this study unit 8.1 we will look at

- globalisation: the context of international competitive strategy
- the global business environment
- the industry environment
- global competitive advantage

In study unit 8.2 we will focus on relevant international competitive strategies and strategies to enter foreign markets. The study unit is then concluded by developing an integrated, global strategic management framework for international business firms.

8.1.2 GLOBALISATION: THE CONTEXT OF INTERNATIONAL BUSINESS STRATEGY

(Study section 2 in chapter 9 of the prescribed book.)

Globalisation is defined in chapter 1, and again referred to in chapter 2 as a context for the discussion of international trade.

globalisation and international business

Although globalisation can be defined from different perspectives, for our purposes it is important to realise that globalisation in the economic sense

is a shift away from distinct national markets and economies to an interdependent and interlinked global economic system.

Study this section to reaffirm the important phenomena of the globalisation of markets and of production, and the driving forces of globalisation. Apart from the phasing out of barriers to international trade and investment, and rapid advances in technology referred to earlier, other important factors and forces in this regard are:

driving forces of globalisation

- regional economic integration
- multinational enterprises (MNEs)
- global competition
- escalating costs of research and development
- government/industrial and competition-related policies

Also note why purely domestic firms are not entirely isolated from the effects of globalisation.

internationalisation has become imperative

It has therefore become imperative that firms should consider global expansion strategies, and even more so for managers to acquire and develop a global mindset, as discussed in chapter 8 of the prescribed book.

8.1.3 THE GLOBAL BUSINESS ENVIRONMENT

(Study section 3 in chapter 9 of the prescribed book.)

levels of the global business environment

For strategy development purposes, the global business environment should be analysed and understood at the global, regional, country, industry and market levels, aptly illustrated in figure 9.1. Study the evolving trends in the global technological environment in this section, being aware that most if not all industries are characterised by various degrees of change and complexity world wide.

industry change

8.1.4 THE INDUSTRY ENVIRONMENT

(Study section 4 in chapter 9 of the prescribed book.)

All firms are involved in and part of one or more industries, the latter being the case for diversified firms.

importance of industry

To determine the profit potential of an industry or industry sub-sector, Porter developed his so-called 'Five-forces-model' for industry analysis. These interrelated forces are:

- threats of new entrants into the industry
- bargaining power of buyers
- bargaining power for suppliers
- threat of substitute products
- rivalry among competing firms in the industry

Note that in the context of international business, a sixth force, government intervention, has been added. (See figure 9.2.)

Study the factors proposed by Lasserre which could influence the six forces. Is Lasserre correct in including a sixth force? Expand on the issue of government-related factors from your own experience.

**appropriate
global industries
standardised**

Of importance for the choice of the competitive international strategy or strategies, the firm must know in what type of industry it is involved, for example, a global industry that produces global products, or products that have to be customised for each foreign country market. This will become evident in our discussion of the international strategies in study unit 8.2.

8.1.5 GLOBAL COMPETITIVE ADVANTAGE

(Study section 5 in chapter 9 of the prescribed book.)

**defining competitive
advantage**

Competitive advantage can generally be defined as the extent to which a firm manages to successfully match its internal strengths in competencies, capabilities and resources to the key factors in the external environment, including the industry environment. This definition typically applies to a firm within one country.

However, to identify and establish competitive advantage for an international firm the framework for an analysis of competitive advantage needs to be extended to include the impact of the firm's international environments.

The goals underlying a firm's long-term objective of wealth maximisation falls into three categories:

- the firm's efficiency in its current activities across international markets
- the effective management of the risks related to all its activities
- the extent to which the firm develops learning capabilities to be able to innovate and adapt to change

**determinants of global
competitive advantage**

If these are thus achieved by

- exploiting differences in input and output markets across the countries in which the firm is involved,
- striving to attain economies of scale wherever possible, and
- exploiting synergies across diverse activities,

the firm should enjoy 'global competitive advantage'.

**attaining global
competitive advantage**

Now study the examples of sources of competitive advantage for international firms at the following levels:

- Level of national country environments
- Level of industry environments
- Organisational level, involving the firm's resources and capabilities

In the section that follows, we explore the concept of 'national competitive

advantage' of a country through its industries according to the methodology developed by Michael Porter.

8.1.5.1 National competitive advantage

(Study section 5.1 in chapter 9 of the prescribed book.)

origin of national competitive advantage

Based on extensive research, Porter established that the international business success of nations were closely linked to the success of their individual firms, and that this national competitive advantage comes from internationally successful firms that

- continually innovate and improve their processes; and
- continually improve their products and services

More specifically, Porter found that national competitive advantage of a country is determined by four interdependent and interacting industry-related attributes (See figure 2.2 in chapter 2):

determinants of national competitive advantage

- Factor conditions
- Demand conditions
- Related and supporting industries
- Firm strategies, structures and rivalry

Determine why these factors, if positive, will enhance the competitiveness and efficiency of firms, and of the industry or industries in which such firms are involved. Porter subsequently added two more attributes to the existing four: the role of government and chance events.

Porter's framework for analysing national competitive advantage is widely used.

8.1.5.2 Competitive advantage at firm level

(Study section 5.2 in chapter 9 of the prescribed book.)

At the level of the individual firm, the sources of competitive advantage involve:

- achieving efficiencies through strategies of cost leadership and/or differentiation
- effectively managing economic, political and competitive risks
- continuously innovating, learning and adapting to a changing, globalising business environment

Of critical importance is that firms should exploit all potential sources of competitive advantage at the global, national, industry and firm level better than their competitors.

sustainable competitive advantage

At the firm level in particular, competitive advantages should preferably be

- difficult to imitate or replicate; and
- non-tradable

to be sustainable in the long term.

In summary, competitive advantage at the firm level originates predominantly from innovative value creation related to product differentiation and/or low cost leadership, and the firm's strategies should exploit these advantages.



ACTIVITY 8.1.1

Select a South African company doing international business, or a company that is a subsidiary of an overseas multinational enterprise (MNE), by examining the business sections of newspapers, business journals, company annual reports and the Internet.

- Establish in which industry or industries (if a diversified company) your selected firm is involved, and list its core product(s) or service(s).
- What are the major opportunities and threats facing this company in the foreseeable future? List at least five opportunities and five threats. (Also refer to Section 6 in chapter 1, and chapters 3 to 6 as well as the Internet for additional guidelines in this regard.)
- According to your information sources, what would you regard as the company's main competitive advantage(s)?

Write a brief report on the selected company, its main products and the industry (industries) in which it operates, its major opportunities and threats, and its main competitive advantage(s).



ASSESSMENT

You may want to check your knowledge and understanding of the contents of this study unit by demonstrating that you can

- explain why scanning the global business environment is an important step in the development of appropriate international competitive strategies
 - explain why industry analysis is an important component of the analysis of the macro business environment when identifying information for strategy development
 - define the concept of 'competitive advantage' and explain its importance for developing international competitive strategies
-

SUMMARY

In this study unit we briefly explored the concept of globalisation in terms of its strategic importance in international business, highlighted the importance of the macro business environment at the global, country and industry levels as a frame of reference for developing international competitive strategies, and scrutinised the industry environment and its importance in this regard. Lastly we defined the concept of competitive advantage and its importance in strategy development.

A first key aspect of our discussions in this study unit is that globalisation and environmental forces, trends and events impact on a firm's operations and activities. A second key aspect is that competitive advantage can be derived from both internal and external, including international sources.

study unit 8.2

INTERNATIONAL STRATEGIES AND MARKET ENTRY STRATEGIES

CONTENTS

Study unit learning outcomes

Key concepts

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8.2.1 Introduction

8.2.2 International competitive strategies

8.2.3 Strategies for entering foreign markets

8.2.4 Developing an international strategic management framework

Assessment

Summary

Topic summary



STUDY UNIT 8.2 LEARNING OUTCOMES

Once you have studied this study unit, you should be able to

- explain the importance of the strategic orientation of an international firm

- discuss and evaluate the two main pressures that impact on international strategy development and selection
 - distinguish between the four possible international competitive strategies on the basis of their characteristics and appropriateness in specific circumstances
 - define foreign market entry modes and distinguish between the various alternative entry modes
 - develop an integrated international strategic management framework
-



KEY CONCEPTS

competitive advantage	global strategy
strategic orientation	transnational strategy
international competitive strategy	modes of foreign market entry
international strategy	global strategic management
multidomestic/localisation strategy	integrated international strategic management framework

OVERVIEW

Study unit 8.2 focuses on and explains the various international competitive strategies available to firms intent on international expansion and the selection of appropriate strategies, taking into account the strategic orientation of a firm, the relationship between competitive advantage and strategy, and the influence of pressures for cost reduction and customisation on the choice of strategy. Alternative foreign market entry modes are discussed next, and competitive strategies and market entry modes combined into an integrated international strategic management framework.



8.2.1 INTRODUCTION

Study unit 8.1 provides an overview of the globalisation and environmental contexts for the development of international competitive strategies, and explains the concept of competitive advantage.

In study unit 8.2 we explain the various international strategies that internationalising firms can pursue. These include:

- an international strategy

- a multidomestic or localisation strategy
- a global strategy
- a transnational strategy

We then highlight the importance of the strategic orientation of a firm and how pressures for cost reductions and customisation influence the choice of strategy. This is followed by an overview of alternative foreign market entry modes. Developing an integrated international strategic management framework concludes our discussion.

8.2.2 INTERNATIONAL COMPETITIVE STRATEGIES

(Study section 6 in chapter 9 of the prescribed book.)

To succeed in the dynamic and competitive global business environment firms need to have viable and sustainable strategies. In this section we first consider the strategic orientation of international firms, and then look at the pressures for cost reductions and customisation that impact on the choice of strategy before discussing the four international strategies.

8.2.2.1 Strategic orientation of global firms

(Study section 6.1 in chapter 9 of the prescribed book.)

Multinational enterprises (MNEs) typically adhere to one of the following four orientations, beliefs, or mindsets:

orientation of global firms

- an ethnocentric orientation
- a polycentric orientation
- a regiocentric orientation; and
- a geocentric orientation

Study the four orientations, and note in particular that

- an ethnocentric orientation implies a home- or parent-company approach to international business activities
- a polycentric orientation emphasises a strong host country involvement in international business activities
- a geocentric approach reflects a strong regional influence where a firm's operations occur in certain geographic regions
- in a geocentric orientation, a globally integrated systems approach to foreign business activities and strategic decisions is adopted

As will become clear in our discussions in section 8.2.3 below, strategic orientation is extremely important in the strategic structuring and staffing of international operations.

8.2.2.2 Competitive advantage and strategy

(Study section 6.2 in chapter 9 of the prescribed book.)

need for appropriate strategies

Briefly, firms need to have appropriate competitive strategies to capitalise on and benefit from the deployment of their distinctive competitive advantage(s) — generally core competencies and resources.

extending competitive advantage internationally

However, firms can increase their profitability by extending their competitive advantage(s) to foreign markets, which now require appropriate ‘international strategies’ to capitalise on their inherent competitive advantage(s). But, the firm’s ability to benefit from such initiatives can be constrained by certain industry characteristics or pressures — in this case pressures for local responsiveness or customisation. In the next section we evaluate the implications of the pressures for cost reductions and for local responsiveness.

8.2.2.3 Pressures for cost reductions and local responsiveness

(Study section 6.3 in chapter 9 of the prescribed book.)

two types of pressures

International firms generally face two types of conflicting competitive pressures:

- pressures for cost reductions
- pressures for local responsiveness

sources of pressures for local responsiveness

Study this section to identify the sources of pressures for local responsiveness. These pressures are directly related to the type of products which are produced by firms in multidomestic industries, and primarily result from cultural differences in various foreign markets.

multidomestic industries and products

Where pressures for local responsiveness exist with regard to certain products, these products cannot be standardised and sold across multiple markets. Such firms obviously cannot benefit from economies of scale derived from producing large volumes of standardised products. Examples of products that need to be adapted for each foreign market include food products and most beverages, personal banking, clothing and textiles, and some cosmetics.

global industries and products

Pressures for cost reductions are characteristic of global industries producing ‘global’, standardised products that can be mass-produced, need not be adapted or customised for individual foreign markets, and are sold to price sensitive buyers.

Firms in these industries achieve economies of scale and compete entirely on low cost, and not in terms of product differentiation.

Examples of ‘global’ products include audio and video equipment, communications equipment, pharmaceuticals, machine tools, semiconductors and microchips.

strategic implications of cost and localisation pressures	<p>It should be obvious at this point that</p> <ul style="list-style-type: none">— firms in different industries (thus producing products with different characteristics) cannot adopt the same international competitive strategy— the type of pressure that a firm experiences in terms of its product(s) will largely influence the firm's choice of strategy.
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8.2.2.4 Strategies for international business

(Study section 6.4 in chapter 9 of the prescribed book.)

critical international strategy decisions	<p>The main purpose of our discussion on the topic of 'global competitive strategies' thus far has been to prepare the ground for the following two critical strategic decisions facing a multinational enterprise (MNE):</p> <ul style="list-style-type: none">● Identifying the appropriate international competitive strategies that can be pursued; and● Selecting the appropriate strategy or strategies given the specific circumstances of the firm
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four international competitive strategies	<p>In response to the first decision, MNEs can use any one or a combination of the following four strategies:</p> <ul style="list-style-type: none">● An international strategy● A multidomestic or localisation strategy● A global strategy● A transnational strategy
--	---

These strategies are explained in detail in terms of their characteristics, advantages and disadvantages in section 6.4 in chapter 9 of the prescribed book, and it goes without saying that international managers need to be fully informed on these strategies to be able to select the most appropriate strategy or strategies.

selecting international competitive strategies	<p>In response to the second critical decision, the appropriateness of each strategy will vary with the extent to which pressures for cost reductions or local responsiveness are inherently characteristic of the firm's industry or industries, and therefore, the firm's products. Study this section in the prescribed book thoroughly to establish why the foregoing considerations provide a basis for the selection of appropriate strategies. These important relationships are aptly illustrated in figure 9.3.</p>
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strategy implementation requirements	<p>Once the firm has selected the appropriate strategy (or strategies) that suits its own unique circumstances, some requirements, which may not be the same for each of the four strategies, need to be considered in the implementation of these strategies. Some important considerations in this regard include the following:</p> <ul style="list-style-type: none">● A worldwide product division organisational structure with a predominantly ethnocentric staffing policy could be most appropriate for an international strategy
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- A worldwide area organisational structure and a polycentric staffing policy could be most appropriate for firms pursuing a multidomestic or localisation strategy.
- A worldwide product division organisational structure and both geocentric and, to a lesser extent, ethnocentric staffing approaches could be appropriate for a global strategy.
- A matrix organisational structure and geocentric staffing policy could be most appropriate for a transnational strategy.

In our discussion of 'strategies for international business' in section 6.4 we highlighted the importance of a profound knowledge regarding the four strategies, and the basis on which appropriate strategies are selected. In the next section we look at strategies for entering foreign markets.

8.2.3 STRATEGIES FOR ENTERING FOREIGN MARKETS

(Study section 7 in chapter 9 of the prescribed book.)

foreign market entry

Having decided on the appropriate international competitive strategy or strategies the following three questions now become relevant:

- which market(s) to enter?
- when to enter the selected market(s)?
- on what scale to enter the selected markets?
- how to enter the selected markets?

The first three questions require in-depth country, industry, market and resource analyses. The fourth question, however, concerns the best way for the firm to enter its foreign market(s).

8.2.3.1 Foreign market entry modes

(Study section 7.1 in chapter 9 of the prescribed book.)

foreign market entry modes

The foreign market entry modes available to international firms include

- Exporting
- Turnkey projects
- Licensing
- Franchising
- Strategic alliances
- Joint ventures
- Wholly-owned subsidiaries

Each of these seven foreign market entry modes has its own unique advantages, disadvantages and risks, all of which need to be considered when deciding on an optimal entry mode.

Most manufacturing firms, and especially SMEs that consider inter-

nationalisation start off by exporting, and only later switch to one of the other modes.

The seven market entry modes are discussed in detail in section 7.1 in chapter 9 of the prescribed book, and should be studied thoroughly with reference to the illustration in figure 9.4. As will become clear, both the competitive strategies discussed in section 8.2.3 above and market entry strategies become part of the international strategic management framework which is discussed in section 8.2.4 below.

selection of entry modes

The important strategic decision for international management now is selecting an optimal entry mode for their intended international expansion. Study the guidelines which are provided as a possible basis for deciding on an optimal foreign market entry mode for a firm.

8.2.4 DEVELOPING AN INTERNATIONAL STRATEGIC MANAGEMENT FRAMEWORK

(Study sections 8 and 8.1 in chapter 9 of the prescribed book.)

In this section we describe the process of and provide the necessary guidelines to develop a framework for international strategic management.

Generally, the strategic management process comprises three phases:

- strategy formulation
- strategy implementation
- strategy evaluation and control

While these phases apply to both domestic and international firms, international involvement adds significantly to the complexity of the process and, therefore, the demands on leadership and management.

In section 8.1 in chapter 9 in the prescribed book, the international strategic management process is illustrated and explained with reference to figure 9.5. For ease of following the various phases outlined in figure 9.5, they are numbered to reflect the sequential process and decision-making steps. Study the various steps in this process thoroughly with reference to figure 9.5, specifically noting that

international implications for strategic management

- the decision to become international would be reflected in the strategic intent, vision, mission and long-term objectives of the firm, where relevant
- the internal and external environmental analyses can be done simultaneously, the outcomes of which will provide the input for the SWOT analysis
- the decisions on mode of foreign market entry, appropriate international strategies and, where relevant, location of foreign operations are of no concern to a domestic business firm
- aligning the organisational structure, systems and procedures to accommodate international activities are extremely important and

the strategy implementation process accordingly much more complex than for a purely domestic firm.

In closing, note that there are distinct differences in both context and content, as well as in the major decision-making steps in the international strategic management process, compared to the process for a purely domestic firm.



ACTIVITY 8.2.1

Your South Africa-based company is a leading manufacturer of sophisticated medical equipment and plans to market a technologically advanced, high value laser-optic device that has already gained international acceptance for use in open-heart surgery in the European Union (EU). It has been established that there is a demand for this device throughout the EU. The CEO of your company has requested you to write a report and make recommendations on the following:

- The choice of a suitable EU member country, based on political, economic, legal, cultural and technological considerations (also consult chapters 3 to 6 of the prescribed book, and other sources including the Internet)
- The appropriate international strategy to be deployed in this case
- The appropriate mode of foreign market entry that the firm should use.

(Substantiate and motivate your recommendations.)



ACTIVITY 8.2.2

Identify a South African company involved in international business that you are familiar with or on which you can obtain information from annual reports, the business media, and the Internet. Given the industry (or industries) in which the company is involved, and its main product line, write a brief report on your findings that specifically addresses the following:

- The industry characteristics (being basically global or multidomestic)
- The perceived international strategy or strategies that the firm appears to pursue
- The mode(s) of foreign market entry that the firm had adopted



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- explain the importance of strategic orientation of an international firm with specific reference to the development and choice of international competitive strategies
 - discuss and evaluate the two pressures that impact on and largely determine the choice of international competitive strategy for a firm
 - compare the four international competitive strategies available to international firms on the basis of their characteristics and their appropriateness in specific circumstances
 - define foreign market entry modes and compare the various alternative entry modes in terms of their advantages, disadvantages and risks
 - develop an integrated international strategic management framework
-

SUMMARY

In this study unit we focused on the four international competitive strategies available to international firms, and explained why the strategic orientation of the firm and the impact of either pressures for cost reductions or for local responsiveness largely determine the identification of an appropriate international strategy or strategies for individual firms.

Foreign market entry modes were highlighted next, with guidelines for selecting the optimal market entry mode. We concluded our discussions by combining all relevant aspects that we discussed in topic 8 into an international strategic management framework, and explained this international strategic management process in the context of the global business environment.

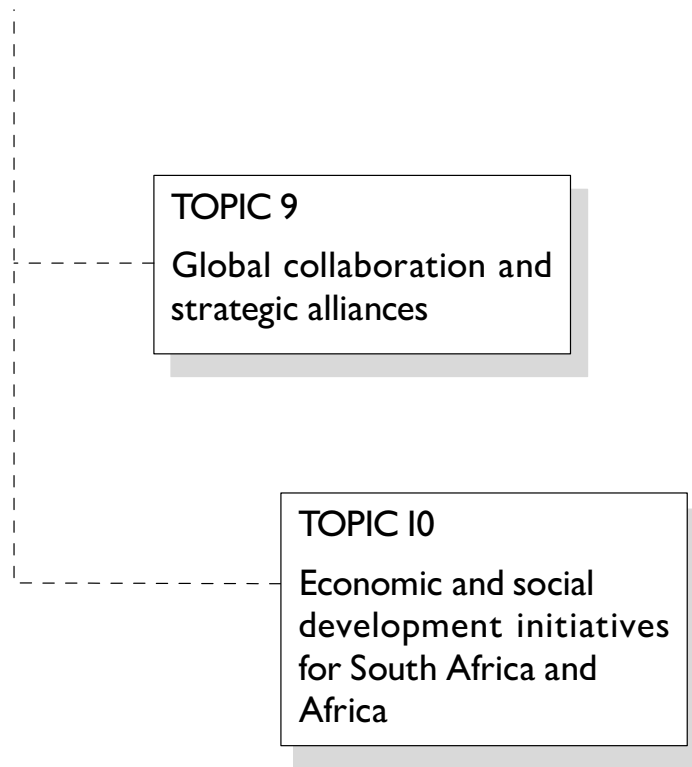
TOPIC SUMMARY

In study unit 8.1 we briefly highlighted the phenomenon of globalisation from an international strategy perspective, emphasised the importance of the global business environment and the concept of competitive advantage.

Study unit 8.2 explored the international competitive strategies that firms can pursue, and explained the importance of the strategic orientation and the pressures for cost reductions and local responsiveness that international firms typically face in foreign markets. The choice of competitive strategy as well as foreign market entry modes were then addressed, and the discussion in this topic concluded by combining all relevant factors into a framework for international strategic management.

PART 4

ECONOMIC DEVELOPMENT AND GROWTH IMPERATIVES



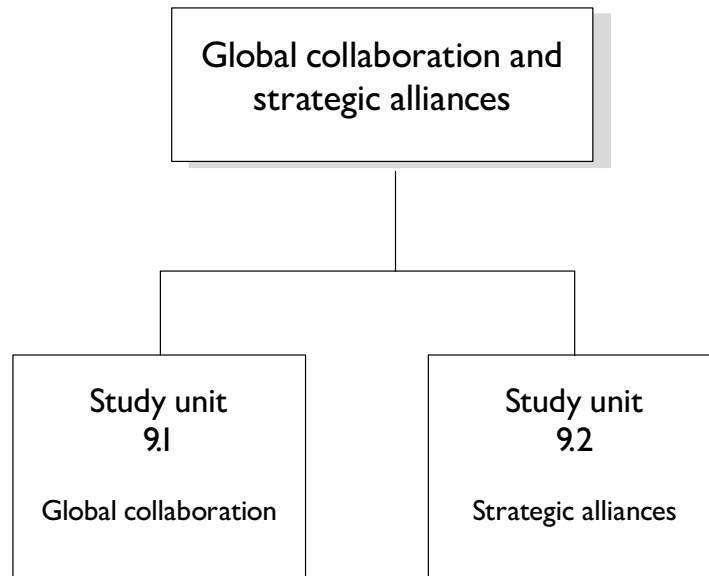
INTRODUCTION TO PART 4

Part 4 of this course deals with international cooperation in Southern Africa. We also discuss future perspectives for South Africa and Africa.

Under topic 9 we analyse global cooperation and strategic alliances with specific reference to business enterprises in South Africa.

Topic 10 focuses on the socio-economic profile and economic development potential of Africa. Current development initiatives are reviewed, and socio-economic development initiatives recommended for future economic growth.

GLOBAL COLLABORATION AND STRATEGIC ALLIANCES



AIM

The aim of this topic is to provide you with an overview of global collaboration and strategic alliances with specific reference to the South African business context.



LEARNING OUTCOMES

After studying this topic you should be able to

- explain what global collaboration is
- define the concept of strategic alliances
- evaluate the importance of strategic alliances for South African companies





KEY CONCEPTS

The key concepts identified in this topic are

global cooperation
modes of entry

foreign markets
strategic alliances

study unit 9.1

GLOBAL COLLABORATION

CONTENTS

Study unit learning outcomes

Key concepts

Overview

9.1 Reasons for global collaboration

9.2 Modes of entry into foreign markets

9.3 Advantages and disadvantages of modes of entry

Assessment

Summary



STUDY UNIT 9.1 LEARNING OUTCOMES

After you have studied this study unit, you will be able to

- describe the concept of global collaboration
- identify the various modes of entry a firm can use to enter foreign markets
- define and discuss the reasons for global collaboration
- analyse and interpret the advantages and disadvantages of the various modes of entry into foreign markets



KEY CONCEPTS

global collaboration	foreign markets
entry modes	exporting
turnkey contracts	licensing
franchising	joint ventures
wholly owned subsidiaries	strategic alliances

OVERVIEW

In study unit 9.1 we discuss the reasons for global cooperation. We then delineate the various modes of entry a firm can use to enter a foreign market and we analyse the advantages and disadvantages of these different modes of entry.



9.1.1 REASONS FOR GLOBAL COLLABORATION

(Study section 1 in chapter 13 of the prescribed book.)

global frame of reference

This section of the prescribed book creates a frame of reference in which the success of individual companies is tied to the ability to meet supply and demand requirements in a globalised market place. Study the six reasons that are cited to explain why companies are forming strategic alliances to achieve competitive success.

factors of country selection and timing

You should also keep in mind that firms that contemplate entering a foreign market first have to decide which particular foreign market to enter as well as the extent and timing of such entry.

9.1.2 MODES OF ENTRY INTO FOREIGN MARKETS

(Study section 2 in chapter 13 of the prescribed book.)

Section 2 refers to seven modes of entry into foreign markets. These entry modes are discussed in chapter 9 (section 7) and in chapter 11 (section 7) of the prescribed book. These are summarised below.

exporting

- Many domestic firms make their first entry into a foreign market by exporting goods to that particular foreign country.

licensing

- When a firm disposes over intangible property such as patents, copyright or trademarks, it may enter into a licensing agreement with a foreign firm that allows the foreign firm the rights to the intangible property for a specified period of time against the payment of a fee or royalty.

- franchising**
- Franchising is similar to licensing except that the intangible property is usually a trademark and the foreign firm also has to agree to abide by specific rules including quality control requirements.
- turnkey project**
- In turnkey projects, the development, structuring and setting up of a plant as well as the training of personnel are usually provided in a foreign country so that the client company may literally receive the key to a fully operational plant.
- joint venture**
- In a joint venture, the domestic company sets up a firm in a foreign country in partnership with a firm that is already established in that country.
- international joint ventures and consortiums**
- In this context we may also refer to an international joint venture which is usually a separate legal entity set up and owned by parent companies from different countries. Similarly, we should note that not all joint ventures have only two partners and that when a large number of companies become involved in a joint venture we usually refer to the participative entity as a “consortium”. Such consortiums are common in the EU where large organisations from different member countries become involved in defence or manufacturing projects such as the aircraft industry.
- wholly-owned subsidiary**
- In a wholly-owned subsidiary, the domestic firm sets up a subsidiary company of which it is the 100 per cent owner in a foreign country, but also bears all the risk of such a venture. Wal-Mart’s modes of foreign market entry appear in table 13.2 in the prescribed book.

9.1.3 ADVANTAGES AND DISADVANTAGES OF MODES OF ENTRY

(Study table 13.1 in chapter 13 of the prescribed book.)

advantages and disadvantages

In table 13.1 the advantages and disadvantages of each of the six modes of entry into a foreign market, are set out. Study these carefully so that you are able to discuss these strategies and their implications for international business in detail.



ACTIVITY 9.1.1

Your company has pioneered and now manufactures a new herbal remedy that has been found to be very beneficial for the treatment of colds and influenza. Research has indicated that the EU presents a significant market for this product. Write a report to the CEO of your company to indicate which mode of entry you have selected to introduce the product first in the UK and then in three other EU countries. Explain the reasons for your choice of the other three countries and the mode of market entry you recommend.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define the concept of global cooperation
 - describe the reasons for global cooperation
 - tabulate the various modes of entry into a foreign market
 - describe and evaluate the advantages and disadvantages of the various modes of entry into foreign markets
-

SUMMARY

In this study unit we defined and discussed the concept of global cooperation and we explained the reasons for such global cooperation. We also detailed the various modes of entry a business could use to enter a foreign market and analysed and evaluated the advantages and disadvantages of each mode of entry.

study unit 9.2

STRATEGIC ALLIANCES

CONTENTS

Study unit learning outcomes

Key concepts

Overview

9.2.1 Definition of strategic alliances

9.2.2 Importance of strategic alliances in South Africa

9.2.3 Strategic alliances profile of SA companies

9.2.4 Reasons for entering into strategic alliances

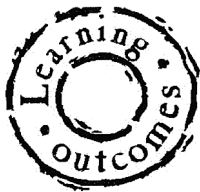
9.2.5 Success of strategic alliances

9.2.6 Factors to be considered when forming strategic alliances

Assessment

Summary

Topic summary



STUDY UNIT 9.2 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- define the concept of a strategic alliance
- demonstrate the importance of a strategic alliance
- identify the strategic alliances profile of SA companies
- list and evaluate the reasons companies have for entering into strategic alliances
- discuss the success of strategic alliances
- identify and evaluate the factors to be considered when forming strategic alliances



KEY CONCEPTS

strategic alliances strategic alliances profile
 strategic alliance motivations success of strategic alliances
 consideration factors

OVERVIEW

This study unit defines the business relationship, which is known as a “strategic alliance”. We discuss the importance of strategic alliances in South Africa and provide a profile of SA firms involved in strategic alliances. We then review the reasons for entering into a strategic alliance and explain the success of strategic alliances. Finally, we evaluate the factors to be considered when entering into a strategic alliance.



9.2.1 DEFINITION OF STRATEGIC ALLIANCES

(Study section 3 in chapter 13 of the prescribed book.)

Note the references to

key words indicating collaboration

- inter-organisational relations
- long-term collaborative effort
- common orientation
- individual and mutual goals

in the definition of a strategic alliance.

objectives of strategic alliances	Also note the three objectives that are identified in section 3 in chapter 13, of the prescribed book to explain why firms typically engage in strategic alliances.
pitfalls to consider	However, there are also pitfalls to consider when strategic alliances are formed. Amongst these is the possibility of one partner in the strategic alliance diminishing the chances of the project's successful outcome because it holds back on the provision of its share of funding, technology transfer or management participation.
holding back	
unequal size	Second, there is the possibility that two participating companies may be greatly unequal in size and that the larger organisation dominates the partnership.
differences in corporate culture	Third, significant differences in the corporate cultures of participating companies may give rise to problems. For instance, larger companies tend to be more bureaucratic and slower in decision making, while smaller companies are often more entrepreneurial and informal in their operations.

9.2.2 IMPORTANCE OF STRATEGIC ALLIANCES IN SOUTH AFRICA

(Study section 4 in chapter 13 of the prescribed book.)

ratio of overseas vs SA alliances	It is important to note that the analysis of the strategic alliances of South African companies reflects that of the companies involved in strategic alliances 50 per cent are with South African companies while only 40 per cent of these alliances are with overseas companies, as illustrated in table 13.3 of the prescribed book.
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What conclusions do you draw from these percentages?

9.2.3 STRATEGIC ALLIANCES PROFILE OF SA COMPANIES

(Study sections 5 and 6 in chapter 13 of the prescribed book.)

Review tables 13.4 and 13.5 in this section of the prescribed book and note the heavy bias towards marketing and distribution agreements in the strategic alliances created by South African companies. Also note the low bias towards R&D partnerships. Note that the choice of strategic alliances is influenced by a great variety of factors.

What conclusions can you draw? In your opinion, will this trend continue into the foreseeable future? Why or why not?

9.2.4 REASONS FOR ENTERING INTO STRATEGIC ALLIANCES

(Study section 7 in chapter 13 of the prescribed book.)

reasons for alliances	Make sure that you are familiar with the four dominant reasons for
------------------------------	--

engaging in strategic alliances and study figure 13.1 to establish the relative importance of strategic reasons for SA companies entering into strategic alliances.

9.2.5 SUCCESS OF STRATEGIC ALLIANCES

(Study section 8 in chapter 13 of the prescribed book.)

the 5 Cs

Consider the 5 Cs of complementary skills, commitment, co-operative cultures, compatible goals, and commensurate levels of skills. Commitment was only added to the original 4 Cs at a later stage. With this in mind, look at figure 13.3 and table 13.6 to see whether you can discern any useful patterns.

9.2.6 FACTORS TO BE CONSIDERED WHEN FORMING STRATEGIC ALLIANCES

(Study section 9 in chapter 13 of the prescribed book.)

Toshiba success factors

Critically assess the factors attributed to Toshiba's success in the forming and maintaining of strategic relationships. Compare these to the analysis of factors in figure 13.4 where South African managers give their views on the factors they regard as crucial when forming alliances with local or overseas partners.



ACTIVITY 9.2.1

Study the newspapers, financial journals, and access the Internet to locate a company involved in a strategic alliance. Determine

- the type of alliance
- the reason(s) for the alliance.

Write a brief report on your findings.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- define the term “strategic alliance”
- explain why you regard strategic alliances as important for South Africa
- create a strategic alliances profile of South African companies
- list the reasons for entering into strategic alliances

- describe the success of strategic alliances
 - tabulate and evaluate the factors to be considered when forming a strategic alliance
-

SUMMARY

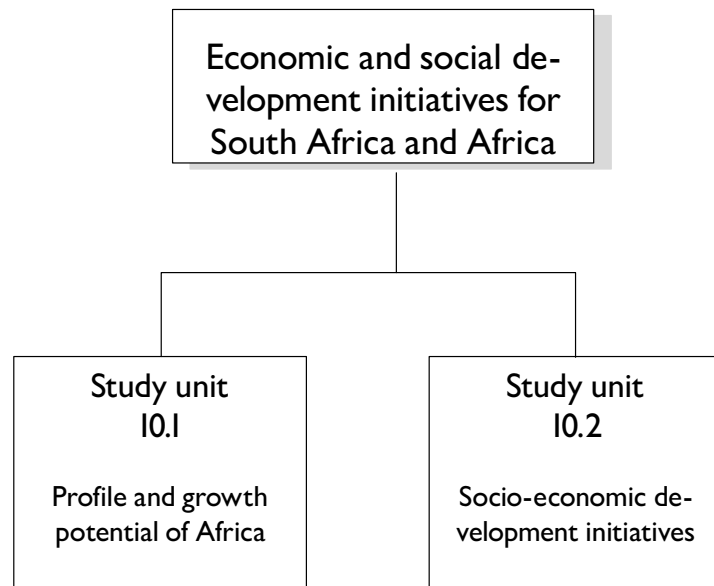
In this study unit we introduced and defined the business relationship, which is known as a “strategic alliance”. We also discussed the value and importance of strategic alliances in South Africa and we provided a profile of the South African firms that are involved in strategic alliances. We then reviewed the reasons for entering into a strategic alliance and explained the success of strategic alliances. Finally, we tabulated and evaluated the factors to be considered when entering into a strategic alliance.

TOPIC SUMMARY

In study unit 9.1 we discussed the reasons for global cooperation. We also delineated the various modes of entry a firm can employ to enter a foreign market and we analysed the advantages and disadvantages of these different modes of entry.

In study unit 9.2 we continued the discussion of global collaboration by introducing the concept of strategic alliances. We discussed the importance of strategic alliances in South Africa and provided a profile of SA firms involved in strategic alliances. We then reviewed the reasons for entering into a strategic alliance and explained the success of this form of domestic or international business relationship. Finally, we tabulated and evaluated the factors to be considered when entering into a strategic alliance.

ECONOMIC AND SOCIAL DEVELOPMENT INITIATIVES FOR SOUTH AFRICA AND AFRICA



AIM

The aim of this topic is to provide an overview of the socio-economic profile and economic development potential of Africa in study unit 10.1. In study unit 10.2 initiatives to enhance the socio-economic development of Africa, South Africa and Southern Africa are explored.



LEARNING OUTCOMES

After studying this topic you should be able to

- discuss and explain the potential of the African continent
- evaluate the status of Africa on the basis of socio-economic data
- identify, evaluate and explain the causes of the economic marginalisation of Africa

- discuss and explain recent and current initiatives for Africa's socio-economic development
 - explain the development initiatives for South Africa
 - explain the role of regional economic development in Southern Africa
-



KEY CONCEPTS

economic development	causes of economic marginalisation
socio-economic development	poverty related attrition
development initiatives	rural-urban resettlement
regional economic integration	redistribution of land
economic revival initiatives	NEPAD strategy
COTONOU agreement	economic partnership agreements (EPAs)
regional trade blocs	COMESA
TDCA	

study unit 10.1

PROFILE AND GROWTH POTENTIAL OF AFRICA

CONTENTS

Study unit learning outcomes

Key concepts

Overview

10.1.1 Definitions and terminology

10.1.2 The potential of the African continent

10.1.3 Statistics of the African continent

10.1.4 Causes of economic marginalisation of the African continent

10.1.5 Critical review of the outcome of donor aid to Africa

10.1.6 Previous initiatives to introduce economic revival in African economies

Assessment

Summary



STUDY UNIT 10.1 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- discuss and explain the potential of the African continent
- evaluate the status of Africa on the basis of socio-economic data
- identify, evaluate and explain the causes of the economic marginalisation of Africa



KEY CONCEPTS

economic development	poverty-related attrition
socio-economic development	rural-urban resettlement
causes of economic marginalisation	redistribution of land
	social development

OVERVIEW

Study unit 10.1 provides an overview of the unrealised potential of the African continent based on salient statistics, and discusses the causes of the marginalisation of Africa.



terms and definitions

10.1.1 DEFINITIONS AND TERMINOLOGY

(Study section 1 in chapter 14 of the prescribed book.)

This introductory section defines and explains a number of key concepts relevant to this study unit.

Africa's potential

10.1.2 THE POTENTIAL OF THE AFRICAN CONTINENT

(Study section 2 in chapter 14 of the study guide.)

Of note in this section is

- Africa's abundance of natural and ecological resources
- Africa's inability to exploit its resources to their full potential
- Africa's need for developmental initiatives underpinned by developed country support

This frame of reference sets the scene for further discussions.

10.1.3 STATISTICS OF THE AFRICAN CONTINENT

(Study section 3 in chapter 14 of the prescribed book.)

statistics of Africa

In general, Africa has a growing population of some 635 million people, the highest birth rate of any continent, but a below average life expectancy. More specifically study the following issues, factors and phenomena:

- Life expectancy
- Unemployment
- Backlog in social services

Of what value is this kind of socio-economic information to international businesses, with specific reference to trading with or investing in African countries?

10.1.4 CAUSES OF ECONOMIC MARGINALISATION OF THE AFRICAN CONTINENT

(Study section 4 in chapter 14 of the prescribed book.)

economic marginalisation

Study the following most important causes of the marginalisation of the African continent:

- The impact of slavery and colonialism
- The attrition caused by poverty
- The effects of rural-urban resettlement
- The influence of reduction in agricultural production
- The unsatisfied quest for the redistribution of land

What are the potential prospects of alleviating most of these causes in the foreseeable future? What would the requirements in such cases be?



10.1.5 CRITICAL REVIEW OF THE OUTCOME OF DONOR AID TO AFRICA

(Read section 5 in chapter 14 of the prescribed book for background information.)



10.1.6 PREVIOUS INITIATIVES TO INTRODUCE ECONOMIC REVIVAL TO AFRICAN ECONOMIES

(Read section 6 in chapter 14 of the prescribed book for background information.)



ACTIVITY 10.1.1

Study newspapers, periodicals, academic articles and access the Internet to review and update the statistics related to Africa in terms of (1) life expectancy, (2) unemployment, and (3) backlog in social services. Write a brief report on your findings, and indicate why this information is important for international businesses wishing to trade with or invest in Africa.



ASSESSMENT

You may want to check your understanding of the contents of this study unit by demonstrating that you can

- discuss and explain the potential of the African continent
 - evaluate the status of Africa on the basis of socio-economic data
 - identify, evaluate and explain the causes of economic marginalisation of Africa
-

SUMMARY

Study unit 10.1 we looked at the unrealised potential of the African continent in terms of specific measures and based on salient statistics. The study unit was concluded with a discussion of the causes of marginalisation of Africa.

study unit 10.2

SOCIO-ECONOMIC DEVELOPMENT INITIATIVES

CONTENTS

Study unit learning outcomes

Key concepts

Overview

10.2.1 Recent and current initiatives for Africa's socio-economic development

10.2.2 Review of development initiatives for South Africa

10.2.3 Developing regional economic integration in Southern Africa

10.2.4 Future economic growth and development

Assessment

Summary

Topic summary



STUDY UNIT 10.2 LEARNING OUTCOMES

Once you have studied this study unit, you will be able to

- discuss and explain recent and current initiatives for Africa's socio-economic development
- explain the development initiatives for South Africa
- explain the role of regional economic development in southern Africa



KEY CONCEPTS

development initiatives

economic revival initiatives

COTONOU agreement

economic partnership

agreements (EPAs)

regional trade blocs

TDCA

COMESA

NEPAD strategy

OVERVIEW

Study unit 10.2 looks at recent and current development initiatives to enhance social and economic development as well as the international competitiveness of Africa, Southern Africa and South Africa.



**socio-economic
development initiatives
for Africa**

10.2.1 RECENT AND CURRENT INITIATIVES FOR AFRICA'S SOCIO-ECONOMIC DEVELOPMENT

(Study section 7 in chapter 14 of the prescribed book.)

More recent and current initiatives for Africa's socio-economic development include:

- The Cotonou Agreement
- Regional economic integration
- The NEPAD strategy

These initiatives are extremely important if the causes of marginalisation of the African continent referred to in section 10.1.4 above are to be effectively addressed. Since the discussions of these initiatives are lengthy, you are advised to compile your own summaries subsequent to studying these initiatives.

10.2.2 REVIEW OF DEVELOPMENT INITIATIVES FOR SOUTH AFRICA

(Study section 8 in chapter 14 of the prescribed book.)

development initiatives for South Africa

In this section, the focus shifts from Africa to South Africa in discussing the following development initiatives:

- Impact of regional trade blocs on the South African economy
- EU-SA relations

These initiatives are undoubtedly important, and you need to understand the key issues in this regard. You are once again advised to summarise these initiatives for your own purposes.

10.2.3 DEVELOPING REGIONAL ECONOMIC INTEGRATION IN SOUTHERN AFRICA

(Study section 9 in chapter 14 of the prescribed book.)

The focus now shifts from South Africa to the Southern African region. Note that Economic Partnership Agreements (EPAs) being considered by the EU are seen as vehicles to integrate the ACP countries into the world economy. Evaluate the merits of the EU's initiative regarding the establishment of EPAs when studying the following issues in this section:

- The preferred form of regional integration
- The Southern Africa regional integration conundrum: SADC and COMESA
- The impact of EPAs on Southern Africa
- Implications of the TDCA for the Southern African region

10.2.4 FUTURE AFRICAN ECONOMIC GROWTH AND DEVELOPMENT

(Study sections 10 and 11 in chapter 14 of the prescribed book.)

Africa's future economic growth

The strengths and weaknesses of the overall African economy need to be assessed and extrapolated in the form of future scenarios as a guide to the future of Africa. Study the rest of the section against this background to

develop your own framework for Africa's future direction, based on the data provided in section 10 and in section 11, Summary and conclusions, in chapter 14 of the prescribed book. Summarise your findings and recommendations in a brief written report.



ACTIVITY 10.2.1

Write a brief report on the current initiatives of SADC in terms of its goals, strategies, and development priorities by accessing newspaper articles, financial and other publications as well as the Internet. Two useful websites are:

- SADC (www.sadc.int)
- Sadec Review (www.sadecreview.com)

In your report summarise your findings, also indicating the importance of your findings for international business.

SUMMARY

In study unit 10.2 we provided an overview of recent and current development initiatives for the social and economic development as well as the international standing of Africa, Southern Africa and South Africa.

TOPIC SUMMARY

Study units 10.1 and 10.2 provided an overview and discussed the socio-economic profile and economic development potential of the African continent, and recommended initiatives to enhance the socio-economic development of Africa, Southern Africa, and South Africa in the context of the global economy.

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