

# **IBUS 300: THE INTERNATIONAL ENVIRONMENT OF BUSINESS**

## **Instructors for 2013-2014:**

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## **REQUIRED TEXT:**

*Global Business Today*, 8th edition by Charles Hill, McGraw Hill Publishers

## **GENERAL COURSE OBJECTIVES**

- To develop students' understanding of the strategic issues and dilemmas that managers and organizations face when conducting business in an international setting
- To give students exposure to real-world examples of situations in which these issues manifest themselves, and how organizations (can/should) deal with them when they do
- To provide students with conceptual frameworks and practical tools to help them structure these issues and problems in their own professional lives
- To give students experience with working in teams, while doing 'real-world' case research

## **TOPICS COVERED**

- National business systems: How countries and regions differ in the organization of their economic systems, politically, culturally and socio-economically, and what this means for business
- International trade and investment: The logic of "free" trade and investment, and the reality of "strategic" trade and investment policy
- Regional- and multilateral integration: how institutions like the WTO, IMF, NAFTA and the European Union affect and reflect issues in international business
- The global financial system: How exchange rates affect business and strategies for dealing with exchange-rate uncertainty
- Operating internationally: modes of servicing foreign markets, modes of entering foreign markets, and the challenge of organizing and coordinating "far-flung" operations
- International social-, environmental- and governance issues: ethics and stakeholder management in the multi-country setting

## **READING**

- Textbook: differs per instructor
- Assignments, slides, course packs where relevant
- Online resources, supplemental readings

## **GRADING**

Your performance will be measured on the basis of a combination of short answer and multiple choice exams, as well as a group or individual paper, aimed at the analysis of a specific country's business environment or a specific company's international strategy. Please note that class grades must maintain a range in accordance with the Business School's grading policies, such that the mean/median will hover around a 3.2 with a standard deviation of around 0.5.

## **GENERAL TOPIC OVERVIEW FOR IBUS300**

### **TOPICS**

#### **Introduction to the global business environment**

How to think about doing business in the international setting? What types of strategic issues arise? In what ways is business across borders different than business at home? In this first session we will get acquainted with sources of variation in the global business environment and the types of strategic issues that arise for firms as a result.

#### **The political, legal and economic environment**

Here we focus on formal institutions that characterize the business environment and how they differ across countries. Countries have different political institutions, different laws and different economic institutions, and government relations with business differ in important ways too. How do these institutions create certainty or risk for companies? What is the impact of these differences on firms and their strategy?

#### **Culture, ethics and norms**

Here we will explore informal institutions: culture and value systems that vary across countries and regions and shape the way businesses operate and interact with each other, society and government. Culture and values are important from a marketing perspective because tastes and expectations of communication strategies differ, but also because different countries have their own negotiation style. Even the way organizations are structured and managed is a reflection of cultural aspects. What are systematic patterns we can identify and how do they matter?

#### **Firm-specific resources and “the liability of foreignness”**

Formal and informal institutions constitute the environment in which firms have to operate, and how firms deal with these complexities determines their success. Here we will address some of the firm-level attributes that determine why some firms are more successful than others, even when they operate in the same setting.

#### **The global trading system**

Trade is the backbone of the global economy. It is the basis of commerce and allows us to enjoy the fruits of labors performed elsewhere. Free trade is supposed to maximize welfare, and there are powerful policies in place in support of this logic. But in practice, there are also many barriers to free trade. What’s going on?

#### **Foreign direct investment**

In addition to trade, firms can also engage in Foreign Direct Investment (FDI). This in fact the defining characteristic of “multinational enterprises” (MNEs). FDI means owning value-adding assets abroad. What motivations do firms have for doing this? What firm-specific advantages make it successful? And what do we mean when we say FDI is a substitute for trade?

## **GENERAL TOPIC OVERVIEW FOR IBUS300 (Continued)**

### **The international financial system**

Both trade and FDI mean that money is moving around the globe. What supranational institutions exist to govern those flows of capital? How do exchange rates work and how do fluctuations in exchange rates affect businesses? How and why do governments alter the exchange rate? How is the exchange rate related to trade and FDI? Who benefits from a strong currency, and who benefits from a weak one? What strategies do firms have for dealing with exchange rate risk?

### **Global and regional integration**

Much of the institutional framework for trade, investment and currency flows exists at the global level, embodied for instance by the World Trade Organization. At the same time, a large number of regional blocs exist like the NAFTA and the EU. What forms of regional integration exist and why do countries opt for regional solutions? Are they exclusive clubs that only benefit members, or does the whole world share in the benefits of regional initiatives? In other words, are they building blocks or stumbling blocks towards greater global integration?

### **Entering foreign markets**

Firms have a whole host of options for entering foreign markets. They may choose 'low commitment' paths involving strategic alliances, or they may engage in FDI. But FDI also comes in different forms. For instance, firms can acquire existing assets in the target market, or they can erect a new facility. Or they may set up a new entity in the form of as a joint venture (JV) with another company. What factors influence the choice for one entry mode over another?

### **MNE strategy & structure**

Being a multinational means having operations and activities that are geographically dispersed. These activities must be coordinated in order to maintain consistency and so that this complex organization called the MNE continues to add value. What kinds of tensions "pull apart" the organization? How do firms look for balance between pressures for integration and pressures for local responsiveness? How much autonomy should subsidiaries have? How do these considerations lead towards geographic-, product- or function-based organizational structures?

### **Upstream and downstream strategies: Marketing and supply chain management**

Marketing is an art and a science, but one that gets very complex in an international setting. What pricing strategies should firms employ in foreign markets? Standard? Market-based? Cost plus markup? What cultural factors will affect the brand and communication, like the "country of origin" effect? How do distribution channels differ across countries and what are the latest trends in supply chain organization, like 3<sup>rd</sup>-party logistics providers?

## **GENERAL TOPIC OVERVIEW FOR IBUS300 (Continued)**

### **HRM: labor relations in a global business environment**

Here we change tack to consider organizations as groups of people, who need to be allocated geographically as well as possible so that they can apply their specific capabilities where they are needed. MNEs not only form internal markets for goods and capital, but also for people. What considerations exist for hiring host-country managers over expatriates from the home country? What options exist for compensation? Which personality traits are best suited to an expat assignment? How can managers be prepared to work abroad, and what issues arise when they return? How is labor organized in different countries, and why does this matter?

### **Governance: owners, managers and directors**

If the primary function of management is to safeguard and effectively employ the assets of shareholders, what happens if managers see things differently than the shareholders? What are the origins of such "principal-agent" conflicts, and how do boards figure in to the three-way system of checks and balances? Equally important, we will see that governance is a reflection of the national business system: that is, that different countries' formal and informal institutions lead to differences in governance structures. How can these differences affect firms operating across borders?

### **Managing Corporate Social Responsibility (CSR) globally**

Whatever your individual perspective on the topic of social responsibility, most firms today recognize that they face expectations from society, employees, NGOs, and other stakeholders to address social and environmental problems. Those that fail to do so typically feel it on the bottom line, as their damaged reputation pushes consumers away and raises the cost of doing business. Yet expectations of CSR vary across countries, and the question arises whether MNEs should standardize their CSR strategies around the globe, or if it is sufficient to simply comply with the norms and expectations of each country? While this locally responsive strategy is defensible, it allows MNEs to shift their 'less responsible' activities to countries where expectations of CSR are lower. Is this "pollution haven" strategy okay, or do MNEs have some kind of responsibility to "raise the bar of CSR" in foreign countries?