Central
European
Study
Programme

WWW.VSE.CZ

IP_314
International Management

WEEK 1 Global Business Environment in International Management

What is an MNC? How do companies internationalize? What are the benefits/costs of this process?
Risks that MNCs incur and their mitigation
What is international business environment? PEST analysis
Regionalization, Globalization, and the WTO (+ additional international organizations)
Trade policies. Trade wars. Embargos and Sanctions. The Pandemic

Ilya Bolotov, MBA, Ph.D.

Ilya Bolotov, MBA, Ph.D.

- **Assistant professor/ Lecturer, Department of International Economic Relations & CESP**

- **Office hours** (for changes consult the InSIS):

Tu.	11:00 – 12:00 (onsite and online)
We.	13:00 – 14:00 (onsite and online)

- **Room:** NB 236 (Žižkov Campus: New Building)
- **E-mail:** ilya.bolotov@vse.cz
- **Microsoft Teams:** Ilya Bolotov

WWW.VSE.CZ

Outline

- **<u>Information about this course</u>**
  - Goals, Requirements
- **MNCs and Internationalization**
  - Uppsala model
  - Modes of Entry and OLI model
- **Risks that MNCs incur**
  - Risk types
  - Mitigation of risks
- **International business environment**
  - Globalization vs. regionalization
  - Recent trends
  - Basic tool: PEST analysis
  - Qualities of international managers

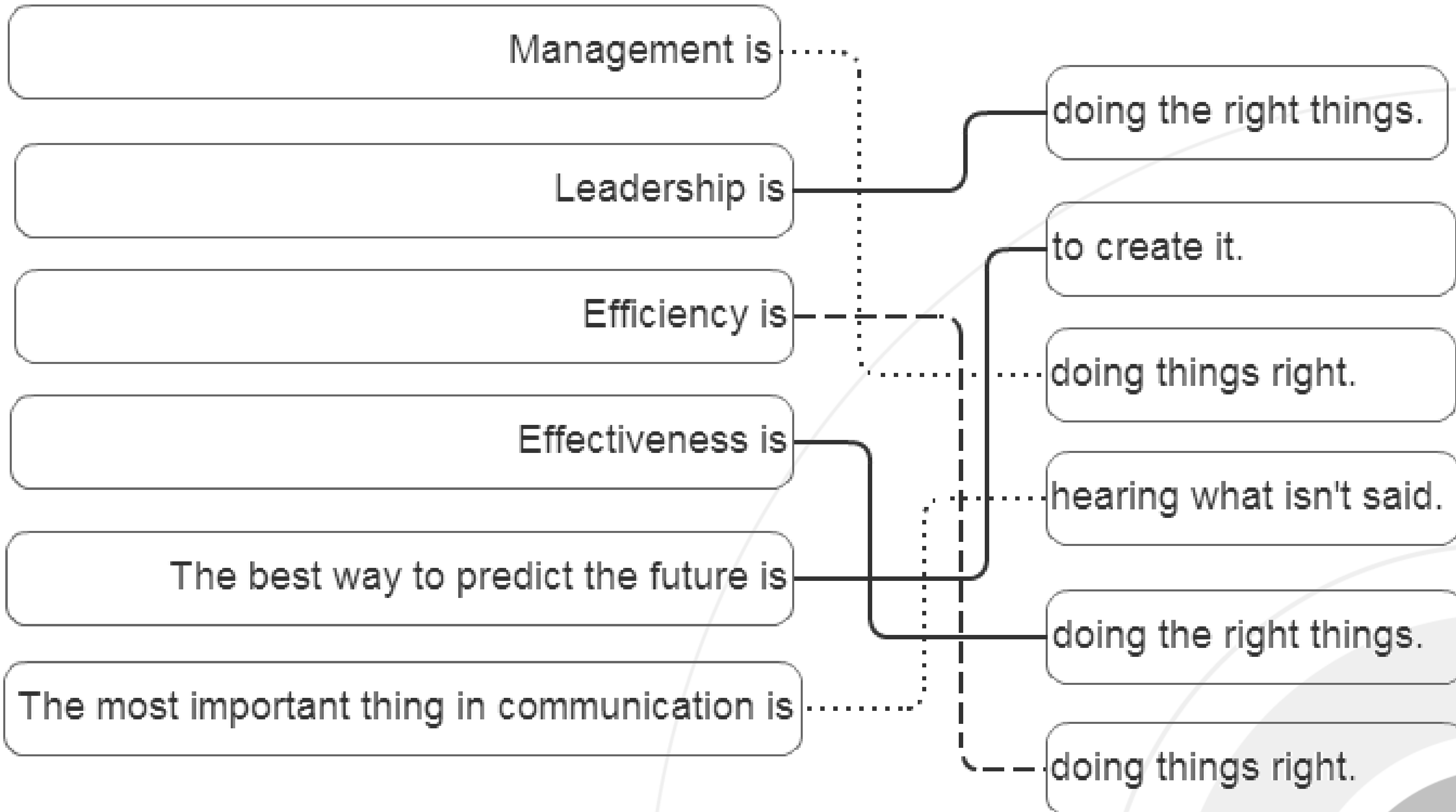
What is management?

“*Management is a different process consisting of activities of planning, actuating, and controlling, performed to determine and accomplish stated objectives with the use of human beings and other resources.*”

George R. Terry, Stephen G. Franklin
Principles Of Management (8th Edition), 1994

Source: The Internet

Peter Drucker’s quotes



PS Peter Drucker (1909–2005) was an Austrian-born American management consultant, educator, author, and the founder of modern management science.

Upon successful completion of this course, students will be able to:

- learn how to use models for evaluation of the international business environment;
- learn how to work in compliance with multilateral treaties accepted by members of the WTO;
- explain the specifics of international management in the cross-cultural environment;
- evaluate and choose possible entry modes into international markets;
- evaluate and choose between international, transnational and multi-domestic strategies;
- evaluate and choose between different organizational structures;
- learn how to adjust human resource management to local conditions;
- learn how to select the appropriate cross-cultural managerial style;
- be able to apply the latest approaches and techniques of management in day to day business activities of an MNC.

Syllabus

Available at the **CESP webpage**:

https://cesp.vse.cz/about-cesp/programs-and-courses/courses/#ip314

Class attendance	**20%**
Case studies (2x)	**10%**
Midterm exam	**20%**
Team project	**20%**
Final exam	**30%**

Outline

- **Information about this course**
  - Goals, Requirements
- **MNCs and Internationalization**
  - Uppsala model
  - Modes of Entry and OLI model
- **Risks that MNCs incur**
  - Risk types
  - Mitigation of risks
- **International business environment**
  - Globalization vs. regionalization
  - Recent trends
  - Basic tool: PEST analysis
  - Qualities of international managers

MNCs and TNCs

- “**Multinational company** – any company that engages in business functions beyond its domestic borders” /general notion/

John B. Cullen, K. Praveen Parboteeah
Multinational Management: A Strategic Approach, 5e, 2015

- **Multinational corporation** – next step of MNC, includes a holding company.

- **Transnational corporation** – global MNC, final stage of internationalization.

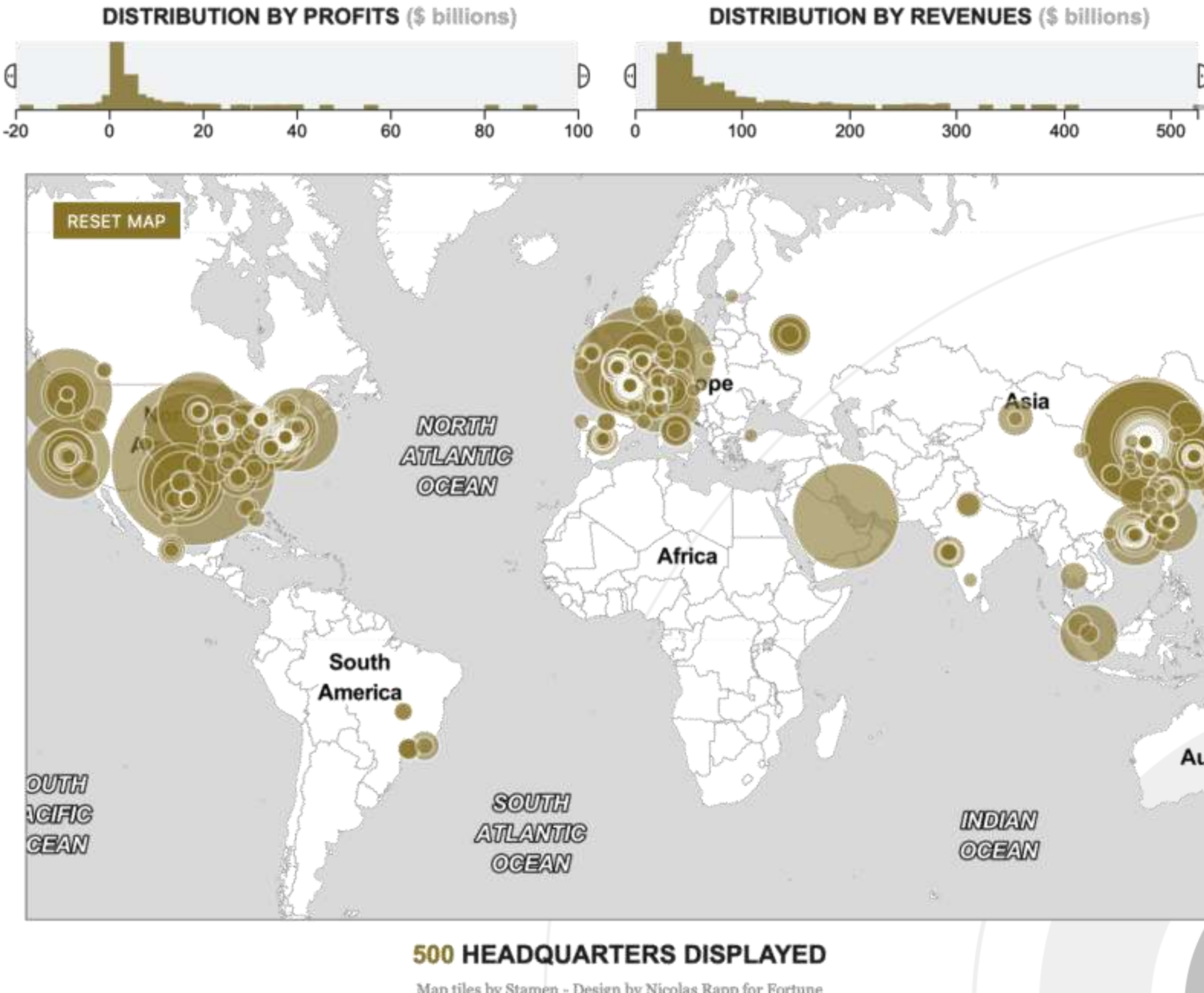
TNC (1)

Source: Fortune, 2021

RANK	NAME	REVENUES ($M)	REVENUE PERCENT CHANGE	PROFITS ($M)	PROFITS PERCENT CHANGE	ASSETS ($M)	EMPLOYEES	CHANGE IN RANK	YEARS ON GLOBAL 500 LIST
1	Walmart	$559,151	6.7%	$13,510	-9.2%	$252,496	2,300,000	-	27
2	State Grid	$386,617.7	0.7%	$5,580.4	-30%	$666,088.5	896,360	1	21
3	Amazon	$386,064	37.6%	$21,331	84.1%	$321,195	1,298,000	6	13
4	China National Petroleum	$283,957.6	-25.1%	$4,575.2	3%	$626,616.7	1,242,245	-	21
5	Sinopec Group	$283,727.6	-30.3%	$6,205.2	-8.7%	$343,289	553,833	-3	23
6	Apple	$274,515	5.5%	$57,411	3.9%	$323,888	147,000	6	19
7	CVS Health	$268,706	4.6%	$7,179	8.2%	$230,715	256,500	6	26
8	UnitedHealth Group	$257,141	6.2%	$15,403	11.3%	$197,289	330,000	7	25
9	Toyota Motor	$256,721.7	-6.5%	$21,180.1	13.1%	$562,994	366,283	1	27
10	Volkswagen	$253,965	-10.2%	$10,103.5	-35%	$608,368.1	662,575	-3	27
11	Berkshire Hathaway	$245,510	-3.6%	$42,521	-47.8%	$873,729	360,000	3	25
12	McKesson	$238,228	3.1%	$-4,539	-604.3%	$65,015	67,500	4	27
13	China State Construction Engineering	$234,425	13.9%	$3,578.4	7.4%	$338,033.2	356,864	5	10
14	Saudi Aramco	$229,766.2	-30.3%	$49,286.8	-44.1%	$510,265.5	79,800	-8	3
15	Samsung Electronics	$200,734.4	1.5%	$22,116.4	19.9%	$347,991.8	267,937	4	27

TNC (2)

Source: Fortune, 2019



#BiggestCompanies #RichestCompanies #Top10

Top 10 Biggest Companies In The World 2020

18,324 views • 8 Jun 2020

Why internationalize?

- More profit opportunities.
- More customers to achieve economies of scale.
- Lower dependence on one market.
- Desire to offset global competitors.
- Offering international service to customers.

What are the barriers?

- High costs / lack of financial capital.
- Little knowledge of foreign cultures.
- Little understanding of needs of foreign customers.
- Little understanding of foreign legal system.
- Few managers with international expertise.
- Volatile country environment –> politics?

Major decisions in international management

Deciding whether to go

Deciding which markets to enter

Deciding how to enter

Deciding on the strategy, e.g. marketing program

Deciding on the organization

Four stages of internationalization (Uppsala school model, 1970s)

- Stage 1: No regular export activities
- Stage 2: Export via independent agents
- Stage 3: Establish sales subsidiaries
- Stage 4: Establish production facilities abroad

Stage 1: No regular export activities

- The company is **purely domestic** and does not consider the alternative of going international.

- Today, small and medium-sized regional / local companies (SMEs).

Stage 2: Export via independent agents

- Having reached the **limits in its domestic market**, the company searches for foreign customers via **intermediaries**.

- Small and medium-sized companies across the country (SMEs).

Stage 3: Establish sales subsidiaries

- The **strategy** developed for the home market get **extended into foreign markets**.

- Smaller multinational companies (MNCs).

Stage 4: Establish production facilities abroad

- The focus of the company is **multinational**, or in strategic terms, multi-domestic. The company applies one of the four **international(ization) strategies**: *ethnocentric*, *polycentric*, *regional* or *global*.

- MNCs and transnational companies (TNCs).

Factors influencing internationalization today

- **Line of international business:**
  - Goods, services and their combinations (products)
- **Mode of entry into foreign markets:**
  - Indirect exporting, direct exporting, licensing, joint ventures, direct investment.
- **Choice of target markets:**
  - Based on PEST(LE), geographical location etc.
- **Organizational structure of the company:**
  - Export department, international division etc.
- **Human resources of the company:**
  - Experiences with international business etc.
- **Information and communication technologies.**

Five modes of entry into foreign markets

Capital non-intensive modes

Capital intensive modes

Indirect exporting	Direct exporting	Licensing	Joint ventures	Direct investment

Commitment, Risk, Control, Profit Potential

OLI model – Eclectic paradigm

© John Harry Dunning, British Economist, 1979

Internationalization factors

- **(O) Ownership-specific advantages:**
  - Intellectual property (patents, production technology, trademarks, industrial designs), entrepreneurial skills, innovation capacity, returns to scale, market share etc.
- **(L) Location-specific advantages:**
  - Factors of production (raw materials, qualified workforce, low wages etc.), infrastructure, special taxes or tariffs, cultural proximity, stability of the target market.
- **(I) Internalization advantage:**
  - Advantages by own production rather than producing through a partnership arrangement: experiences with international business, organizational structure, quality control, HQ – subsidiary coordination.

OLI model – application

Mode	O	L	I
Capital entry mode	+	+	+
Exporting	+	-	+
Licensing	+	-	-

NB: The significance of each of these advantages and the combinations between them is likely to vary across industries / types of value-added activities, regions or countries and among firms.

Additional: Product life cycle model

© Raymond Vernon, Harvard University, 1966

Stage 1: Introduction /unique, luxury product/

- New product is introduced (in rich, i.e. developed countries) to meet *domestic needs* and is *first exported to similar countries*, the ones which have similar needs, preferences and incomes.

Stage 2: Growth /known but not commonplace product/

- A *copy product is produced abroad*, which motivates producers to *move production to other countries*, based on cost of production.

Stage 3: Maturity /usual, commonplace product/

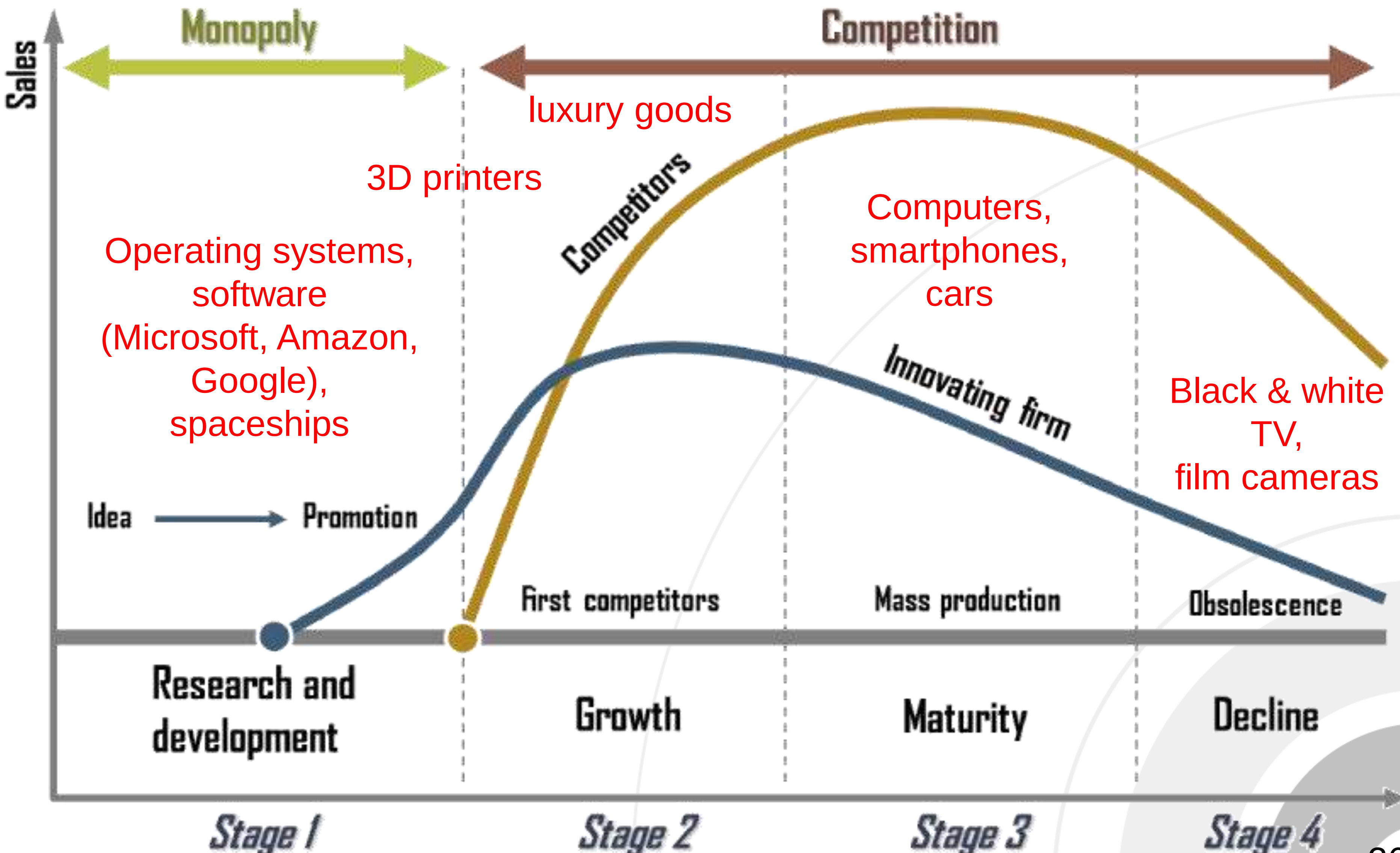
- The *industry contracts* and the *lowest cost producers*, especially in the developing world, become the main suppliers.

Stage 4: Decline /cheap everyday product/

- Poor countries, e.g. the least developed countries (LDCs), constitute the only markets for the product.

Source: Hofstra University

Product life cycle



Outline

- **Information about this course**
  - Goals, Requirements
- **MNCs and Internationalization**
  - Uppsala model
  - Modes of Entry and OLI model
- **<u>Risks that MNCs incur</u>**
  - Risk types
  - Mitigation of risks
- **International business environment**
  - Globalization vs. regionalization
  - Recent trends
  - Basic tool: PEST analysis
  - Qualities of international managers

The Four Types of Risks in IB

1. **Cross-cultural risk:** A situation or event when a cultural miscommunication puts *the result of a business operation at stake* or hampers the *functioning of a multinational company*.
2. **Country risk**: Potentially adverse effects on a multinational company's business operations and/or profitability by *developments in the PEST(LE)* of a country.
3. **Currency risk:** *Adverse unexpected fluctuations* in exchange rates or introduction of tighter *foreign exchange controls/limitations*.
4. **Commercial risk:** *Potential loss/failure from not well developed and/or executed business strategies*, tactics, or procedures in an multinational company or from *behavior of its business partner*.

Cross-Cultural Risk

- Differences in **language**, **lifestyles**, **attitudes**, **customs**, and **religion**, where a cultural miscommunication jeopardizes a culturally-valued mindset or behavior.
- **Cultural blunders** – hinder the effectiveness of foreign managers.
- **Language – critical dimension of culture – a window to people's values.**
- Language differences impede effective communication.
- Cultural differences may lead to **suboptimal business strategies**.

Example

“Daimler-Chrysler last week hung a big "for sale" sign on the Chrysler part of its corporate corpus. It seems likely now that the deal hailed nine years ago as the harbinger of a new age of transnational industrialism now will be regarded as just another failed mega-merger.

Whether the marriage of Daimler-Benz AG and Chrysler Corp. was a flawed idea based on phantom synergies, or whether it was a brilliant concept whose execution was horribly botched, will be debated within the auto industry and in business schools for years to come. It's likely that both are true: The synergies were overestimated and ***the clash of cultures made things much worse****.”*

DaimlerChrysler: The Divorce
By PAUL INGRASSIA
Updated Feb. 21, 2007 12:01 a.m. ET
http://www.wsj.com/articles/SB117203033453014589

Country (Political) Risk

- Every country is characterized by **diverse political and legal systems** that pose significant challenges for company strategy and performance, as managers must adhere to business laws and regulations.
- **Preferential subsidies**, **government incentives**, and **protection from competition** reduce business costs and influence strategic decision making.
- Governments encourage **domestic investment from foreign MNCs** by offering tax holidays and cash incentives to employ local workers.
- Political risk also includes social unrest, strikes, revolutions and other forms of **political instability**.

Source: Internet

Example

"Revolutions" in the Eastern European, Balkan, Central Asian, and Middle East countries in the early 2000s.

Currency Risk

- **Currency risk –** arises from changes in the price of one currency relative to another → **complicates cross-border transactions → impacts firms with foreign currency obligations.**

- **If supplier's currency appreciates**; the company may need to hand over a larger amount of the currency to pay for the purchase.

- **If buyer's currency depreciates**; the company may receive a smaller payment amount in the currency (if sales price was expressed in the customer's currency).

- When currencies fluctuate significantly, **the value of the firm's assets, liabilities and/or operating income may be substantially reduced**.

Source: Bloomberg, Raobeco

Example

Commercial Risk

- **Less than optimal formulation and/or implementation** of strategies, tactics or procedures, e.g. **partnering selections**, market entry timing, pricing, product features, and promotional themes.

- **Failures in international markets are far more costly than domestic business blunders.**

Source: Internet

Example

Lehman Brothers created several new investment schemes in early 2000s, which collapsed during the crisis.

The three major Icelandic banks were involved in international operations with 'toxic assets', which led to huge losses in 2008.

#CNBC #2008FinancialCrisis

Crisis On Wall Street: The Week That Shook The World (Part 1)

425,508 views • 12 Sept 2018

Risk management

- **Identifying the risks.**
- **Determining the acceptable level of risk for the company.**
- **Four methods of reducing risk:**
  - *Not doing anything* –> being optimist.
  - *Diversification* of assets, territories, currencies etc.
  - *Insurance* if available.
  - *Hedging* – purchasing financial instruments to tackle currency and financial risks.

Insurance

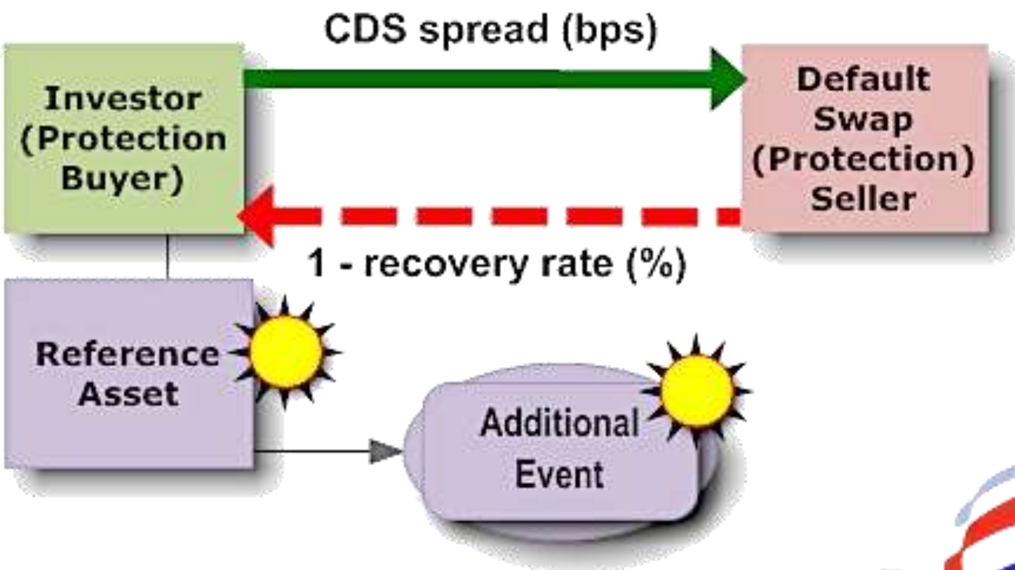
- **Standard/classical insurance – performed by insurance companies** (in Europe AXA, Allianz):
  - *Commercial risks*, e.g. *transport risk.*

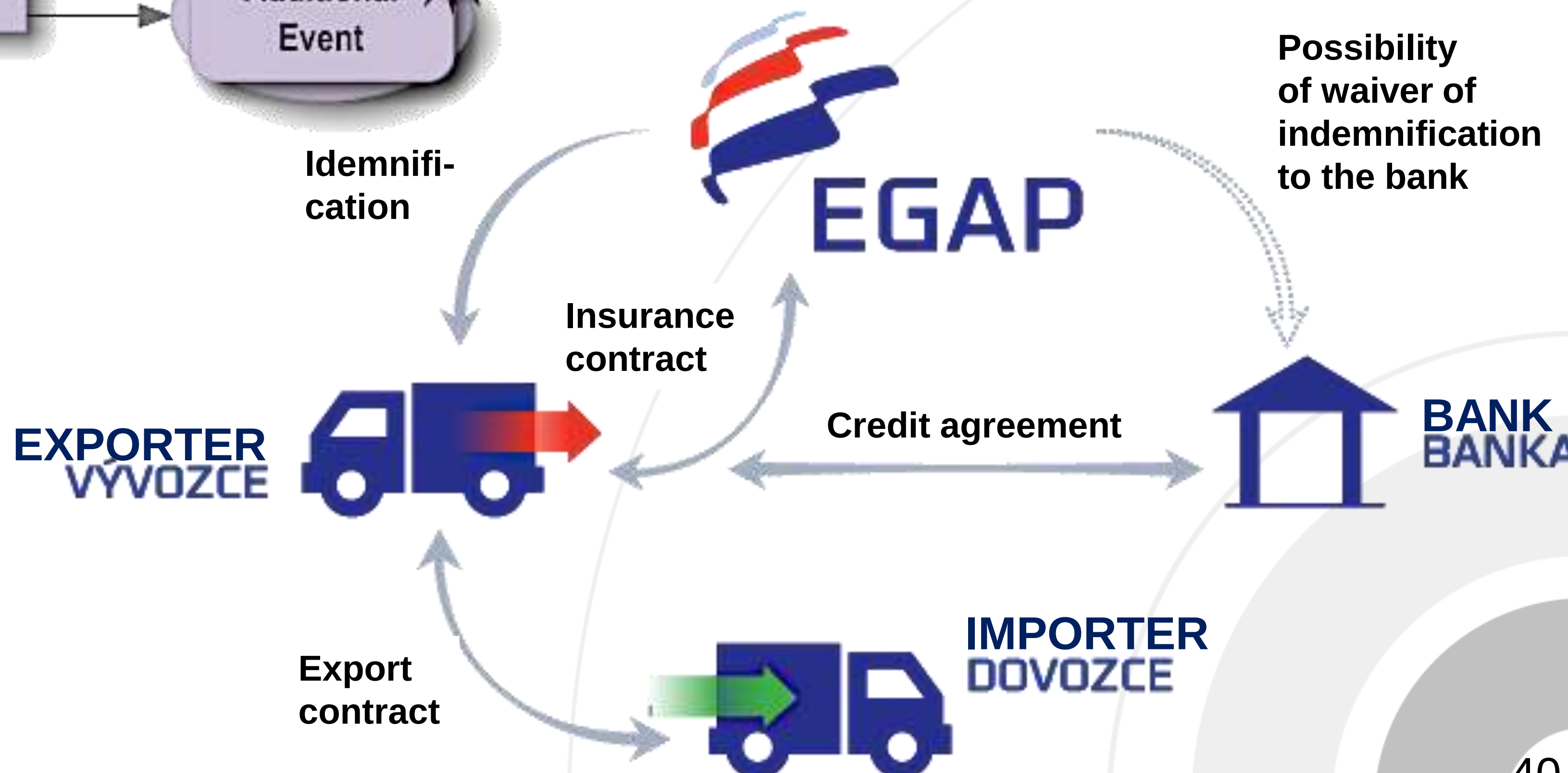
- **Over-the-counter insurance (OTC) – performed by insurance companies** (in the US – AIG) **and non-classical financial institutions:**
  - *Credit default swaps (CDS)* for investment into financial instruments, e.g. CDOs or government bonds.

- **With state support – state-owned institutions promoting export/investment** (in CZ – EGAP):
  - *Country risks*, e.g. non-payment of contract price due to partner’s insolvency or force majeure

Source: CreditLime, EGAP

Example



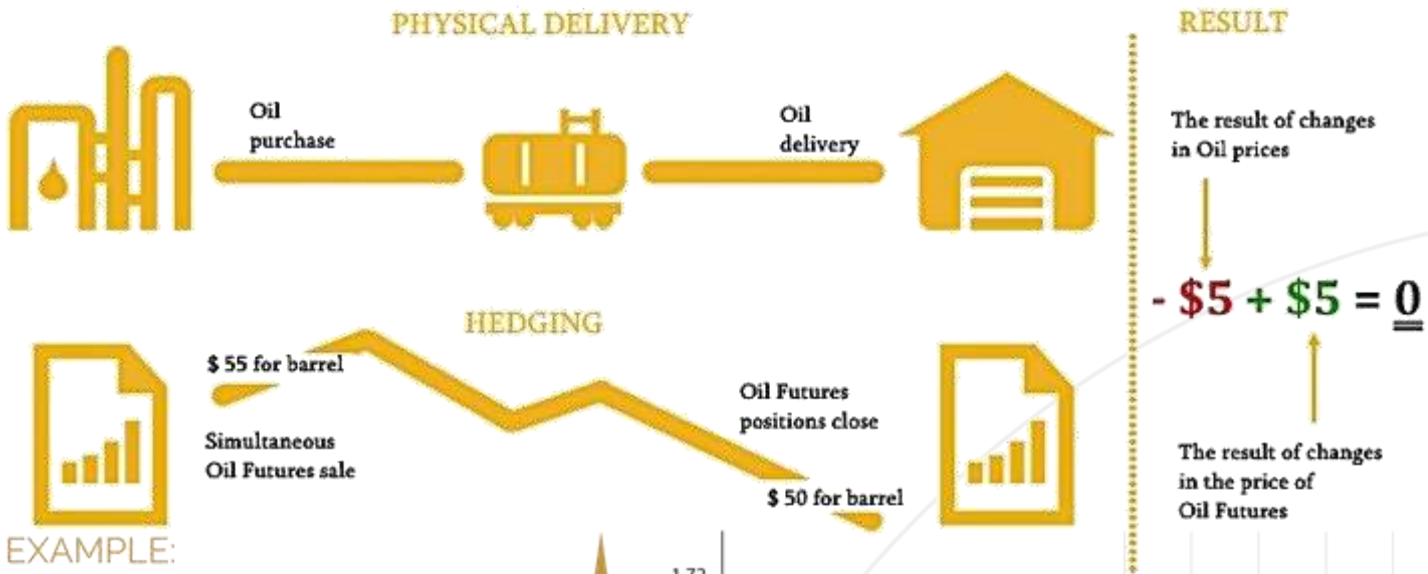


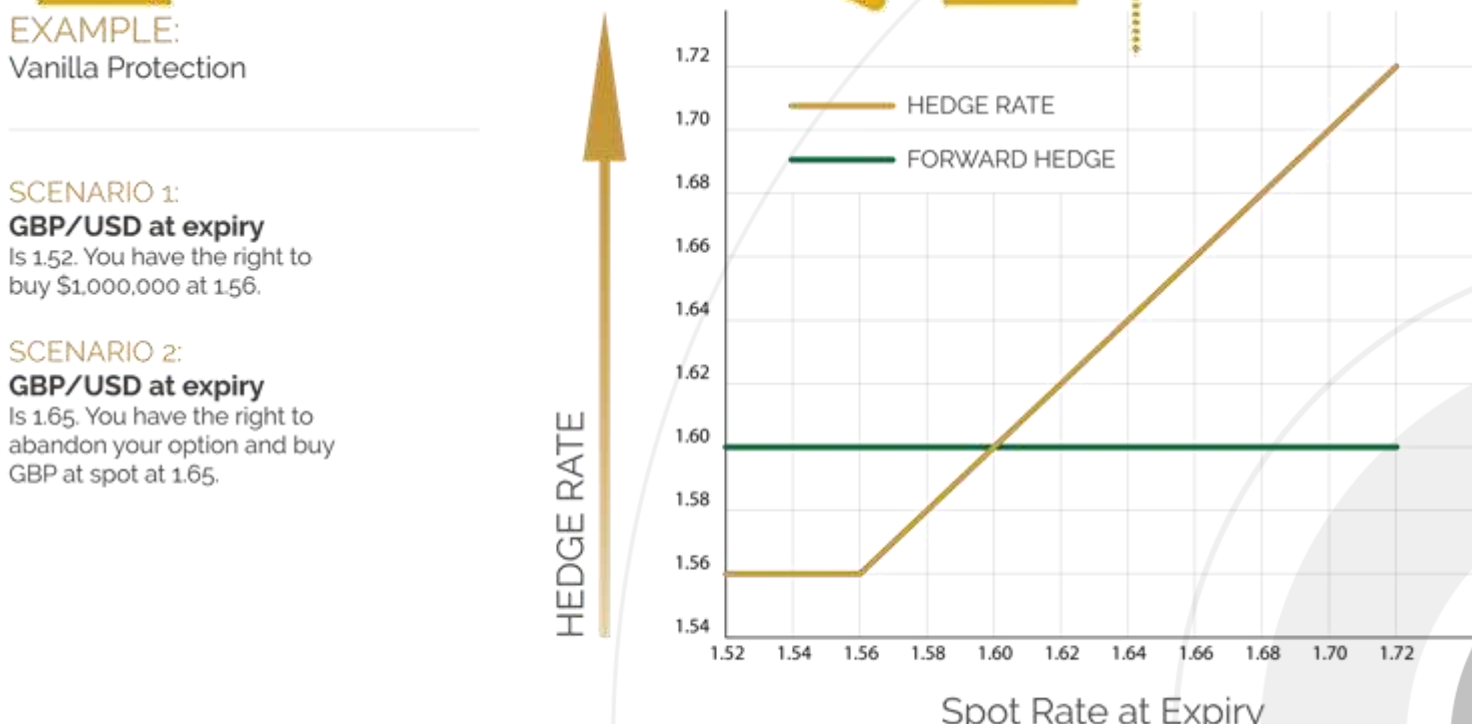
Hedging via financial instruments

- **Forward contract /over the counter/:**
  - a *non-standardized contract* between two parties to buy or to sell an asset *at a specified future time at a price agreed upon today*.
- **Futures contract /futures exchange/:**
  - a contractual agreement, generally made on the *trading floor of a futures exchange*, to buy or sell a particular commodity or financial instrument *at a pre-determined price in the future*.
- **Options contract /both/:**
  - an agreement between a buyer and seller that gives the purchaser of the option *the right to buy or sell* a particular asset *at a later date at an agreed upon price.* In case of *non-fulfillment*, the seller of the option receives a *premium.*
- **Swap contract /over the counter/:**
  - a contractual agreement through which two parties *exchange financial instruments* or *cash flows*.

Source: Renesource, South-West Foreign Exchange

Example





WWW.VSE.CZ

Outline

- **Information about this course**
  – Goals, Requirements
- **MNCs and Internationalization**
  – Uppsala model
  – Modes of Entry and OLI model
- **Risks that MNCs incur**
  – Risk types
  – Mitigation of risks
- **<u>International business environment</u>**
  – Globalization vs. regionalization
  – Recent trends
  – Basic tool: PEST analysis
  – Qualities of international managers

International business environment

- The **international business environment (IBE)** can be **defined** as the **environment** in different sovereign countries, with factors exogenous (macro) to the home **environment** of the organization, influencing decision-making on resource use and capabilities.

- Two processes influencing the IBE:

⇒ **globalization** vs. **regionalization**

Boundless Dictionary

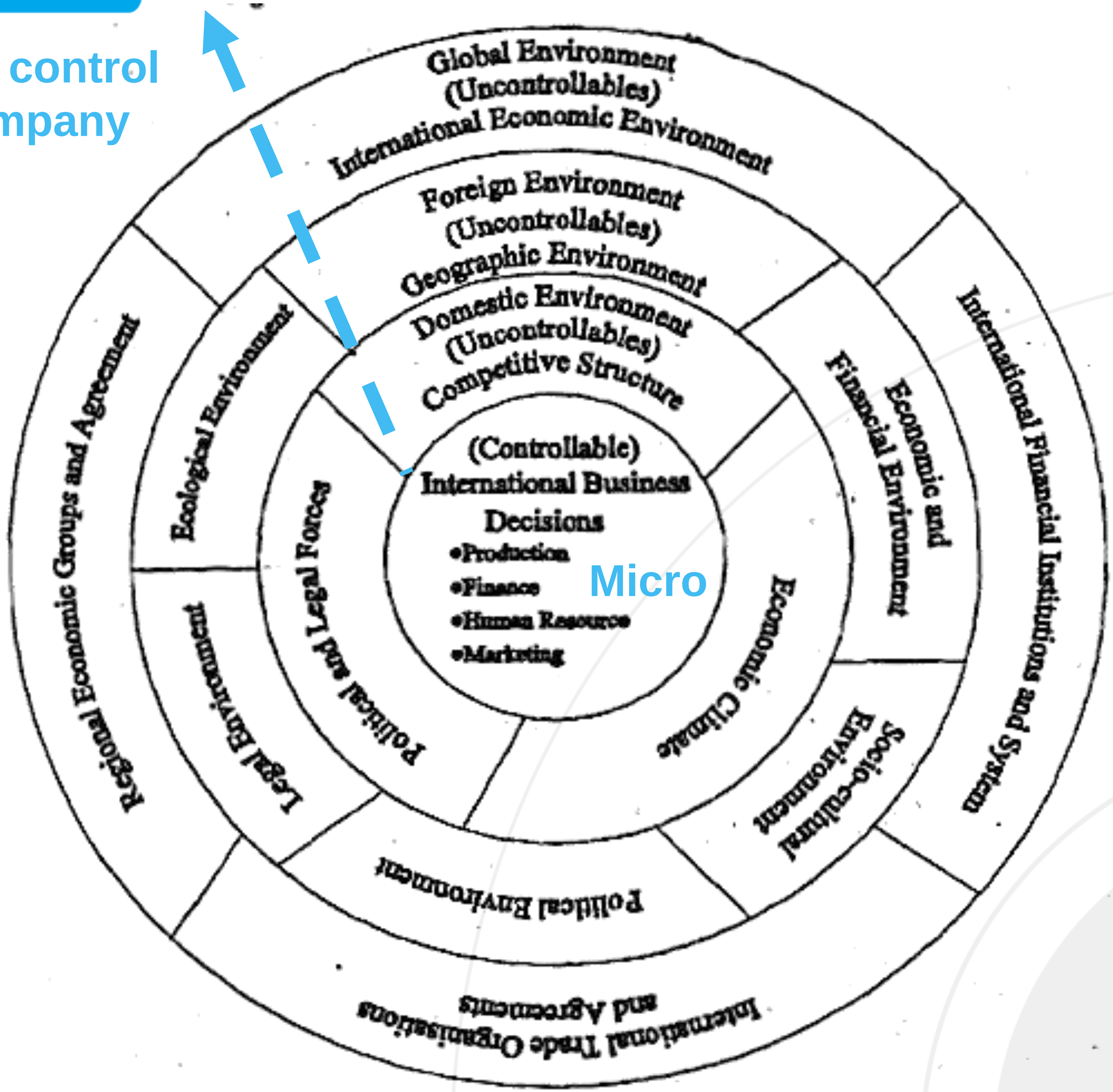
Differences between Domestic and International BE

- *Difference in national currencies* (USD x EUR).
- *Difference in natural and geographical conditions.* (US x Africa, India vs. Canada etc.).
- *Mobility of factors of production across borders* (trade).
- *Sovereign political entities:*
  - *Trade policy* (tariffs, quotas, conformity certificates);
  - *Exchange control* (e.g. CNY in 2000s);
  - *Taxation system* (VAT in the US x VAT in the EU).
- *Different legal systems* (common vs. civil law).
- *Difference in mentality and* culture (West x Asia).
- *More risks.*

Source: M COM

Degree of control by the company

Macro



Globalization

*"**Globalization** is the worldwide trend of economic integration across borders that allows businesses to expand beyond their domestic boundaries."*

John B. Cullen, K. Praveen Parboteeah
Multinational Management: A Strategic Approach, 5e, 2015

Two main aspects:

⇒ *Interconnection* = strengthening of mutual ties.

⇒ *Interdependence* = strengthening of mutual dependence.

What is globalization

526,959 views • 7 Mar 2015

Drivers of globalization (1)

- **Trade liberalization** = the removal or reduction of restrictions or barriers on the free exchange of goods between nations.

- This includes the removal or reduction of both **tariff** (duties and surcharges) and **non-tariff obstacles** (licensing rules, quotas and other requirements).

⇒ *General Agreement on Tariffs and Trade* (1947)
⇒ *World Trade Organization* (1995)
⇒ *Regional Trade Agreements* => **regionalization**

Source: [S], http://www.wto.org/

World Trade Organization (WTO, French: OMC) (1)

(Established in 1995, the successor of GATT)

- **164 members (not included: several former USSR countries, North Korea etc.), HQ: Geneva, Switzerland.**

  Recent members: Yemen (2014), Seychelles (2015) and Kazakhstan (2015).
- **Three main pillars / agreements**:
  - **GATT** (trade in goods), 1947, */Czechoslovakia was one of the founding states/*
  - **GATS** (trade in services), 1995,
  - **TRIPS** (trade-related intellectual property), 1994/1995;

  \+ Mechanism of trade policy checks;

  \+ Mechanism of trade disputes settlement.
- **Goal:**
  - Establish, maintain and liberalize the **multinational trade system**.
- **Main contribution:**
  - world trade liberalization,
  - dispute settlement between countries.

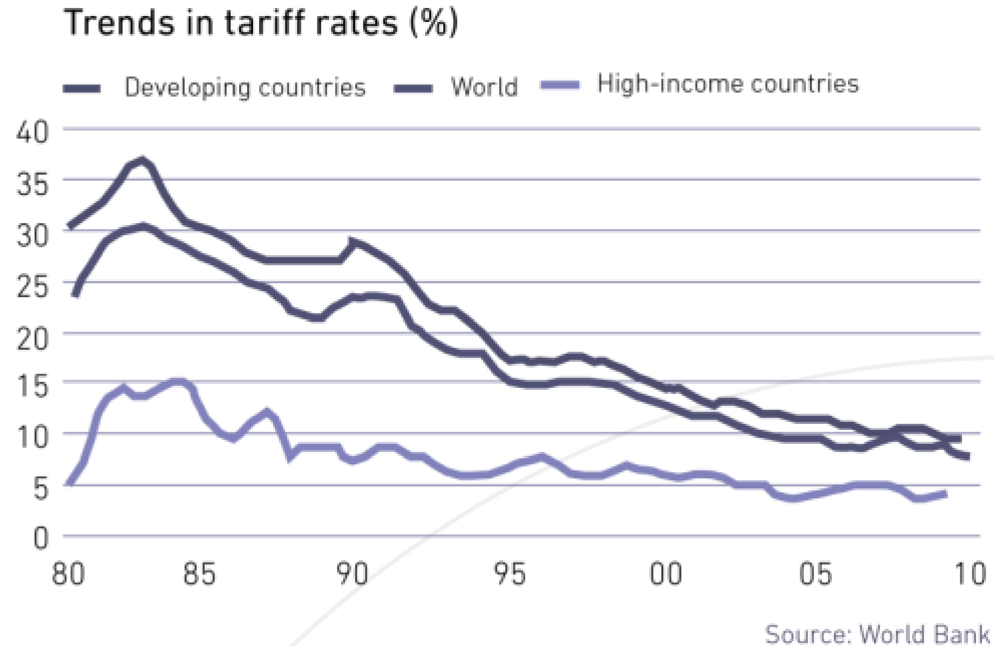
Source: [S], http://www.wto.org/

World Trade Organization (WTO, French: OMC) (2)

(Established in 1995, the successor of GATT)

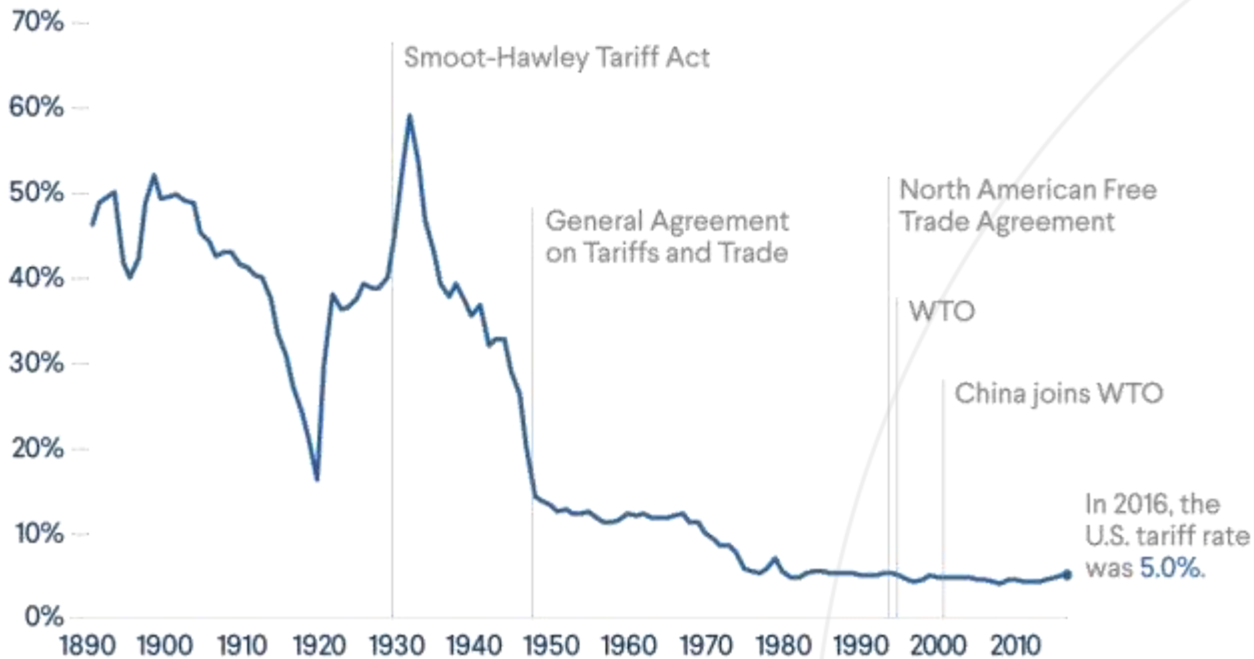
- **Principles of GATT/WTO trade system:**
  - **Non-discrimination**,
    - Most favored nation (MFN) clause,
    - Same treatment of domestic and foreign products;
  - **Transparency**;
  - **Fair competition**;
  - **Liberalization**;
  - **Trade preferences for developing countries**.
- **Exceptions:**
  - Regional trade agreements, general system of preferences (GSP).

URL:
https://www.cfr.org/backgrounder/truth-about-tariffs



The U.S. Tariff Rate Has Stayed Below 10% Since 1970

Average weighted applied tariff rate on dutiable imports



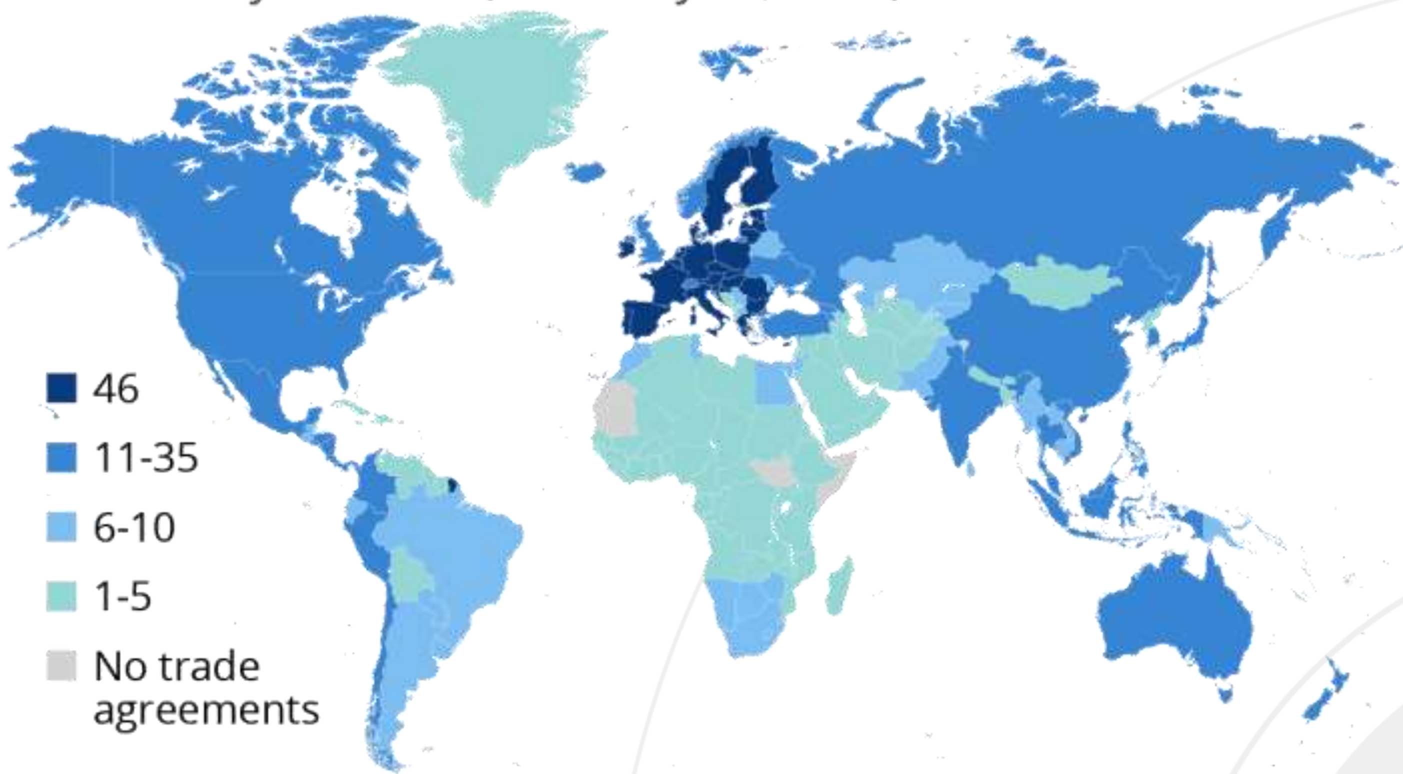
Source: U.S. International Trade Commission.

COUNCIL on FOREIGN RELATIONS

Source: WTO

Which Countries Have the Most Trade Agreements?

Active regional trade agreements as listed by the WTO (as of May 12, 2021)

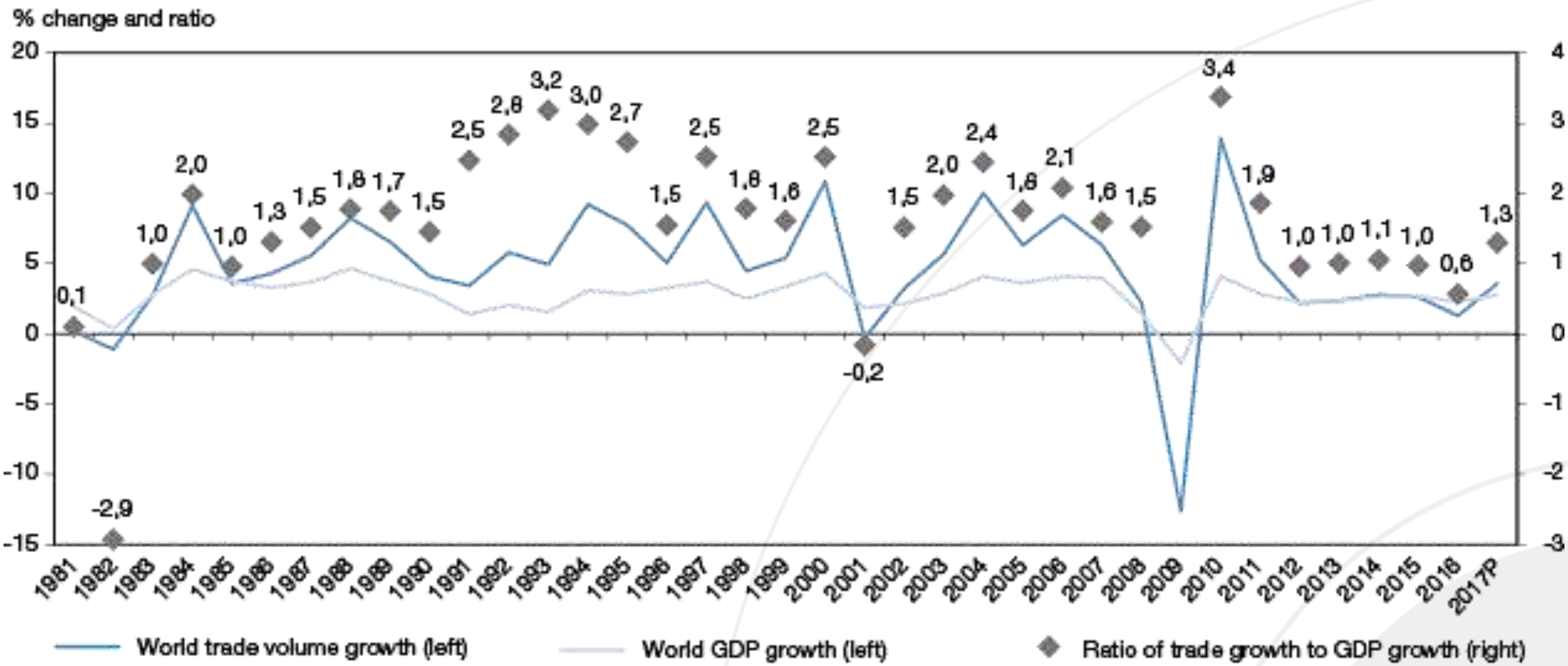


Agreements made as a pre-existing group counted individually for each country

Source: WTO

statista

URL:
https://www.wirtschaftsdienst.eu/inhalt/jahr/2018/heft/13/beitrag/perspectives-for-global-trade-and-the-international-trading-system.html



Why trade grows faster than GDP?

- There is no simple explanation.
- **Different composition** & **different scale** of both GDP and trade.
- **Statistical reasons**? Measuring cross-border trade instead of value-added.

Drivers of globalization (2)

- **Foreign direct investment (FDI)** is a controlling ownership in a business enterprise in one country by an entity based in another country:
  - **Lasting** (**long-term**) **interest** of the investor.
  - **At least 10% on voting power** (equity).
- **Numerous classifications:** 1) Greenfield projects, Mergers & Acquisitions and Joint Ventures, 2) horizontal, vertical and conglomerate, 3) market seeking, asset seeking, efficiency seeking, 4) minor participation, major participation etc.
- **Investment promotion schemes for FDI** in the world**.**

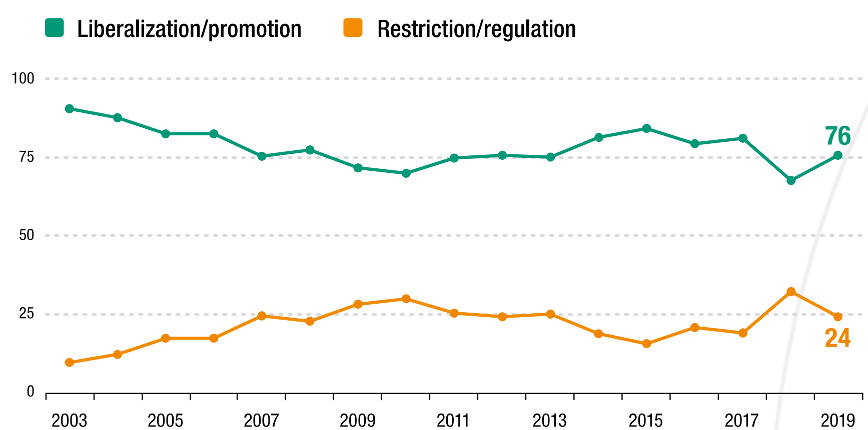
Table III.1. Changes in national investment policies, 2003–2018 (Number of measures)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of countries that introduced changes	59	79	77	70	49	40	46	54	51	57	60	41	49	59	65	55
Number of regulatory changes	**125**	**164**	**144**	**126**	**79**	**68**	**89**	**116**	**86**	**92**	**87**	**74**	**100**	**125**	**144**	**112**
Liberalization/promotion	113	142	118	104	58	51	61	77	62	65	63	52	75	84	98	65
Restriction/regulation[a]	12	20	25	22	19	15	24	33	21	21	21	12	14	22	23	31
Neutral/indeterminate	-	2	1	-	2	2	4	6	3	6	3	10	11	19	23	16

Source: UNCTAD, Investment Policy Hub.

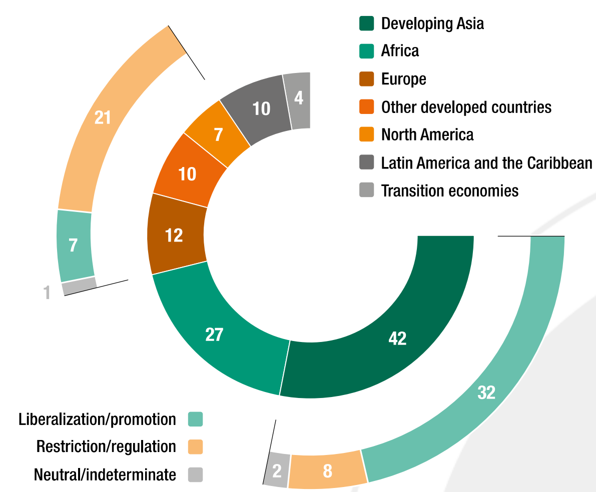
[a] "Restriction" means a policy measure that introduces limitations on the establishment of foreign investment; "regulation" means a policy measure that introduces obligations for established investment, be it domestically or foreign-controlled.

Figure 5. Changes in national investment policies, 2003–2019 (Per cent)



Source: UNCTAD, Investment Policy Hub.

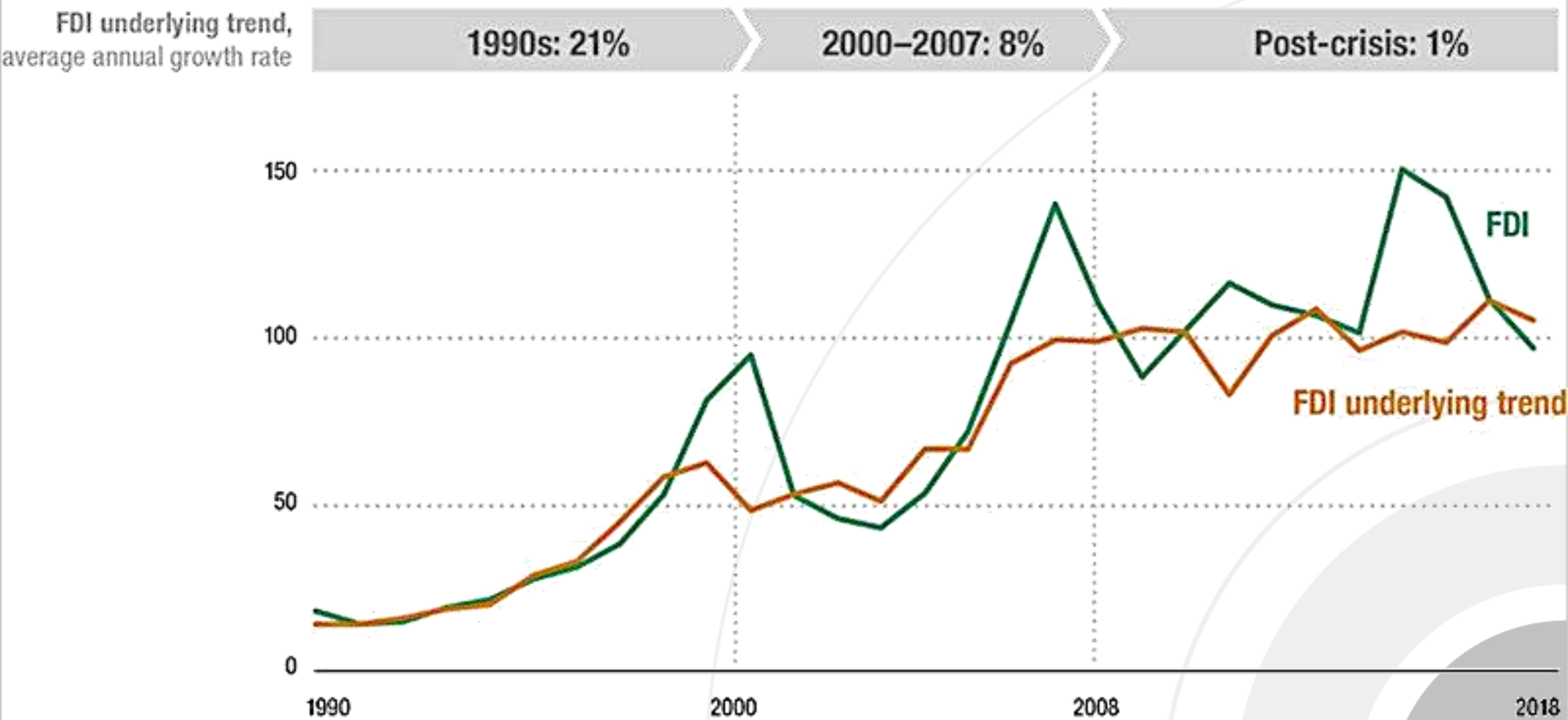
Figure III.2. Regional distribution of national investment policy measures, 2018 (Number of measures)



Source: UNCTAD.

FDI in the world economy (1)

URL:
https://unctad.org/fr/node/2181



Source: UNCTAD

Drivers of globalization (3)

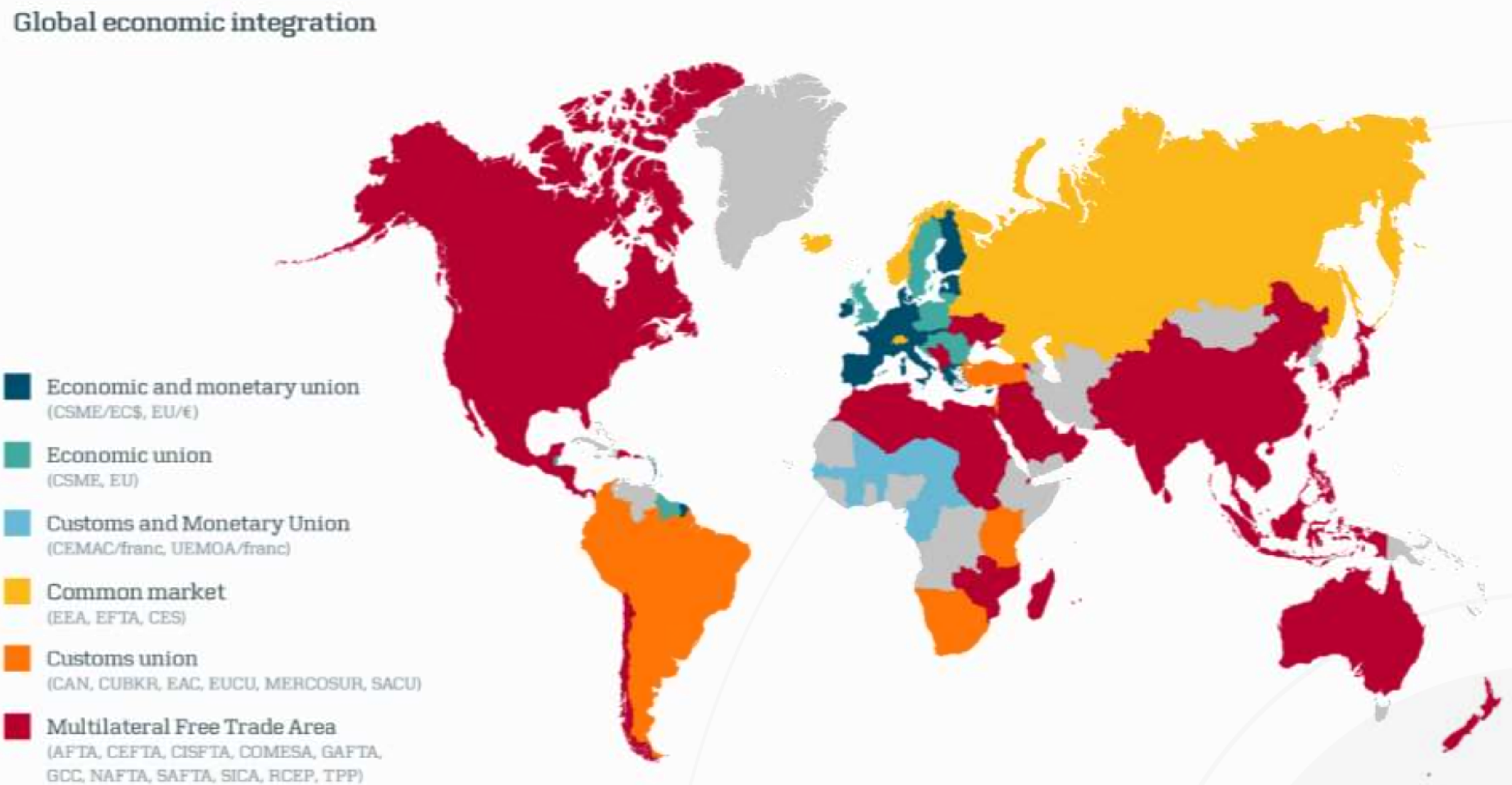
- **Information and communication technologies**
  - Just-in-Time = reduction of supplies and supply lags, various online management and indication systems.
- **Standardization in international trade**
  - ISO 9001:2000 – technical and quality standards,
  - ISO 14000 – environmental protection standards,
  - “CЄ” indication in the EU etc.
- **Privatization (change of ownership)**
  - Most importantly, reaction to the Fall of Berlin wall (1991) and opening of China and India to the world etc.
  - Big (voucher), small, mixed, and “modern”.
- **Global markets and consumers**
  - Emergence of global culture, fueled by e-commerce.

Regionalization (1)

- **Regionalization** is the tendency to form decentralized regions, often via regional trade (integration) agreements (RTAs):
  - *Preferential trade zones (EU <=> Western Balkans* aka former Yugoslavia*),*
  - *Free trade areas* (NAFTA, EFTA, CEFTA),
  - *Customs unions* (RUS-BYR-KAZ till 2015),
  - *Common markets* (EU, CARICOM),
  - *Currency / monetary unions* (Euro area).

- A side-effect of globalization, which slows it down and **opposes it to a certain level.**

Map of RTAs

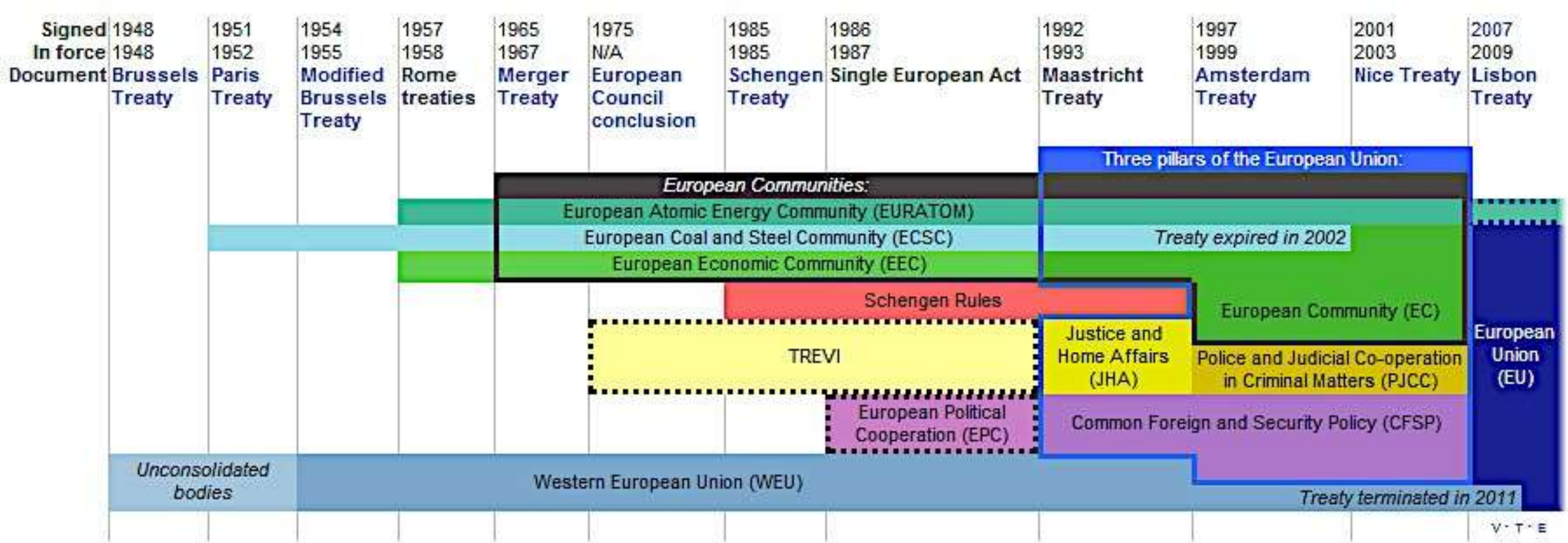


Source: Internet

Source: OSU

Regionalization (2)

Case study of the EU



The pre-Brexit EU

Source: Europa.eu

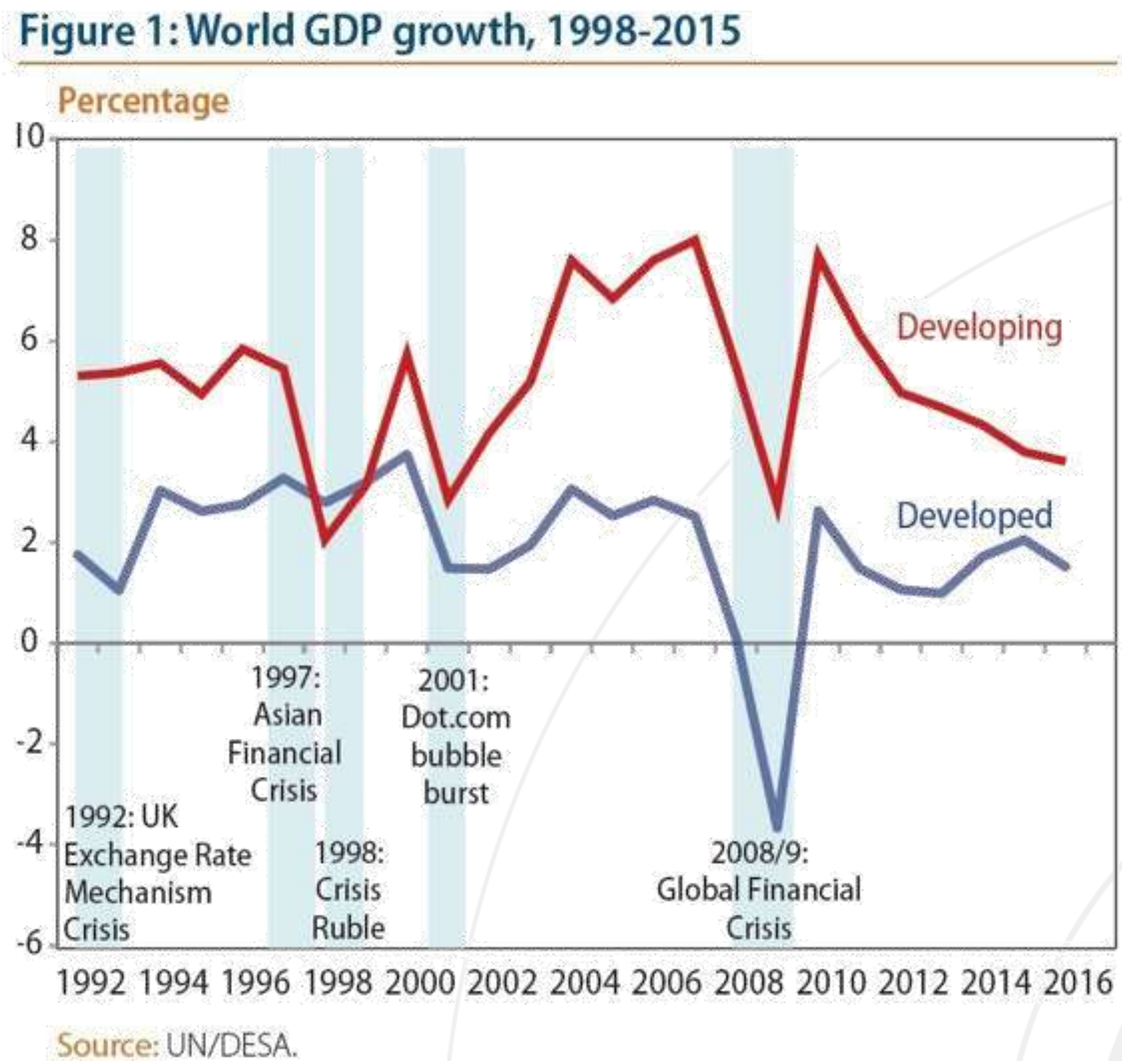
Importance of IBE

- ***IBE helps in expansion***: Geographic expansion may be used as one of the business strategies.
- ***IBE helps in managing product life cycle***: Every product has to go through different stages of its cycle – until the product reaches the last stages in present market.
- ***IBE helps in spreading of technological advances*** *across the globe.*
- ***IBE offers new business opportunities***: Especially for companies from smaller and easily satiable markets.
- ***IBE leads to the availability of quality products***: When markets are open, the offer o becomes more complex.

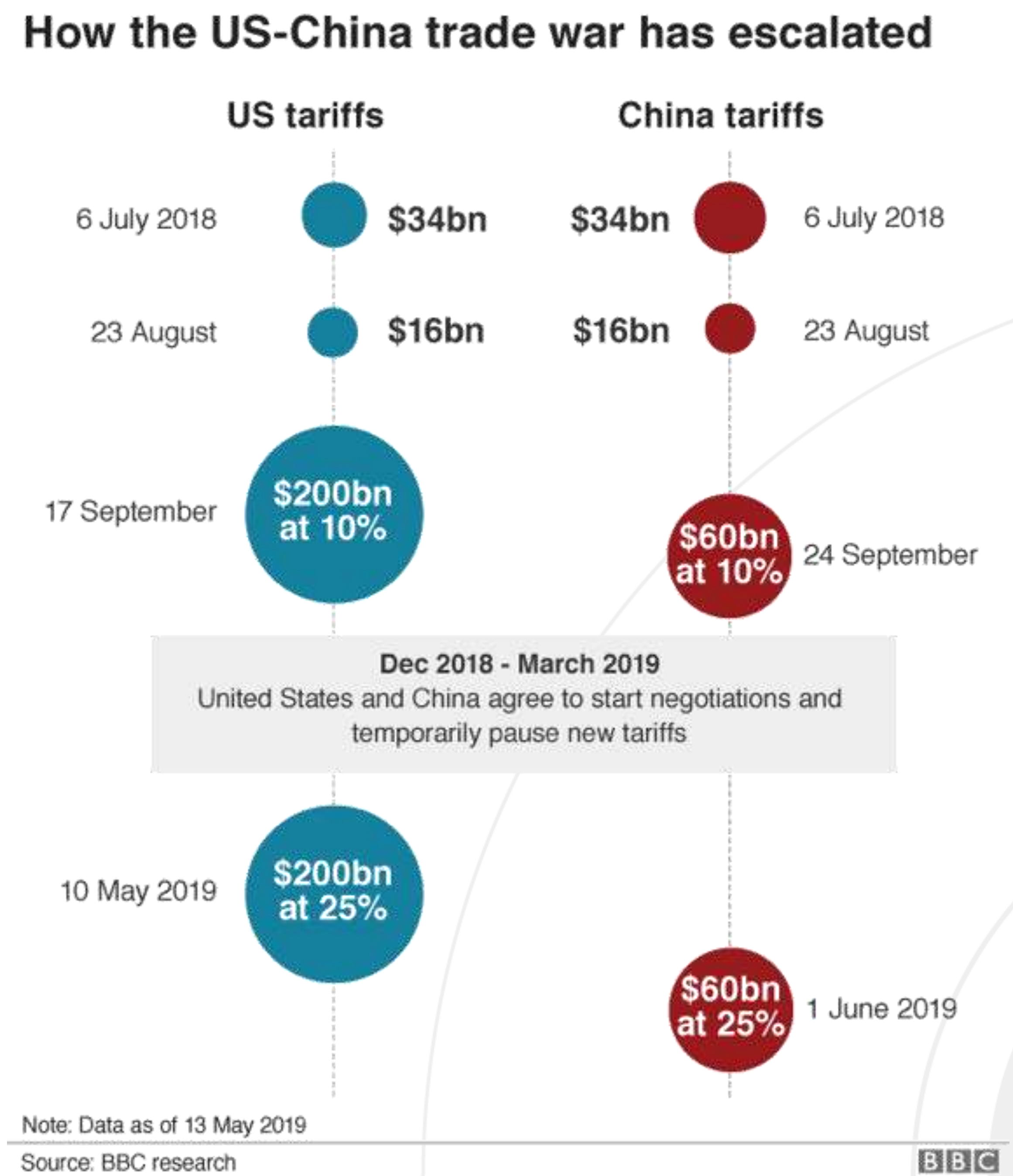
Problems in IBE

- ***IBE and controlling the market***: Multinationals easily eliminate local competitors by taking over their business or forcing them out of the market.
- ***IBE and the erosion of traditional values, culture, industries.***
- ***Etc. … (events!)***

Crises, trade wars, sanctions



Source: European Business Review


How the US-China trade war has escalated
US tariffs
China tariffs
6 July 2018
$34bn
$34bn
6 July 2018
23 August
$16bn
$16bn
23 August
17 September
$200bn at 10%
$60bn at 10%
24 September
Dec 2018 - March 2019
United States and China agree to start negotiations and temporarily pause new tariffs
10 May 2019
$200bn at 25%
$60bn at 25%
1 June 2019
Note: Data as of 13 May 2019
Source: BBC research
BBC

Source: https://www.cfr.org/backgrounder/what-are-economic-sanctions

Source: [R]

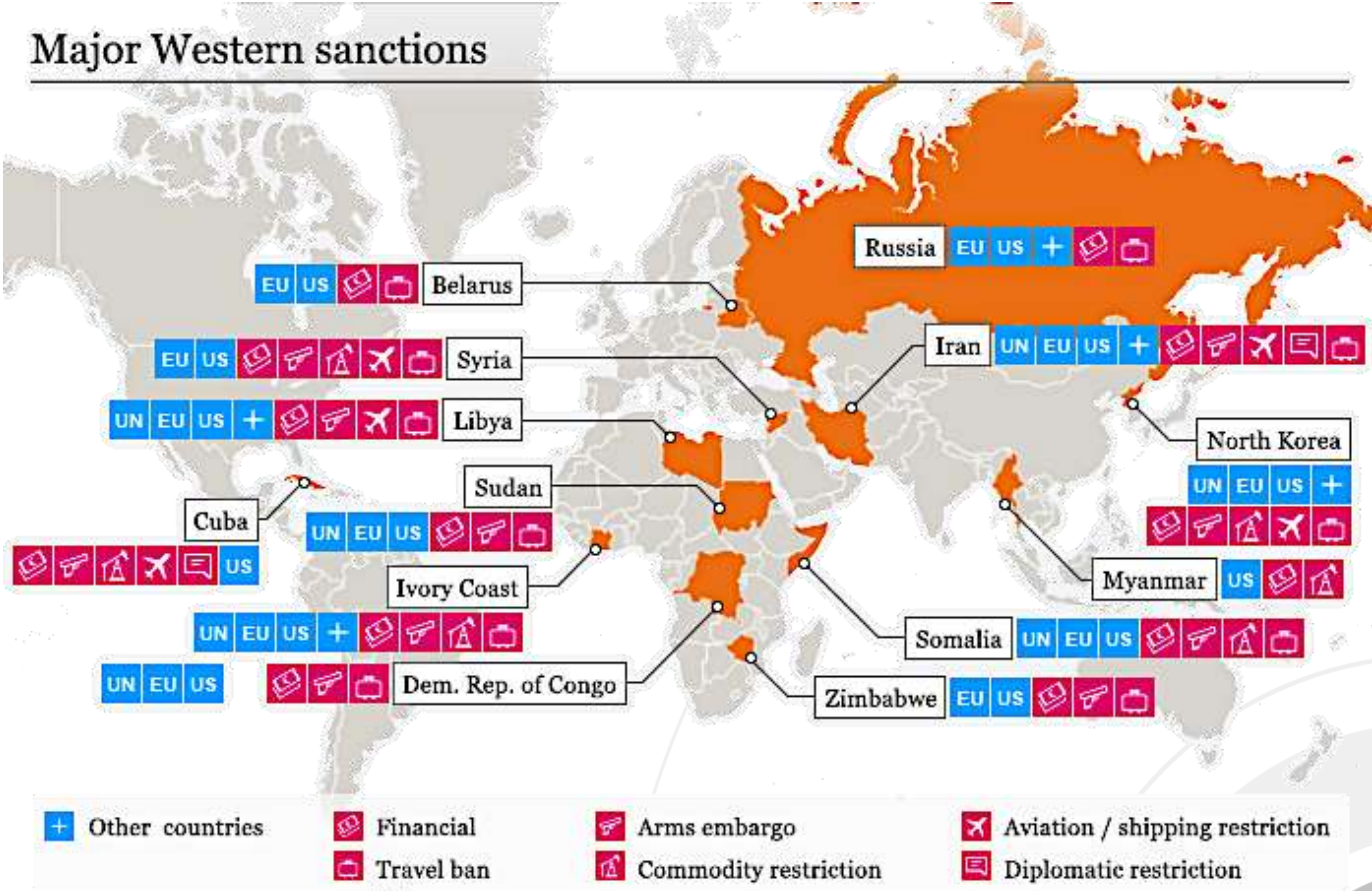
What are economic sanctions?

- Economic sanctions are defined as the withdrawal of customary trade and financial relations for foreign- and security-policy purposes. Sanctions may be comprehensive, prohibiting commercial activity with regard to an entire country, like the long-standing U.S. embargo of Cuba, or they may be targeted, blocking transactions by and with particular businesses, groups, or individuals.

When are sanctions used?

- National governments and international bodies such as the United Nations and European Union have imposed economic sanctions to coerce, deter, punish, or shame entities that endanger their interests or violate international norms of behavior. Sanctions have been used to advance a range of foreign policy goals, including counterterrorism, counternarcotics, nonproliferation, democracy and human rights promotion, conflict resolution, and cybersecurity.

Major Western sanctions



Source: Targeted Sanctions Consortium, Peterson Inst. for intern. Economics, US Treasury, Office of foreign Assets Control, UN, EU © DW

#GlobalNews #COVID #GlobalEconomy

Coronavirus outbreak: The impact COVID-19 is having on the global economy

159,085 views • 9 Apr 2020

Ways of describing the international business (external) environment

© Creator: Francis Aguilar (1967), Harvard University

- **PEST** is a mnemonic standing for **Political**, **Economic**, **Social** and **Technological**.

- These aspects are used first to brainstorm the characteristics of an environment and, from this, draw conclusions as to the significant forces of change operating within it.

- **Used mostly for a specific region.**
- Aliases: STEP, PESTEL etc.

PEST – Political

- **Political –** The government regulations and **legal factors** are assessed in terms of their ability to affect the business environment and trade markets.

- The main issues addressed are political stability, tax guidelines, trade regulations, safety regulations, and employment laws + **politics**.

PEST – Economic

- **Economic –** The economic issues that are bound to have an impact on the company.

- This would include factors like **inflation**, **interest rates**, **economic growth**, the **unemployment rate** and **policies**, and the **business cycle** followed in the country.

PEST – Social

- **Social –** The socio-economic environment of its market through elements customer demographics, **cultural limitations**, **lifestyle attitude**, and **education**.

PEST – Technological

- **Technological –** Factors like **technological advancements**, lifecycle of technologies, **the role of the Internet**, and the spending on technology research by the government + **the infrastructure**.

Source: 24point0.com

PESTLE Analysis of Philippines

- Improve PSE trading platform with NSC V900 in 2010
- Prospect for PSE and PDEx merge in next few years

- Victim of natural disaster, e.g. flooding leads exchange close inadequate infrastructure with les mobility across regions

- Outsourcing are tightened by SEC in Oct, 2013
- Regulatory reform focus on Corporate governance
- No Restriction on foreign ownership in general

- Ongoing political scams, e.g. Priority Development Assistance Fund scam
- Strong judicial independence but with uncertainty on executions

- Highest actual, forecast on GDP growth in ASEAN countries: 7.2% (2013), 6.5% (2014e)
- PSE reported 33.6% growth in revenue in 2013, among the highest in the region

- Low cost on financial talents (In 2013, monthly average salary 35000 PHP, i.e. 800 USD)
- Shortage on talent pool, especially IT people

Qualities of international managers?

- *A global mindset.*
- *The ability to work with people from diverse backgrounds*
- *Emotional intelligence.*
- *A long-range perspective.*
- *The ability to manage change and transition.*
- *The ability to create systems for learning and change organizations.*
- *The talent to motivate all employees to achieve excellence*
- *Accomplished negotiations skills.*
- *The willingness to seek overseas assignments.*
- *An understanding of national cultures.*

Thank you for your attention!

Questions?

The slides are available at
http://cesp.vse.cz/academics/materials/

Case Study

A & B

Sources:

- CULLEN, J. B. – PARBOTEEAH, P. Multinational management : a strategic approach. 6th edition. Cincinnati, OH: South-Western/Cengage Learning, 2014. ISBN 978-1-285-09622-3.
- ŠTĚRBOVÁ, L. et al. Mezinárodní obchod ve světové krizi 21. století. 1st edition. Praha: Grada Publishing, 2013. ISBN 978-80-247-4694-4. Abbreviated as [S].
- CAVUSGIL, T. – KNIGHT, G. – RIESENBERGER, J. International Business: Strategy, Management, and the New Realities Paperback. London: Pearson, 2008. ISBN: 978-0-137-12833-4.
- KOTLER, P. T. – ARMSTRONG, G. Principles of Marketing.16th edition. Upper Saddle River, NJ: Prentice Hall, 2013. ISBN: 978-0-133-79502-8.
- MACHKOVÁ, H. Mezinárodní marketing. Strategické trendy a příklady z praxe. Praha: Grada Publishing, a.s, 2015. ISBN 978-80-247-5366-9.
- Vernon, R. (1979). *The product cycle hypothesis in a new international environment*. Oxford bulletin of economics and statistics, 41(4), 255-267.

- CFR. What Are Economic Sanctions? [online] [Cit. 2019-9-24]. Available at WWW: http://wtocentre.iift.ac.in/FA/Brics.pdf [R].

- Presentations from SlideShare.net:
  - Sine autor. Introduction of international business environment. 2016.
  - Sine autor. Dealing with risks n international business. 2016.